

EATON CORP
Form DEF 14A
March 18, 2005

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]

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Check the appropriate box:

- [] Preliminary Proxy Statement [] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e) (2))
- [X] Definitive Proxy Statement
- [] Definitive Additional Materials
- [] Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12

EATON CORPORATION
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

XXXXXXXXXXXXXXXXXXXX
(NAME OF PERSON(S) FILING PROXY STATEMENT, IF OTHER THAN THE REGISTRANT)

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NOTICE OF MEETING

The 2005 annual meeting of Eaton Corporation shareholders will be held Wednesday, April 27, at 10:30 a.m. local time at Eaton Center, 1111 Superior Avenue, Cleveland, Ohio, for the purpose of:

1. Electing directors;
2. Ratifying the appointment of independent auditors; and
3. Considering reports and such other business as may properly come 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, 2005. Shareholders of record at that time are entitled to vote at the meeting.

By order of the Board of Directors

/s/ Earl R. Franklin

Earl R. Franklin
Vice President and Secretary

March 18, 2005

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.

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PROXY STATEMENT

EATON CORPORATION
Eaton Center
1111 Superior Avenue
Cleveland, Ohio 44114-2584
216-523-5000

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This proxy statement, the accompanying proxy form and Eaton's annual report for the year ended December 31, 2004 are scheduled to be sent to shareholders on or about March 18, 2005.

PROXY SOLICITATION

Eaton's Board of Directors solicits your proxy, in the form enclosed, for use at the 2005 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, and for ratification of the appointment of Ernst & Young LLP as independent auditors. These matters are described in the following sections of this proxy statement.

Any shareholder giving a proxy may revoke it by giving Eaton notice in writing or by facsimile, electronic mail, 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 employees may solicit proxies in person or by telephone or facsimile. Eaton has retained The Proxy Advisory Group of Strategic Stock Surveillance, LLC, 331 Madison Ave., 12th Floor, New York, New York 10017, to assist in the solicitation of proxies, primarily from brokers, banks and other nominees, for an estimated fee of \$8,500, 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, 2005 is entitled to one vote for each share then held. On February 28, 151,229,096 Eaton common shares (par value, 50c each) were outstanding and entitled to vote.

At the 2005 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 the greatest number of votes will be elected directors. Votes withheld in respect of the election of directors will not be counted in determining the outcome of the election. Adoption of all other proposals to come before the meeting will require the affirmative vote of the holders of a majority of the outstanding Eaton common shares, which requirement is 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.

As provided by Ohio law, each shareholder is entitled to cumulative voting rights in the election of directors if any shareholder gives written notice to the President or a Vice President or the Secretary of Eaton at least 48 hours

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before the time fixed for the meeting,

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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 an 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, the individuals named in the proxy will vote the shares represented by the proxy cumulatively for those nominees that they may determine in their discretion, except that no votes will be cast for any nominee as to whom the shareholder giving the proxy has directed that his or her vote be withheld.

1. ELECTION OF DIRECTORS

The Board of Directors is presently composed of ten members. The terms of four directors will expire in April 2005, and those directors have been nominated for re-election. Three of the nominees were elected at the 2002 annual meeting, and one was elected at the 2003 annual meeting. (See page 5.)

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 appoint substitute nominees. Eaton's management, however, has no reason to believe that this will occur.

Following is biographical information about each nominee and each director.

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NOMINEES FOR ELECTION TO TERMS ENDING IN 2008 OR WHEN THEIR SUCCESSORS ARE ELECTED AND HAVE QUALIFIED:

N. C. LAUTENBACH PHOTO	J. R. MILLER PHOTO	G. R. PAGE PHOTO	V. A. P
NED C. LAUTENBACH, 61, is a principal of Clayton, Dubilier & Rice, Inc., a private equity investment firm specializing in management buyouts. Before joining Clayton, Dubilier, Mr. Lautenbach was associated with IBM from 1968 until his retirement in 1998. At IBM, he held several executive positions, including Senior Vice President and Group Executive - Sales and Distribution, and was a member of IBM's Corporate	JOHN R. MILLER, 67, is a retired oil industry executive. Mr. Miller was President, Chief Operating Officer and a director of The Standard Oil Company from 1980 to 1986, also serving as a member of its Management Committee, and where he previously held a number of other executive positions, including that of Vice President, Finance for three years. He is currently a director of Cambrex Corporation and Graphic Packaging Corporation. Mr.	GREGORY R. PAGE, 53, is President and Chief Operating Officer of Cargill, Incorporated, an international marketer, processor and distributor of agricultural, food, financial and industrial products and services. He was 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, and became	VICTOR Senior Security bankers associa Security predece Pelson AT&T fr where h executi includi and Pre for the Service Vice Pr the Man

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Executive Committee. From 1999 to 2002, Mr. Lautenbach served as Chief Executive Officer of Acterna Corporation, a global provider of communications test equipment, software and services, which filed and had approved in 2003 a voluntary plan of reorganization under Chapter 11. Mr. Lautenbach is a member of the Board of Trustees of Fidelity Investments and a member of the Council on Foreign Relations.
DIRECTOR SINCE 1997

Miller was a member of the Board of the Federal Reserve Bank of Cleveland from 1986 to 1993, serving as its Chairman during the last two of those years. From 2000 to 2003 he was Chairman, President and Chief Executive Officer of Petroleum Partners, Inc., a provider of outsourcing services to the petroleum industry.
DIRECTOR SINCE 1985

President and Chief Operating Officer in 2000. Mr. Page is a director of Cargill, Incorporated.
DIRECTOR SINCE 2003

Committee. From his retirement. Mr. Pelletier is a member of the Global Director and United States DIRECTOR

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DIRECTORS WHOSE PRESENT TERMS CONTINUE UNTIL APRIL 2006:

A. M. CUTLER PHOTO

ALEXANDER M. CUTLER, 53, 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 Axcelis Technologies, Inc. and KeyCorp.
DIRECTOR SINCE 1993

G. L. TOOKER PHOTO

GARY L. TOOKER, 65, 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, Chairman in 1997, and retired from Motorola in 1999. Mr. Tooker is a director of Avnet, Inc. and Axcelis Technologies, Inc. He serves on the Board of Trustees of Morehouse College.
DIRECTOR SINCE 1992

D. L. MCCOY PHOTO

DEBORAH L. MCCOY, 50, is Senior Vice President, Flight Operations of Continental Airlines, Inc. She joined Continental as a pilot in 1979, advanced through several senior pilot positions to become Senior Director, Operations Performance in 1994, Vice President, Inflight and Standards Training and Performance in 1996, and Vice President, Flight Training and Inflight in 1997. Ms. McCoy assumed her present position in 1999.
DIRECTOR SINCE 2000

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DIRECTORS WHOSE PRESENT TERMS CONTINUE UNTIL APRIL 2007:

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M. J. CRITELLI PHOTO

MICHAEL J. CRITELLI, 56, is Chairman and Chief Executive Officer of Pitney Bowes Inc., a provider of messaging and advanced business communications solutions. Mr. Critelli is non-executive Chairman of the National Urban League. DIRECTOR SINCE 1998

E. GREEN PHOTO

ERNIE GREEN, 66, is founder, President and Chief Executive Officer of Ernie Green Industries, Inc., a manufacturer of automotive components. He is also President of Florida Production Engineering, Inc., a subsidiary of Ernie Green Industries. He is a director of DP&L Inc. and Pitney Bowes Inc., and non-executive Chairman of the Foundation Board of Central State University. DIRECTOR SINCE 1995

K. M. PATEL PHOTO

KIRAN M. PATEL, 56, is Executive Vice President and Chief Financial Officer of Soletron Corporation, a provider of electronics manufacturing services. Prior to joining Soletron in 2001, he was associated with Cummins Inc. for 27 years, where he served as Vice President and Chief Financial Officer from 1996 to 2000. In 2000-2001, Mr. Patel was the Chief Financial Officer of iMotors, an Internet-based valued-added retailer of used cars. He is a member of the American Institute of Certified Public Accountants, the Tennessee Society of Certified Public Accountants, and the Financial Executives Institute. He is a director of Westport Innovations, Inc. DIRECTOR SINCE 2003

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DIRECTOR NOMINATION PROCESS -- The Governance Committee of the Board, comprised entirely of directors who meet the independence requirements of the New York Stock Exchange, is responsible for overseeing the process of nominating individuals to stand for election as directors. The Governance Committee's current charter is available on the Company's website (www.eaton.com) under the heading "Corporate Governance" and is included in this proxy statement as Appendix A.

Any director candidates recommended by the Company's security holders are given consideration by the Governance Committee, consistent with the process used for all candidates. Security holders may submit recommendations in the manner described on this page under the heading "Security Holder 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. 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, in rare cases, nominees may be elected by the Board itself.)

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In order to be recommended by the Governance Committee, a candidate must meet the following minimum qualifications, as described in the Company's Board of Directors Governance Policies: personal ability, integrity, intelligence, relevant business background, independence, expertise in areas of importance to the Company's objectives, and a sensitivity to the Company's corporate responsibilities. In addition, the Governance Committee from time to time looks for individuals with specific qualifications so that the Board as a whole may maintain an appropriate mix both of experience, background, expertise and skills, and of age, gender, ethnic and racial diversity. These specific qualifications may vary from one year to another, depending upon the composition of the Board at that time.

The Board of Directors Governance Policies are available on the Company's website (www.eaton.com) under the heading "Corporate Governance" and are included in this proxy statement as Appendix B. Printed copies will also be provided free of charge upon request. Requests for printed copies should be directed to the Company's Investor Relations Office, Eaton Corporation, 1111 Superior Avenue, Cleveland, Ohio 44114-2584.

SECURITY HOLDER 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 security holder. Any security holder wishing to recommend an individual as a nominee for election at the annual meeting of shareholders to be held in 2006 should send a signed letter of recommendation, to be received before November 4, 2005, to the following address: Eaton Corporation, Eaton Center, Cleveland, Ohio 44114-2584, attention Corporate Secretary. Recommendation letters 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 named as a candidate and, if nominated and elected, consenting to serve as a director.

DIRECTOR INDEPENDENCE -- The Board of Directors Governance Policies, which are available on the Company's website (www.eaton.com) under the heading "Corporate Governance" and are included as Appendix B to this proxy statement, provide that all outside directors should be independent. The listing standards of the New York Stock Exchange state that no director can qualify as "independent" unless the Board of Directors affirmatively determines, and discloses in the Company's annual proxy statement, that the director has no material relationship with the Company, and unless the Company discloses the basis for the Board's determination. Additional, and more stringent, standards of independence are required of Audit Committee members.

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The Board of Directors has adopted certain independence criteria, which are consistent with the New York Stock Exchange requirements, for the purpose of determining each director's independence. These criteria are also available on the Company's website (www.eaton.com) under the heading "Corporate Governance" and are included as Appendix C to this proxy statement. Since director independence includes consideration of the nature and amount of compensation paid by the Company to its directors, the Board has adopted a policy to determine when a director is deemed to have received "compensation" in connection with use of Company planes. This policy is also available on the Company's website and is included in Appendix C. The Board of Directors and its Governance Committee have applied these independence criteria and the policy on plane usage in assessing the independence of each member of the Board.

The Board of Directors has affirmatively determined that none of the members of

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the Board other than Mr. Cutler has a material relationship with the Company and that each of the following directors qualifies as independent under the Board's independence criteria and the New York Stock Exchange criteria: Michael J. Critelli, Ernie Green, Ned C. Lautenbach, Deborah L. McCoy, John R. Miller, Gregory R. Page, Kiran M. Patel, Victor A. Pelson and Gary L. Tooker. The Board has also affirmatively determined that each member of the Audit Committee meets the additional standards of independence required of them under both sets of criteria.

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 the Company's financial statements and its systems of internal accounting and financial controls; the independence, qualifications and performance of the Company's independent auditor; the performance of the internal auditors; and the Company's compliance with legal and regulatory requirements. The Audit Committee exercises sole authority to appoint, terminate and compensate the independent auditor and pre-approves all auditing services and permitted non-audit services to be performed for the Company by the independent auditor. Among its other responsibilities, the Committee meets regularly with the Company's chief financial officer, Director-Audits, independent auditor and Director-Global Ethics in separate executive sessions; prepares the Committee's report to be included in the Company's 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 rules adopted thereunder by 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 at least one member has accounting or related financial management expertise and that two members, John R. Miller and Kiran M. Patel, qualify as audit committee financial experts, as defined in Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934. The Audit Committee held eight meetings in 2004. Present members are Ms. McCoy and Messrs. Miller, Patel and Pelson.

Compensation and Organization Committee. The functions of the Compensation and Organization Committee include reviewing proposed organization or responsibility changes at the officer level; evaluating the performance of the Chief Executive Officer and reviewing the performance evaluations of the other elected officers; reviewing succession planning for key officer positions; recommending the individual to assume the position of Chief Executive Officer if that position becomes vacant; and reviewing the Company's practices for the recruitment and development of a diverse talent pool. The Committee is also responsible for determining the salary of each elected officer of the Company, subject to discussion by the Board

and endorsement by the independent directors; reviewing awards to elected officers under the Executive Incentive Compensation Plan and the aggregate amount of awards under the Plan; adjusting that amount as appropriate within the terms of the Plan; establishing and subsequently determining the attainment of performance objectives under the Company's short-term and long-term incentive compensation plans; annually reviewing awards to elected officers under the

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Company's long-term incentive compensation plans; administering stock option plans and reviewing compensation practices as they relate to key employees to confirm that those plans remain equitable and competitive, as well as reviewing significant new employee benefit plans or significant changes in such plans or changes with a disproportionate effect on the Company's officers or primarily benefiting key employees; and preparing an annual report for the Company's proxy statement regarding executive compensation. The Compensation and Organization Committee held six meetings in 2004. Present members are Messrs. Critelli, Green, Lautenbach, Page 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 did not meet during 2004. Mr. Cutler is a member of the Committee for the full twelve-month term, and each of the non-employee directors serves a four-month term.

Finance Committee. The functions of the Finance Committee include the periodic review of the Company's 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 the Company's dividend policy; reviewing the Company's cash flow, proposals for long- and short-term debt financing and the risk management program; meeting with and reviewing the performance of 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 2004. Present members are Messrs. Lautenbach, Miller, Page, Pelson and Tooker.

Governance Committee. The responsibilities of the Governance Committee include recommending to the Board improvements in the Company's 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 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 recommends to the Board 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 the Company's relationships with shareholders, employees, customers, competitors, suppliers and the communities in which the Company operates, including such areas as ethics compliance, environmental, health and safety issues, diversity and equal employment opportunity, community relations, government relations, charitable contributions, shareholder and investor relations and the Eaton Philosophy -- Excellence through People. The Governance Committee held four meetings in 2004. Present members are Ms. McCoy and Messrs. Critelli, Green, Miller and Patel.

COMMITTEE CHARTERS AND POLICIES -- The Board of Directors revised the charters of the Audit Committee, the Compensation and Organization Committee and the Governance

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Committee most recently in February 2005, and the charter of the Finance Committee in January 2004. The charter of the Governance Committee is attached to this proxy statement as Appendix A, the charter of the Audit Committee is attached as Appendix D, the charter of the Compensation and Organization Committee is attached as Appendix E, and the charter of the Finance Committee is attached as Appendix F. These charters also are available on the Company's website (www.eaton.com) under the heading "Corporate Governance." Printed copies will also be provided free of charge upon request. Requests for printed copies should be directed to the Company's Investor Relations Office, Eaton Corporation, 1111 Superior Avenue, Cleveland, Ohio 44114-2584.

In addition to the Board of Directors Governance Policies, certain other policies relating to corporate governance matters have been adopted by several Board Committees, or by the Board itself upon the Committees' recommendation. Summaries of these policies are included in Appendices A and D.

The Board of Directors held eleven meetings in 2004. All directors attended at least 75% of the meetings of the Board and its committees. The average rate of attendance for all directors was 95%.

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 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 services to be provided to the Company by the independent auditor. The Committee is comprised of four Directors, all of whom are independent under the Sarbanes-Oxley Act of 2002 and the listing standards of the New York Stock Exchange.

The Board of Directors amended the Committee's charter most recently on February 23, 2005. A copy of the charter is attached as Appendix D to this Proxy Statement.

In carrying out its responsibilities, the Audit Committee has reviewed, and has discussed with the Company's management, the Company's 2004 audited financial statements.

The Committee has discussed with Ernst & Young LLP, the Company's independent auditor, the matters required to be discussed by generally accepted auditing standards.

The Committee has also received the written disclosures from Ernst & Young regarding their independence from the Company that are required by Independence Standards Board Standard No. 1, has discussed with Ernst & Young their independence and has considered the compatibility of their services, other than their audit services, with their independence.

For 2003 and 2004, Ernst & Young's fees for various types of services to the Company were as shown below:

	2004	2003
	-----	-----
Audit Fees.....	\$14.5 million	\$7.3 million
Includes Sarbanes-Oxley Section		

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404 attest services		
Audit-Related Fees.....	1.5 million	1.3 million
Includes employee benefit plan audits and business acquisitions and divestitures		
Tax Fees.....	6.8 million	5.4 million
Tax compliance services	4.5 million	3.5 million
Tax advisory services	2.3 million	1.9 million
All Other Fees	0.4 million	0.1 million
Includes expatriate administrative services		

The Audit Committee did not approve any of the services shown in the above four categories through the use of the "de minimis" exception permitted by SEC rules.

The Audit Committee has adopted the following procedure for pre-approving audit services and other services to be provided by the Company's independent auditors: services are pre-approved 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

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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 financial statements for 2004 be included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission, and the Board has approved their inclusion.

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

Victor A. Pelson, Chair
Deborah L. McCoy
John R. Miller
Kiran M. Patel

COMPENSATION OF DIRECTORS -- Employee directors are not compensated for their services as directors. Non-employee directors receive an annual retainer of \$60,000. The Chair of the Finance Committee receives an annual retainer of \$5,000; the Chair of the Compensation and Organization Committee and the Chair of the Governance Committee each receives an annual retainer of \$7,500; and the Chair of the Audit Committee receives an annual retainer of \$10,000. Non-employee directors also receive a fee of \$2,000 for each Board meeting attended and for attendance at any special presentation on non-Board meeting days, and a fee of \$2,000 for each Board committee and shareholder meeting attended.

Non-employee directors first elected before 1996 may defer payment of their annual fees not to exceed \$30,000 at a rate of interest specified in their deferred compensation agreements. The rate of interest is based upon the number of years until the annual meeting following a director's 68th birthday and is higher than prevailing market rates. Under a separate deferral plan, all non-employee directors may defer payment of their fees at a rate of return which

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varies, depending on whether the director defers the fees as retirement compensation or as short-term compensation. At least 50% of retirement compensation, or any greater portion which the director elects, is converted to share units and earns share price appreciation and dividend equivalents. The balance of retirement compensation earns 10-year Treasury note returns plus 300 basis points. Short-term compensation earns 13-week Treasury bill returns. These arrangements provide for accelerated lump sum or installment payments upon termination of service in the context of a change in control of the Company and, with respect to amounts deferred prior to January 1, 2005 under certain of these arrangements, upon a failure by the Company to pay.

Under the Company's Stock Plans, as approved by the shareholders, each newly-elected non-employee director automatically is granted a stock option for 10,000 shares upon the date of his or her election. So long as each non-employee director continues to serve in that capacity, beginning in the year after the director receives his or her initial grant, he or she is automatically granted an option for a number of shares equal to the quotient resulting from dividing (i) four times the annual retainer for each non-employee director in effect on the granting date, by (ii) the closing price of an Eaton common share on the New York Stock Exchange Composite Transactions on the last business day immediately preceding the granting date. The granting date is the Tuesday immediately before the fourth Wednesday of each January. Options granted to non-employee directors have an exercise price equal to the fair market value of the shares on the date of the grant, vest in six months, and have an exercise period of ten years.

Upon leaving the Board, non-employee directors who were first elected prior to 1996 are eligible to receive an annual benefit, as described below. For Board service of at least five years, eligible directors receive an annual benefit equal to the annual retainer in effect at the time the directors leave the Board. Eligible directors having fewer than five years but more than one year of Board service at the time of their Board retirement receive a proportionately reduced annual benefit. The annual benefit is paid for the lesser of ten years or life. The present value of payments under this plan will be paid in a lump sum upon a "proposed change in control" of the Company, unless otherwise determined by a committee of the Board. Directors who are first elected in 1996 or later are not eligible to receive the annual benefit.

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BOARD OF DIRECTORS GOVERNANCE POLICIES -- The Board of Directors revised the Board of Directors Governance Policies most recently in February 2005, as recommended by the Governance Committee of the Board. The revised Governance Policies are attached as Appendix B to this proxy statement.

EXECUTIVE SESSIONS OF THE OUTSIDE DIRECTORS -- The policy of the Board of Directors is that the outside directors 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. The outside directors who chair the Audit Committee, Compensation and Organization Committee, Finance Committee and Governance Committee chair the Executive Sessions on a rotating basis. Shown below are the months when Board meetings are held and the outside director who chairs each Executive Session:

January	--	Chair of the Compensation and Organization Committee
February	--	Chair of the Audit Committee
April	--	Chair of the Governance Committee

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July -- Chair of the Finance Committee
September -- Chair of the Audit Committee
October -- Chair of the Compensation and
Organization Committee

The policy of the Board of Directors is that at least one such Executive Session is held every year attended only by directors who meet the independence criteria of the Board of Directors and of the New York Stock Exchange. At the present time, all outside directors meet these criteria.

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 the Company's management present, to discuss whatever topics they may deem appropriate.

SECURITY HOLDER COMMUNICATIONS TO THE BOARD -- The Company's Board of Directors provides the following process for security holders and other interested parties to send communications to the Board or the non-management directors:

Security holders and other interested parties may send such communications by mail or courier delivery addressed as follows:

Mr. Earl R. Franklin
Vice President and Secretary
Eaton Corporation
Eaton Center
1111 Superior Avenue
Cleveland, Ohio 44114-2584

In general, the Vice President and Secretary forwards all such communications to the Chair of the Governance Committee. The Governance Committee Chair in turn determines whether the communications should be forwarded to other members of the Board and, if so, forwards them accordingly. However, for communications addressed to a particular member of the Board (e.g., the director who will chair a particular Executive Session), the Chair of a particular Board Committee or the non-management directors as a group, the Vice President and Secretary forwards those communications directly to the Board member or members in question.

DIRECTOR ATTENDANCE AT ANNUAL MEETINGS -- The policy of the Company's Board of Directors is that all directors should attend Annual Meetings and are compensated for their attendance. At the Company's 2004 Annual Meeting, held April 28, 2004, all ten members of the Board were in attendance.

CODE OF ETHICS -- The Company has a Code of Ethics that was approved by the Board of Directors. The Company provides training globally for all employees on its Code of Ethics. Eaton requires that all directors, officers and employees of Eaton, its subsidiaries and affiliates abide by the Company's Code of Ethics, which is attached as Appendix G to this proxy statement. The Code of Ethics is also available on the Company's website (www.eaton.com) under the heading "Global Ethics." Printed copies will also be provided free of charge upon request. Requests for printed copies should be directed to the Company's Investor Relations Office, Eaton Corporation, 1111 Superior Avenue, Cleveland, Ohio 44114-2584.

EXECUTIVE COMPENSATION -- The following table summarizes the total compensation of the Chairman and Chief Executive Officer of Eaton and the four other most

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highly compensated executive officers for fiscal year 2004. The table also summarizes compensation of the named executive officers for fiscal years 2003 and 2002.

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SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		OTHER ANNUAL COMPENSATION (1)	LONG-TERM COMPEN ----- AWARDS -----	
		SALARY	BONUS		RESTRICTED	STOCK
					STOCK AWARD (S) (2)	OPTIONS (SHARES) (3)
A. M. Cutler	2004	\$979,334	\$2,167,440	\$122,552	\$1,593,000	242,000
Chairman,	2003	950,004	1,504,807	106,726	931,665	242,000
Chief Executive Officer and President	2002	950,004	1,745,633	100,720	944,790	224,000
C. Arnold	2004	\$431,060	\$ 716,958	\$ 963	\$ 0	44,000
Senior Vice President	2003	411,750	445,372	0	175,125	44,000
and Group Executive-- Fluid Power	2002	399,125	456,934	0	204,500	44,000
R. W. Carson	2004	\$439,740	\$ 696,549	\$ 12,124	\$ 0	44,000
Senior Vice President	2003	437,588	452,125	4,526	175,125	44,000
and Group Executive-- Electrical	2002	418,614	515,456	14,495	204,500	44,000
R. H. Fearon	2004	\$456,770	\$ 761,298	\$ 0	\$ 295,000	44,000
Executive Vice	2003	439,184	476,110	0	175,125	44,000
President-- Chief Financial and Planning Officer	2002	301,045	507,616	45,874	422,900	44,000
J. E. Sweetnam	2004	\$406,440	\$ 658,619	\$ 12,776	\$ 0	44,000
Senior Vice President	2003	390,702	404,881	18,567	175,125	44,000
and Group Executive-- Truck	2002	373,344	438,589	0	204,500	44,000

(1) Reported in this column is annual compensation representing (i) amounts reimbursed by the Company for the payment of income taxes on personal benefits and (ii) \$99,202 in executive perquisites received by Mr. Cutler in 2004, including \$45,600 which represents the incremental cost for personal use of the Company-owned aircraft. Due to concerns for personal security, the Board of Directors has directed Mr. Cutler to use the Company-owned aircraft for his and his family's personal travel.

(2) The restricted stock awards shown in the table for 2004 vest as follows: A. M. Cutler, 20% after 24 months, an additional 20% after 36 months, an additional 30% after 48 months, and the remaining 30% after 60 months; R. H. Fearon, 20% after 12 months, an additional 20% after 24 months, an additional 20% after 36 months, and the remaining 40% after 48 months. Dividends are paid to the executives with respect to the unvested restricted shares they hold at the same rate and time as dividends are paid on outstanding Company shares generally. At year-end 2004 the number and value of unvested restricted shares held by each of the named executive officers

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were as follows: C. Arnold, 43,222, \$3,127,544; R. W. Carson, 10,000, \$723,600; A. M. Cutler, 75,460, \$5,460,286; R. H. Fearon, 16,000, \$1,157,760; and J. E. Sweetnam, 8,000, \$578,880. Value is calculated by multiplying the closing price of an Eaton share on that date by the number of restricted shares.

- (3) For a number of years, grants have been determined by dividing (i) the median long-term incentive compensation values paid by similar companies, as reported in the most recent compensation surveys, by (ii) the product of the average Black-Scholes (or comparable model) percentage ascribed to the Company's most recent stock option grant by national compensation consulting firms, and the then most recent five-year average Eaton common share price. This procedure reduces variability resulting from short-term stock price fluctuations.
- (4) All Other Compensation contains several components. Beginning in 2002, the Eaton Savings Plan permits an employee to contribute from 1% to 5% of his or her salary to the matching portion of the plan, subject to limits imposed under the Internal Revenue Code. Eaton makes a matching contribution which equals \$1.00 for each dollar contributed by the participating employee with respect to the first 3% of his or her salary contributed to the plan and \$.50 for each dollar contributed by the participating employee with respect to the next 2% of his or her salary contributed to the plan. The amounts the Company contributed during 2004 for the named executive officers were as follows: C. Arnold, \$8,200; R. W. Carson, \$7,380; A. M. Cutler, \$8,200; R. H. Fearon, \$7,544; and J. E. Sweetnam, \$8,200. The Company maintains plans pursuant to which incentive compensation may be deferred. Earnings on such deferrals, which are above rates established by the Internal Revenue Service, are disclosed in this table. Those earnings during 2004 for each of the named executive officers were as follows: C. Arnold, \$0; R. W. Carson, \$0; A. M. Cutler, \$3,125; R. H. Fearon, \$0; and J. E. Sweetnam, \$0. The Company provides certain executives, including the named executive officers, with the opportunity to acquire individual whole-life insurance. The annual premium paid by the Company during 2004 for each of the named executive officers was as follows: C. Arnold, \$2,928; R. W. Carson, \$6,249; A. M. Cutler, \$9,481; R. H. Fearon, \$3,520; and J. E. Sweetnam, \$3,863. Each executive officer is responsible for paying individual income taxes due with respect to the Company's insurance program. This column also includes relocation expenses beyond those generally available under the Company's relocation policy for transferred salaried employees for Mr. Sweetnam of \$16,385 in 2003 and \$75,000 in 2004, and for Mr. Carson of \$39,571 in 2002. In addition, this column includes relocation expenses for Mr. Fearon as a newly hired, incentive-eligible employee of \$164,433 in 2002 and \$1,700 in 2003. Pursuant to the Company's relocation policy for incentive-eligible employees, Cendant Mobility Services Corporation, the agency handling relocation of Eaton's employees, purchased Mr. Fearon's California home for an independent appraised value of \$2.55 million. Under Eaton's contract with Cendant, in 2003, Eaton paid Cendant \$189,563 based on Cendant's carrying costs and brokerage costs in connection with its sale of Mr. Fearon's home. These amounts are excluded from the table, as they were paid to Cendant and were not treated as compensation to Mr. Fearon.

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AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END VALUES -- The following table provides information concerning the exercise of stock options during fiscal year 2004 and the value of unexercised stock options at the end of fiscal year 2004 with respect to the named executive officers.

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NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED	TOTAL NUMBER OF UNEXERCISED OPTIONS HELD AT FISCAL YEAR END		TOTAL VALUE OF UNEXERCISED, IN-THE-MONEY OPT HELD AT FISCAL YEAR E	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXE
A. M. Cutler	124,768	\$4,375,200	985,759	725,417	\$38,057,202	\$21,
C. Arnold	0	0	83,760	88,440	2,919,338	2,
R. W. Carson	88,218	2,351,213	204,650	88,440	7,409,831	2,
R. H. Fearon	0	0	43,560	88,440	1,426,590	2,
J. E. Sweetnam	0	0	75,510	134,908	2,611,513	3,

OPTION GRANTS -- The following table provides information concerning grants of stock options made during fiscal year 2004 to each of the named executive officers. For a number of years, the Company has established its annual guidelines for stock option grants by referencing the average percentage Black-Scholes values (or comparable market pricing models) ascribed to the Company's most recent actual stock option grant by the three separate nationally recognized compensation consulting firms used for annual market analysis and applying this average percentage to the average price for an Eaton common share over a specified number of years. For 2004, 2003 and 2002, the number of years utilized was five. The resulting dollar value is then divided into the median long-term incentive compensation values as reported in the most recent surveys to establish the recommended median grant sizes for the next stock option grant cycle. This process was established to provide a more stable basis for making annual stock option grants with less year-to-year variability in overall grant sizes and share usage, particularly taking into account the historic variability of the Company's stock price. No stock appreciation rights were granted during fiscal year 2004.

INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE OR BASE PRICE	EXPIRATION DATE	POTENTIAL REALIZABLE ANNUAL RATES OF STOCK P FOR OPTION	
					0%	5%
A. M. Cutler	242,000	10.29%	\$59.07	2/24/2014	\$0	\$ 9,005,812
C. Arnold	44,000	1.87%	59.07	2/24/2014	0	1,637,420
R. W. Carson	44,000	1.87%	59.07	2/24/2014	0	1,637,420
R. H. Fearon	44,000	1.87%	59.07	2/24/2014	0	1,637,420
J. E. Sweetnam	44,000	1.87%	59.07	2/24/2014	0	1,637,420
All Shareholders(2)					0	5,708,443,398

(1) Based on a total of 2,350,844 options granted to all employees. As granted, one-third of the options become exercisable upon each of the first, second and third anniversary of the date of grant, except for options granted to

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Mr. Cutler, 20% of which become exercisable upon each of the first five anniversaries of the date of grant.

- (2) At the assumed annual rates of stock price appreciation of 0%, 5% and 10%, at a base price of \$59.07, the value of all 153,394,638 shares outstanding on January 31, 2005 would increase by the amounts shown. There can be no assurance that the market price of Eaton shares will increase in the future.

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LONG-TERM INCENTIVE PLAN AWARDS -- The following table provides information regarding long-term incentive plan awards made during fiscal year 2004 to each of the named executive officers.

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS (1)	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE BASED PLANS		
			THRESHOLD (SHARES)	TARGET (SHARES)	MAXIMUM (SHARES)
A. M. Cutler	31,100	4 years	15,550	31,100	62,200
C. Arnold	8,650	4 years	4,325	8,650	17,300
R. W. Carson	8,650	4 years	4,325	8,650	17,300
R. H. Fearon	9,500	4 years	4,750	9,500	19,000
J. E. Sweetnam	7,350	4 years	3,675	7,350	14,700

- (1) These units were awarded during 2004 under the Company's long-term incentive plan at a target price per unit of \$57.95. The actual final value of the units will be determined after the completion of the four-year award period based upon the achievement of corporate and individual performance goals. The corporate goals relate to cash flow return on gross capital and growth in earnings per Company common share. Payouts are made in cash, unless the executive has elected to defer receipt of the payment under the Company's long-term deferral plan.

STOCK OWNERSHIP GUIDELINES -- The Company maintains stock ownership guidelines for senior executives for the purpose of aligning their motivations with the interests of the Company's owners and assuring that the individuals principally responsible for the Company's stewardship and growth have a significant personal stake in its progress.

The guidelines call for executives to reach the following levels of Eaton stock ownership over a five-year period:

Chief Executive Officer	3-5 times base salary
Other officers	2-4 times base salary
General managers and key staff managers	1 times base salary

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For purposes of achieving these guideline levels, the following shares are included: Eaton shares owned outright by the executive, Eaton share units credited to the executive's Eaton Savings Plan account, and Eaton share units credited to the executive's deferred compensation accounts. All of the officers named in the Summary Compensation Table on page 15 are in compliance with these stock ownership guidelines.

COMPENSATION AND ORGANIZATION COMMITTEE REPORT -- The Committee, consisting of five independent non-employee directors, met six times in 2004. The Committee's comprehensive formal executive compensation philosophy, which has been discussed with the Board of Directors, is consistent with the Company's long-standing belief that executive compensation must to a large extent be at risk, depending on achieving rigorous Company, business unit and individual performance objectives designed to enhance shareholder value. The Committee's philosophy requires that executive compensation be competitive to allow the Company to attract, motivate and retain highly qualified executives, and to fairly reflect, in the judgment of the Committee, accomplishments and responsibilities within the Company.

The administration of the Company's executive compensation is consistent with this philosophy and is confirmed by periodic comprehensive studies of the Company and industry practices conducted with the assistance of a nationally recognized consulting firm retained by the Committee. The most recent such study was completed in 2003 and, following Committee review and discussions, the results of the study were summarized and presented to the Board of Directors. The consultant's study concluded that Eaton's executive compensation programs and the Committee processes meet all of the consulting firm's recommended compensation committee practice standards. The report also noted that the Company's executive total compensation programs generally met the consulting firm's best practice evaluation criteria. As an outgrowth of these discussions, in 2004 the Committee commissioned an additional Company study of executive total compensation practices and of Eaton's

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performance compared to the peer group of companies that the Company's senior management and Board of Directors use annually for strategic planning purposes and for incentive plan performance goal discussions. This peer group currently consists of sixteen well-known diversified industrial manufacturers, most of which compete directly in one or more of the Company's major product markets. This study provided a comprehensive, multiple-year look at Eaton and peer company actual results across a range of performance metrics along with the resulting actual compensation provided to senior executives as reported in the proxy statements' summary compensation tables for Eaton and these same firms. The results of this study, which were reviewed and endorsed by a second independent compensation consultant chosen by the Committee, concluded that Eaton's total compensation awards over the last three years fell at or below the median for the peer group although the Company's performance for most critical measures was at or above the peer group median performance. In addition, in 2003 and again in 2004, the Committee commissioned this second independent compensation consultant to conduct separate detailed studies of evolving market practices involving long-term incentive compensation plans with a special focus on stock-based programs. These studies confirmed that the Company's targeted long-term incentive compensation values align well with mainstream competitive practice and, further, that its long-standing practice of providing a balanced portfolio of long-term incentive elements aligns favorably with emerging market trends that are marked by the more disciplined use of options, a higher emphasis on performance-contingent incentives and an increase in the use of equity programs in forms other than stock options. This consultant further recommended that the Company's present approach to long-term incentives again be used for the Company's 2005 grants.

Eighty-four percent of the 2004 aggregate cash compensation of the executive officers named in the summary compensation table was based directly on specific financial performance objectives. Consistent with the Company's past practices, in 2004, the Committee targeted base salaries at approximately the median range of compensation paid by comparably-sized industrial companies that are included in the survey databases of three separate nationally recognized compensation consulting firms. There are no compensation surveys available that track the companies included in the S&P 1500 Industrial Machinery Index utilized in the stock performance graph on page 23. Accordingly, the Committee's consultants believe that the three databases used, when combined, provide the best metrics for setting the compensation of the Company's elected officers. The Committee also established short-term and long-term incentive opportunities and stock option grants at approximately the median range as reported in these same surveys, with provisions for larger payments if the Company achieves superior performance and for smaller payments if the Company does not achieve target performance.

Salary -- In setting executive salaries, the Committee uses input from outside sources as noted above and management recommendations for individual adjustments. In judging performance, the Committee typically considers performance against annual plans, and accomplishment of other objectives. The Committee also considers factors such as initiative and leadership, time in position, experience, knowledge and level of competitive compensation in the marketplace. Consistently effective individual performance is a threshold requirement for any salary increase. As has been the practice in recent years, in 2004, Mr. Cutler requested only moderate base salary adjustments for certain elected officers. Following a review and discussion, the Committee approved base salary adjustments for certain elected officers as proposed by the Chairman.

Short-Term Incentives -- Annual performance awards for 2004 for elected officers were based on individual target opportunities for each executive expressed as a percentage of the participant's base salary. Actual awards are determined by adjusting the target incentive opportunity based on whether the Company has achieved predetermined levels of cash flow return on gross capital employed in the business ("CFR") and earnings per share ("EPS"), and individual and business unit performance. A philosophical cornerstone of

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short-term incentive compensation is the belief that CFR and EPS are easily understood by incentive participants, and that consistently high performance against these measures provides a good statistical correlation with sustained high stock market valuation. No incentive payments are made under the plan unless the Company achieves the predetermined minimum levels of CFR. If the Company achieves the predetermined minimum levels of CFR, but does not achieve the predetermined minimum levels of EPS, no incentive payments above plan minimum level can be made. The Committee may adjust the total amount available for payment under the plan up or down by 20%, and retains the right to pay up to 20% of the normal incentive fund to recognize extraordinary contributions to the Company in a year when awards would not otherwise be payable. The Committee did not exercise this discretion with respect to the 2004 incentive awards. Actual awards are also determined by individual performance ratings and Committee discretion. Individual performance ratings take into account factors such as unanticipated challenges and opportunities, actual performance against profit plan, personal objectives, general economic conditions and the performance of other large industrial corporations. Individual ratings emphasize pay for performance, and may result in payments ranging from zero to 150% of the amount otherwise payable to any given individual incentive participant provided, however, that the total aggregate awards to all eligible incentive plan participants cannot exceed 100% of the CFR and EPS performance adjusted

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incentive fund. Executives may defer payment of their bonuses. Amounts deferred until retirement earn the greater of share price appreciation and dividend equivalents or 13-week Treasury bill returns. Amounts deferred for shorter periods earn Treasury bill returns.

Long-Term Incentives -- In 2004, the Committee continued its long-standing practice of paying targeted long-term incentive compensation in two components: approximately 50% in a four-year performance-based incentive compensation plan with any earned awards paid in cash, and the remaining 50% in stock options. The performance-based cash portion of long-term incentives is made under the Company's Executive Strategic Incentive Plan. Grants under this plan are made annually and cover four-year performance periods. Final awards to participants under the plan are based on the Company's success in achieving aggressive CFR and growth in EPS goals and include a discretionary assessment of each participant's individual performance. Performance goals are established by the Committee at the beginning of each four-year award period based upon a review with management of the Company's past performance in comparison to that reported for the top quartile of its diversified industrial peer group and also based upon the Company's strategic objectives and annual business plans. Incentive targets are expressed as phantom share units, and final awards are paid in cash, instead of shares. In light of the significant adverse changes in the global economy, the Committee determined in 2002 that the original performance objectives for award periods that were then open (1999-2002, 2000-2003 and 2001-2004) no longer provided effective incentives. The Committee therefore approved in 2002 separate performance objectives for the remaining years of these periods. The aggregate awards with respect to both the original performance objectives and these separate objectives were capped at 100%, 125% and 150%, of the original target incentive opportunities for award periods ending 2002, 2003 and 2004, respectively. For the award period ending in 2004, the Company's performance exceeded the performance objectives necessary to earn a maximum award. Aggregate awards were capped at 150%, and were adjusted to reflect individual performance.

Executive officers may defer payment of their awards. At least 50% of any deferrals that will be paid after retirement are converted to share units and earn share price appreciation and dividend equivalents. The balance earns 10-year Treasury note returns plus 300 basis points. Short-term deferrals earn 13-week Treasury bill returns.

Equity Compensation -- As noted above, approximately 50% of the executive's total long-term incentive compensation consists of stock options. Stock options align the interests of the Company's elected officers and other executives with those of its shareholders by having a significant component of their compensation tied directly to increases in shareholder value. For a

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number of years, the Company has established its annual guidelines for stock option grants by referencing the average percentage Black-Scholes values (or comparable market pricing models) ascribed to the Company's most recent actual stock option grant by the three separate nationally known compensation consulting firms used for annual market analysis and applying this average percentage to the then most recent five-year average price for an Eaton common share. The resulting dollar value is then divided into the median long-term incentive compensation values as reported in the most recent surveys to establish the recommended median grant sizes for the next stock option grant cycle. This process was established to provide a more stable basis for making annual stock option grants with less year-to-year variability in overall grant sizes and share usage, particularly taking into account the historic variability of the Company's stock price. All officers and key executives of the Company are expected to hold a multiple of from one to five times their base salary in

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Company shares depending on their level in the organization. The Committee annually reviews progress of individual elected officers toward these ownership goals. Options have an exercise price equal to the fair market value of the shares on the date of the grant, vest in equal installments over a minimum of three years and, to further encourage a long-term perspective, have an exercise period of ten years. The Company does not re-price stock options after they have been granted and does not grant stock appreciation rights. The Committee has adopted guidelines that limit the Company's regular total stock option grants, during any five-year period, to a maximum of 10% of the Company's outstanding shares.

In limited circumstances, the Company grants restricted stock to selected elected officers or other executives. Such grants are typically made for special retention purposes. They generally vest over four or more years and, when added to the other basic compensation elements, may result in total compensation that is somewhat above the median. Under the 2002 Stock Plan, no more than 10% of the total number of shares authorized for delivery may be granted as restricted shares, performance shares, stock appreciation rights or share awards (other than stock options). In addition, no more than 5% of the total number of shares authorized for delivery under the 2002 Stock Plan may be granted as restricted shares, performance shares, stock appreciation rights or other share-based awards (other than stock options) that vest within less than one year after the date of grant. With respect to such awards in excess of 5% of the total number of authorized shares in the 2002 Stock Plan, the vesting period must exceed one year, with no more than one-third of those shares vesting at the end of each of the twelve-month periods following the date of grant. While the 10% limit noted above was appropriate for the 2002 Stock Plan, as approved by the shareholders at the 2002 Annual Meeting, circumstances had changed by the time of the 2004 Annual Meeting, when the shareholders, at the recommendation of the Board of Directors, approved the 2004 Stock Plan. Instead of a 10% limit, the 2004 Stock Plan contained a 40% limit on the total number of shares authorized by the Plan which could be used for grants of restricted shares, performance shares, stock appreciation rights or other share awards (other than stock options). The Committee supported the use of more shares for these other forms of equity grants because their use was in line with the long-term incentive compensation strategy that the Committee had then adopted. This long-term strategy, developed in 2003 with the assistance of a special Committee-retained consultant, was reviewed and reconfirmed in 2004 based upon an updated market analysis conducted by the same consultant. Under this strategy, the Committee will continue to drive executive performance while being sensitive to executive retention risks by using a balanced portfolio of long-term incentive compensation components. In addition, the Committee will continue to monitor the competitive environment in executive compensation which is expected to continue to evolve during the life of the 2004 Stock Plan as the result of a number of factors including the recent ruling by the Financial Accounting Standards Board that mandates accounting for stock options. This action will largely equalize the treatment of stock options when compared to other potential incentive and equity elements that could be used in executive incentive programs. It is important in this environment that the Committee have the

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flexibility to consider awards of other forms of long-term incentive compensation in order to create effective incentive programs that are aligned with sustained shareholder valuation creation and that meet competitive practice.

Chief Executive Officer Compensation -- The 2004 compensation for Mr. Cutler was earned pursuant to the arrangements described above. Prior to approving an annual total compensation plan for Mr. Cutler, each year the Committee conducts a comprehensive Chief Executive Officer performance evaluation. This overall

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performance evaluation is a primary component used by the Committee when developing and approving annual compensation adjustments, awards and grants for the Chief Executive Officer. This process is supported by an independent outside consultant who is chosen by the Committee and who, independent of management, collects and compiles input from each non-employee Director. After reviewing a comprehensive annual goal report and self-evaluation provided by Mr. Cutler, each Director provides his or her independent rating recommendations, comments and performance improvement suggestions in performance areas including: Company operations and financial results, long-term strategy development and progress, success in building organizational depth, capability and diversity, personal leadership style, community and industry involvement, Board support and the development and execution of corporate governance practices. The Directors' inputs on these performance areas, along with any narrative commentary, are compiled anonymously by the independent outside consultant who prepares a draft consensus evaluation for final review and approval by the Committee. This final evaluation is also reviewed in an Executive Session of the Board of Directors and shared with Mr. Cutler prior to a formal performance evaluation discussion with the Chairman of the Committee.

In the process of constructing the 2004 annual total compensation plan for the Chairman and Chief Executive Officer, the Committee began with a careful evaluation of the median compensation values for each compensation element as reported for comparably-sized industrial companies in the survey databases of the three national compensation consulting firms used by the Committee for its annual market analysis. The reported survey data captured the actual annual cash compensation (base salary and bonus award) and the value of the most recent long-term incentive grants provided to the chief executive officers reported by participating survey companies in mid-year 2003.

While the Committee uses median survey data as the initial basis for considering and establishing the base salary and short and long-term incentive targets for the Chief Executive Officer and other executives, final awards actually earned under the Company's incentive plans reflect both the Company's financial performance against pre-established goals and the Committee's assessment of the individual executive's performance and value-added contributions.

After being held constant for the prior three years, Mr. Cutler's base salary was modestly adjusted in 2004 to reflect his consistent effective performance as Chairman and Chief Executive Officer and to properly position his salary in relation to current market practice. After this 2004 adjustment, Mr. Cutler's base salary positioned him just above the median salary level as reported in the lowest of the three national consulting survey databases used by the Committee.

Mr. Cutler's short-term incentive target opportunity approved by the Committee for 2004 positioned him at approximately the median incentive level as reported in the lowest of the three survey databases used by the Committee. Mr. Cutler's 2004 short-term incentive payout was based on the Company's financial performance, as measured by CFR and EPS compared to the targets set by the Committee for 2004. Consistent with the incentive plan's design, the Committee evaluated the performance of Mr. Cutler, and his final award reflects his individual rating. In establishing that rating, the Committee took into account Mr. Cutler's continued leadership in expanding and driving the use of the Eaton Business System throughout the Company; exceeding 2004 profit plan and EPS goals; exceeding the goals set for strengthening the balance sheet; significantly outgrowing the end markets in the Company's major business

segments; continuing to implement effective cost reduction measures including those related to the integration of recent acquisitions and expanding the Company's initiatives in moving toward a lower capital intensity business model;

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successfully closing four acquisitions and reaching agreement on one additional acquisition; successfully closing one joint venture and executing letters of intent on two other joint ventures that offer significant potential for growth in Asia; continuing to support the Board of Directors in advancing corporate governance procedures that meet or exceed the letter and spirit of evolving accountability requirements; recruiting and developing an outstanding leadership team; continuing success in improving the Company's diversity profile; beginning the rollout of the Company's next phase of its high performance workplace initiative; generating consistent improvement across the organization in the response rate for its annual global employee engagement survey process that has firmly established Eaton as a "industry benchmark company" for such surveys; and effectively driving and communicating the Company's vision and commitment to be a sustained top quartile performer within its diversified industrial peer group. Finally, the Committee took note of the Company's success in generating a total shareholder return of just over 36% in 2004 which built upon a 41% all in return to the shareholders in 2003.

In 2004, the Committee approved a target long-term incentive cash opportunity for the 2004 -- 2007 award period under the Executive Strategic Incentive Plan which, together with his Committee-approved 2004 stock option grant, positioned the value of Mr. Cutler's total long-term incentive compensation elements just above the median long-term incentive compensation value reported for the lowest of the three survey databases. The 2004 stock option grant approved for Mr. Cutler will vest in equal amounts over 5 years. Mr. Cutler's earned payouts from the long-term incentive plan for the award period ending in 2004 were based upon the Company's CFR and cumulative earnings per share performance as described above, and upon Mr. Cutler's personal performance over that period.

Mr. Cutler's 2004 base salary, annual incentive compensation plan target opportunity, long-term incentive cash performance plan target opportunity and stock option grant compared appropriately with the median of base salaries, short-term and long-term incentive grants made to chief executive officers as reported in the survey databases of the three nationally recognized compensation consulting firms used by the Committee. In addition to these median level compensation adjustments and grants, the Committee also approved a restricted stock grant for Mr. Cutler in 2004 in order to provide an additional level of retention value in his total compensation package.

Tax Deduction -- Any non-deferred annual compensation of more than \$1 million for the Chief Executive Officer and each of the four other most highly-compensated officers is not tax deductible unless paid pursuant to formula-driven, performance-based arrangements that preclude Committee discretion to adjust compensation after the beginning of the period in which the compensation is earned. The Committee attempts to preserve deductibility by encouraging deferrals of otherwise nondeductible payments.

Respectfully submitted to the Company's shareholders by the Compensation and Organization Committee of the Board of Directors,

Michael J. Critelli, Chair
Ernie Green
Ned C. Lautenbach
Gregory R. Page
Gary L. Tooker

COMPANY STOCK PERFORMANCE -- The following graph compares the cumulative total shareholder return for the five years ending December 31, 2004 for Eaton common shares, the S&P 1500 Industrial Machinery, and the S&P 500. These figures assume all dividends are reinvested when received, and are based on \$100 invested in

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Eaton common shares on December 31, 1999.

	EATON -----	S&P 500 -----
1999	100.00	100.00
2000	106.12	90.90
2001	123.96	80.10
2002	133.29	62.41
2003	188.33	80.30
2004	256.91	89.03

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RETIREMENT PLANS -- Effective January 1, 2003, employees who were then earning benefits under the "Average Final Annual Compensation" (AFAC) benefit formula under the Company's retirement plan were given the option to either: (a) continue earning benefits under the AFAC benefit formula; or (b) commence earning benefits under the Eaton Personal Pension Account (EPPA) formula. Salaried employees hired on or after January 1, 2002 automatically earn benefits under the EPPA formula upon becoming eligible for participation in the retirement plan.

Average Final Annual Compensation Formula -- The following table shows the annual normal retirement benefits payable to officers and other employees of the Company under the AFAC benefit formula upon retirement at age 65 at the compensation and years specified. The table assumes retirement under the standard post-retirement single life annuity option. Under the standard post-retirement surviving spouse option, the participant receives a reduced pension, and a pension equal to 50% of the reduced pension is payable to his or her surviving spouse. The benefit for an employee electing that option whose spouse is three years younger would be approximately 11% less than the amounts shown in the table.

FINAL COMPENSATION	PURSUANT TO STANDARD SINGLE LIFE ANNUITY OPTION FOR YEARS OF CREDITED SERVICE IND					
	15 YEARS	20 YEARS	25 YEARS	30 YEARS	35 YEARS	40 Y
500,000	109,372	145,829	182,286	218,743	255,200	29
600,000	131,872	175,829	219,786	263,743	307,700	35
700,000	154,372	205,829	257,286	308,743	360,200	41
800,000	176,872	235,829	294,786	353,743	412,700	47
900,000	199,372	265,829	332,286	398,743	465,200	53
1,000,000	221,872	295,829	369,786	443,743	517,700	59
1,100,000	244,372	325,829	407,286	488,743	570,200	65
1,200,000	266,872	355,829	444,786	533,743	622,700	71
1,300,000	289,372	385,829	482,286	578,743	675,200	77
1,400,000	311,872	415,829	519,786	623,743	727,700	83
1,500,000	334,372	445,829	557,286	668,743	780,200	89
1,600,000	356,872	475,829	594,786	713,743	832,700	95
1,700,000	379,372	505,829	632,286	758,743	885,200	1,01
1,800,000	401,872	535,829	669,786	803,743	937,700	1,07
1,900,000	424,372	565,829	707,286	848,743	990,200	1,13
2,000,000	446,872	595,829	744,786	893,743	1,042,700	1,19
2,100,000	469,372	625,829	782,286	938,743	1,095,200	1,25

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The information contained in the preceding table is based on the assumption that the AFAC formula in the retirement plan will be continued in its present form.

Under the AFAC benefit formula, annual normal retirement benefits are computed at the rate of 1% of average final annual compensation up to the applicable Social Security integration level (\$41,712 for 2004 retirements) plus 1 1/2% of average final annual compensation in excess of the Social Security integration level, multiplied by the employee's years of credited service.

An employee's average final annual compensation is the average annual amount of his or her total compensation (consisting of salary plus bonus as so identified in the Summary Compensation Table on page 15) for service during the five consecutive years within the last ten years of employment for which the employee's total compensation was greatest. Years of credited service means the number of years of employment between age 21 and retirement, with a maximum of 44 years. As of January 31, 2005, the number of years of credited service for the following individuals, who are named in the Summary Compensation Table on page 15 and who -- effective January 1, 2003 -- elected to continue to earn benefits under the AFAC benefit formula, was as follows: A. M. Cutler, 29.4; C. Arnold, 4.3; R. W. Carson, 6.0; and J. E. Sweetnam, 7.2.

Eaton Personal Pension Account Formula -- Under this benefit formula, a participant's single

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sum retirement benefit is accumulated throughout his or her career with the Company. This single sum amount is represented as a nominal account balance that is regularly credited with a percentage of his or her total compensation (consisting of salary plus bonus as so identified in the Summary Compensation Table on page 15) as well as with interest at a specified rate. The percentage of total compensation credited to the participant's nominal account balance varies over his or her career based on the sum of the participant's age and service with the Company. For the period when that sum is less than 50, 5.0% of compensation is credited, for the period when the sum is between 50 and 59 (inclusive), 6.0% is credited. When the sum is between 60 and 69 (inclusive), 7.0% of compensation is credited and, when the sum is 70 or greater, 8.0% of compensation is credited. Upon termination of employment, the nominal account balance is available as a single sum or may be converted to one of several annuity forms. As with the AFAC benefit formula, under the standard post-retirement surviving spouse option, a participant receives a reduced pension, and a pension equal to 50% of the reduced pension is payable to his or her surviving spouse. By way of example, the benefit for an employee electing that option whose spouse is three years younger would be approximately 11% less than the amount of the participant's annual benefit. This information assumes that the EPPA formula in the retirement plan will be continued in its present form.

Having been hired in 2002, R. H. Fearon automatically began earning pension benefits under the EPPA benefit formula. The estimated annual benefit payable to Mr. Fearon at normal retirement age under the EPPA benefit formula is \$215,361. The assumed interest rate credited to his account, as well as the annuity conversion rate, is 6%. The calculation uses 4% as the rate for annual increases in compensation. As of January 31, 2005, the number of years of service for Mr. Fearon was 2.8 years.

OTHER RETIREMENT AND COMPENSATION ARRANGEMENTS -- Certain provisions of the Internal Revenue Code, as amended, limit the annual benefits that may be paid from a tax-qualified retirement plan. As permitted under the Code, the Board of

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Directors has authorized the payment from Eaton's general funds of any benefits calculated under the provisions of the applicable retirement plan which may exceed those limits. The present value of these benefits accrued prior to January 1, 2005 will be paid in a single installment upon a proposed change in control of the Company unless otherwise determined by the Board of Directors.

The Board of Directors has adopted plans which provide supplemental annual retirement income to certain executives who do not have the opportunity to accumulate significant credited service with Eaton, provided that they either retire at age 55 or older and have at least ten years of service with Eaton or retire at age 65 or older regardless of the years of service. The amount of the annual supplement is generally equal to the amount by which a percentage (described below) of the executive's average final annual compensation exceeds his or her earned retirement income (which includes amounts receivable pursuant to the retirement plans described above). The percentage of average final annual compensation used for this purpose depends upon an executive's age and years of service at retirement. The percentage ranges from 25% (for retirements at age 55 with less than 15 years of service) to 50% (for retirements at age 62 or older with 15 years or more of service). Benefits under the plans generally are paid in one of the forms available under the Company's qualified pension plans as elected by the participant, except that the present value of the benefit will be paid in a single installment upon a change of control of the Company. Currently, it is expected that fifteen officers would receive a benefit under the plans, including C. Arnold, R. W. Carson, R. H. Fearon and J. E. Sweetnam, who are named in the Summary Compensation Table on page 15. The estimated annual benefits payable under the plans are \$190,665 to Mr. Arnold, \$265,346 to Mr. Carson, \$443,927 to Mr. Fearon, and \$202,854 to Mr. Sweetnam, based on the assumptions that they retire at age 65 and that their base salary plus target bonus increase at 4% per annum.

The Company has entered into agreements with its officers, including those named in the Summary Compensation Table on page 15,

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which provide for payments and benefits in the event of a termination of employment in the context of a change of control of the Company. The purpose of these agreements is to assure continued dedication, and to diminish the inevitable distraction caused by personal uncertainties and risks, in the event of a corporate change of control.

The agreements provide that each officer, for three years following a change of control, will have duties, salary, bonus, fringe benefits and opportunities for savings, incentive earnings and retirement compensation no less favorable than was previously the case. If the Company were to terminate an officer's employment during this three-year period for reasons other than cause or disability, or if the officer were to terminate employment because of changed circumstances, then the officer would be entitled to receive certain amounts and benefits under these agreements. These amounts and benefits would include (i) long-term incentive compensation reflective of the portion of the award periods completed prior to termination, (ii) salary and bonus multiplied by three (or any lesser number of years and portions thereof until age 65), and (iii) continuation of medical, life insurance and other welfare benefits for two years (or any lesser number of years and portions thereof until age 65), subject to reduction for comparable benefits received in any subsequent employment. The officer would be entitled to receive an additional payment, net of taxes, to compensate for the excise tax imposed on these and other payments if they are determined to be "excess parachute payments" under the Internal Revenue Code.

The agreements provide that, upon the occurrence of a proposed change of control, the Company would deposit in trust a cash amount sufficient to provide

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the benefits and payments to which the officers would be entitled under the agreements upon a change of control and termination of employment. The agreements also provide that the Company would reimburse the officers for any costs incurred to enforce the agreements.

Certain grantor trusts established by the Company hold approximately \$2.2 million of marketable securities and 898,788 Company shares, in order to provide for a portion of the Company's deferred compensation obligations. The trust assets, which are subject to the claims of the Company's creditors, will be used to pay those obligations in proportion to trust funding. The trusts provide for full funding upon a change in control of the Company and for accelerated lump sum or installment payments upon a failure by the Company to pay amounts due under the plans or upon a termination of employment in the context of a change in control.

2. RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has appointed the accounting firm of Ernst & Young LLP as independent auditors to conduct the annual audit of Eaton's books and records for 2005. The submittal of this matter to the shareholders at the annual meeting is not required by law or by Eaton's Amended Regulations. This matter is nevertheless being submitted to the shareholders to ascertain their views. If this proposal is not approved at the annual meeting by the affirmative vote of holders of a majority of the outstanding shares, the Audit Committee intends to reconsider its appointment of Ernst & Young LLP as independent auditors.

A representative of Ernst & Young LLP will be present at the annual meeting to answer any questions concerning the independent auditor's areas of responsibility, and will have an opportunity to make a statement if he desires to do so.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP.

3. OTHER BUSINESS

Management does not know of any other matters requiring shareholder action that may come before the meeting; but, if any are properly presented, the individuals named in the enclosed form of proxy will vote on those matters according to their best judgment.

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SHARE OWNERSHIP TABLES -- Set forth below is certain information concerning persons who are known by Eaton to have reported owning beneficially more than 5% of the Company's common shares as of the most recent practicable date.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF COMMON SHARES	PERCENT OF CLASS
----- Lord, Abbett & Co. LLC 90 Hudson Street Jersey City, NJ 07302 -----	9,263,598(1)	6.10%

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- (1) Lord, Abbett & Co. LLC has filed with the Securities and Exchange Commission a Schedule 13G dated February 14, 2005, which reports the beneficial ownership of 9,263,598 common shares by it and certain affiliated entities and individuals. As reported in the Schedule 13G, Lord, Abbett & Co. LLC and such affiliated entities and individuals have sole voting power with respect to 9,263,598 shares and have sole power to dispose or to direct the disposition of 9,263,598 common shares.

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The following table shows the beneficial ownership, reported to the Company as of January 31, 2005, of Company common shares by each director, each executive officer named in the Summary Compensation Table on page 15 and all directors and executive officers as a group, and also sets forth the number of share units held under various deferred compensation plans.

NAME OF BENEFICIAL OWNER	NUMBER OF COMMON SHARES OWNED (1, 2)	PERCENT OF CLASS (3)	DEFERRED SHARE UNITS (4)	TOTAL NUMBER OF COMMON SHARES AND DEFERRED SHARE UNITS
C. Arnold	181,994 (5)		33,285	215,280
R. W. Carson	264,239 (5)		56,399	320,638
M. J. Critelli	40,784		0	40,784
A. M. Cutler	1,369,761 (5, 6)		282,210	1,651,971
R. H. Fearon	91,281		23,644	114,925
E. Green	48,378		5,482	53,860
N. C. Lautenbach	46,900		15,185	62,085
D. L. McCoy	33,834		9,974	43,808
J. R. Miller	44,760		0	44,760
G. R. Page	14,866		1,093	15,959
K. M. Patel	15,366		863	16,229
V. A. Pelson	37,436		10,235	47,671
J. E. Sweetnam	145,737 (5)		10,481	156,219
G. L. Tooker	39,288 (6)		6,216	45,504
All Directors and Executive Officers as a Group	3,576,244	2.3%	675,309	4,251,553

- (1) Each person has sole voting and investment power with respect to the shares listed, unless otherwise indicated.
- (2) Includes shares which the person has the right to acquire within 60 days after January 31, 2005 upon the exercise of outstanding stock options as follows: C. Arnold, 127,760; R. W. Carson, 248,650; A. M. Cutler, 1,190,179; R. H. Fearon, 72,600; J. E. Sweetnam, 119,510; and all directors and executive officers as a group, 3,061,362 shares.
- (3) Each of the individuals listed holds less than 1% of outstanding common shares.
- (4) For a description of these units, see pages 12 (under "Compensation of Directors") and 19 (under "Long-Term Incentives").
- (5) Includes shares held under the Eaton Savings Plan as of January 31, 2005.
- (6) Includes shares held jointly or in other capacities, such as by trust.

Employee benefit plans of the Company and its subsidiaries on January 31, 2005 held 11,098,752 common shares for the benefit of participating employees, or approximately 7.2% of common shares outstanding.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE -- Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers to file reports of holdings and transactions in the Company's equity securities with the Securities and Exchange Commission. The Company believes that its directors and officers complied fully with all such filing requirements with respect to 2004.

FUTURE SHAREHOLDER PROPOSALS -- Shareholders who wish to submit proposals for inclusion in the proxy statement and for consideration at the annual meeting must do so on a timely basis. In order to be included in the proxy statement for the 2006 annual meeting, proposals must relate to proper subjects and must be received by the Corporate Secretary, Eaton Corporation, Eaton Center, Cleveland, Ohio 44114-2584, by November 18, 2005.

By order of the Board of Directors

/s/ EARL R. FRANKLIN

Earl R. Franklin
Vice President and
Secretary

March 18, 2005

APPENDIX A

CHARTER OF GOVERNANCE COMMITTEE

The Governance Committee shall be comprised of at least three Directors, all of whom meet the independence requirements of the New York Stock Exchange and the Board of Directors. The Committee members shall be appointed by the Board upon the recommendation of the Governance Committee or a majority of the independent members of the Board. Committee members may be removed by the Board at any time upon the recommendation of the Governance Committee or a majority of the independent members of the Board.

The Governance Committee shall have the following responsibilities:

1. Recommend to the Board improvements in the Company's processes of corporate governance, including proposed changes in the Board Governance Policies.
2. Advise the Board on changes in the size and composition of the Board.
3. Make recommendations to the Board regarding the structure and responsibilities of Board Committees, recommend one year in advance a member of each standing Board Committee to be appointed Chair of the Committee, and annually submit to the Board candidates to be appointed members and Chair of each standing Committee.
4. In consultation with the Chairman and Chief Executive Officer, identify and recommend to the Board candidates for Board membership, based on the criteria for Board membership listed in the Board Governance Policies and such other criteria as the Committee may deem appropriate.

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5. Recommend to the Board individuals to be nominated for election or re-election to the Board, taking into account input from all Directors. For re-election of Directors, the input shall include a self-evaluation by each such Director and input from the Chair of each Board Committee on which the Director serves.
6. Oversee the orientation of new Directors and regularly review the continuing education needs of the Directors relating to their roles and responsibilities as members of the Board and its Committees. In regard

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to continuing education, the Committee will recommend seminars, provide guidance and monitor the process.

7. Recommend to the Board compensation of non-employee Directors.
8. Administer the Board's policy on Director retirements and resignations.
9. Administer the Directors' stock ownership guidelines.
10. Establish guidelines, procedures and minimum requirements to be used by the Directors to evaluate the performance of the Board, the Audit Committee, Compensation and Organization Committee, Finance Committee and Governance Committee.
11. Provide oversight regarding significant public policy issues with respect to the Company's relationships with shareholders, employees, customers, competitors, suppliers and the communities in which it operates, including the following areas:
 - (a) Ethics compliance
 - (b) Environmental, health and safety issues
 - (c) Diversity and equal employment opportunity
 - (d) Community relations
 - (e) Government relations
 - (f) Charitable contributions
 - (g) Shareholder and investor relations, including recommended responses to shareholder proposals
 - (h) Eaton Philosophy of Excellence through People
12. Review the Company's Code of Ethics, including its programs to promote ethical and legal conduct, to facilitate anonymous reporting of violations and to assure protection of employees who report violations in good faith, and from time to time recommend the adoption or amendment of the Code of Ethics.
13. Periodically report to the Board concerning the Committee's actions, conclusions and recommendations.
14. Assure that performance evaluations of the Governance Committee are conducted annually.

The Governance Committee shall have the authority to retain and terminate

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consultants and other advisors to advise the Committee in the performance of its responsibilities, including search firms to be used to identify Director candidates and compensation consultants to assist in the evaluation of Director compensation. The Committee shall exercise sole authority to approve the fees and other retention terms for such consultants and other advisors, who will report directly to the Committee.

POLICIES ADOPTED BY THE BOARD OF DIRECTORS UPON THE RECOMMENDATION OF THE GOVERNANCE COMMITTEE

Upon the recommendation of the Governance Committee, the Board of Directors on July 24, 2002 adopted a policy regarding any business transactions between the Company and other businesses in which its non-employee directors are executive officers or major shareholders. The purpose of the policy is to assure that all such transactions are undertaken strictly upon an objective assessment of the economic value of the transactions to each party, and not because of personal relationships between the director and the Company or its executives. The policy provides, in effect, that in any business transactions between the Company and such other businesses, there shall be no direct communication between the director and any Company personnel and no direct communication between the Company's Chief Executive Officer and any employees of the director's business. The policy further provides that, if a proposed transaction is potentially significant to either the Company or the director's business, or if the director's independence may be compromised (or appear to be compromised), the Chair of the Company's Governance Committee shall be so informed.

Upon the recommendation of the Governance Committee, the Board of Directors on October 23, 2002 adopted a policy that all non-employee directors shall be "independent" according to the criteria set forth in the policy. Those criteria have been updated by the Board of Directors most recently in January 2005 and are consistent with the independence criteria contained in the New York Stock Exchange listing standards. The purpose of this policy is to assure the independence of the Company's non-employee directors.

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APPENDIX B

EATON CORPORATION BOARD OF DIRECTORS GOVERNANCE POLICIES

I. BOARD ORGANIZATION AND COMPOSITION

A. Size and Structure of Board. The size of the Board should be in the range of 8-15. Only one Director should be an employee of the Company. The Board believes that it is desirable for the Company's Board to be divided into three approximately equal classes, one of which is elected each year, since this structure assures continuity and has worked well historically.

B. Director Independence. Except for any Director who is a Company employee, all Directors should be independent. A Director will be considered independent if the Director meets the criteria set forth in the independence standards of the New York Stock Exchange and the independence criteria adopted by the Company's Board of Directors.

C. Director Tenure. Each Director is elected for a three-year term. There is no limit to the number of terms a Director may serve. However, the Company's retirement policy calls for each outside Director to retire at the Annual Shareholders Meeting following the Director's 70th birthday and for the inside Director to retire from the Board when he or she retires as an employee, no

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later than the end of the month in which the Director reaches age 65. The Chairman and Chief Executive Officer should not continue on the Board after retiring as an employee. Directors who retire from their employment or who otherwise significantly change the position they held when initially elected to the Board should not necessarily leave the Board. However, the Board will review the continued appropriateness of Board membership under these new circumstances.

D. Membership on Other Boards. Each Director is responsible to notify the Chair of the Governance Committee before accepting invitations to join other Boards of Directors. One purpose of this policy is to avoid actual or potential conflicts of interest or the appearance of conflicts of interest. Appropriate legal advice will be obtained as necessary. Another purpose of this policy is to insure that Directors do not have an excessive number of Board assignments that would put the Directors' effectiveness at risk. Directors who are Chief Executive Officers of publicly-held companies may serve on a maximum of three public company Boards, including the Company's Board. Other Directors may serve on a maximum of six public company Boards, including the Company's Board.

E. New Directors. Director candidates will be selected on the basis of their ability to make contributions to the Board of Directors and to the Company's governance activities. Among the most salient strengths to be considered are personal ability, integrity, intelligence, relevant business background, independence, expertise in areas of importance to the Company's objectives, and a sensitivity to the Company's corporate responsibilities. The initial screening of Director candidates is conducted by the Chair of the Governance Committee in consultation with the Chairman and Chief Executive Officer. The Governance Committee then identifies the recommended candidate for possible approval by the Board of Directors.

F. Combining the Positions of Chairman and Chief Executive Officer. It is the Board's policy that the positions of Chairman of the Board and Chief Executive Officer should be held by the same person. The Board believes that this practice provides the most efficient and effective leadership model for the Company.

G. No Lead Director. The Board believes that designating a lead Director is not necessary or appropriate for the best interests of the Company and its shareholders unless the Chairman and Chief Executive Officer is absent, and then only for the duration of his or her absence.

II. COMMITTEE COMPOSITION AND LEADERSHIP

A. Membership of Committees. All Board Committees are comprised entirely of outside independent Directors, except for the Executive Committee, which is chaired by the Chairman and Chief Executive Officer.

B. Rotation of Committee Memberships and Chairs. In order to assure that each Director has a broad exposure to the work of the various Board Committees, and at the same time to

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provide for continuity in the membership of each Committee, the Board has adopted the practice of rotating each outside Director's Committee assignments approximately every four to six years, except that, for continuity, Committee Chairs normally continue on their Committees for up to ten years. The Director who will become the Chair of a Committee should be selected from among the current members of the Committee and should be designated at least one year in advance in order to permit adequate preparation time and a smooth transition.

C. Committee Descriptions. There are five standing Committees of the Board: the Audit Committee, Compensation and Organization Committee, Executive Committee, Finance Committee and Governance Committee. The responsibilities and membership

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of these Committees are described in the Company's annual proxy statement.

III. PERFORMANCE ASSESSMENT AND SUCCESSION PLANNING

A. Board and Committee Assessments. Performance self-assessments are conducted annually by the Board and the Audit, Compensation and Organization, Finance and Governance Committees.

B. Chairman and Chief Executive Officer Performance Assessment. The performance of the Chairman and Chief Executive Officer is thoroughly assessed annually by the Compensation and Organization Committee, taking into account input from all outside Directors. Key performance and leadership categories are established. As to each category, each outside Director answers a set of specific questions, provides written comments, suggests opportunities for improvement, and comments on individual strengths. An external third party consolidates the feedback and provides a summary report to the Chair of the Compensation and Organization Committee who, in turn, reviews it with the full Board. The Chair of the Committee then reviews the report with the Chairman and Chief Executive Officer.

C. Senior Management Performance Assessment. One of the most important responsibilities of the Board is to assure that the Company's senior management is well qualified to conduct the Company's business affairs. The Board has delegated to the Chairman and Chief Executive Officer the responsibility to assess the performance of the senior management team. The Chairman and Chief Executive Officer, then, reports annually to the Board, giving his or her assessment of each officer's performance and his or her thoughts on succession planning. The Board of Directors takes these thoughts into account in its evaluation and direction of succession planning, especially in regard to the position of Chief Executive Officer.

D. Chief Executive Officer Succession Planning. It is the policy of the Board to be adequately prepared to deal with Chief Executive Officer succession, should the need arise, whether via emergency, resignation or retirement. The Board has established several processes that work together to achieve this result. The Chief Executive Officer annually leads a formal discussion with the Board to review all key executives, including each executive's performance, leadership attributes and readiness to assume additional responsibility. The Board also utilizes the annual review to discuss short- and long-term succession planning and emergency succession issues. By focusing on both the short and the long term, the Board identifies specific individual development needs, that are then communicated to each executive by the Chief Executive Officer in annual performance reviews and ongoing coaching sessions. In addition to the annual review, the Board feels it is important for each Director to interact personally and frequently with the key executives. For this purpose, the Board has established a formal process for each Director to meet with key executives individually so that all Directors are able to evaluate first-hand the executive's readiness and potential to assume greater responsibility within the Company or to step into the Chief Executive Officer role, if needed.

IV. OPERATION OF THE BOARD AND COMMITTEES

A. Director Responsibilities. The Board expects all Directors to fulfill the following basic responsibilities: (1) attend all meetings of the Board, relevant Board Committees and Annual Shareholders Meetings, (2) participate actively in meetings of the Board and relevant Board

Committees after review of materials that are provided to the Directors in advance of meetings, (3) act in a manner consistent with the best interests of the Company and its shareholders (avoiding conflicts of interest that would

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interfere with their doing so) and (4) exercise proper diligence and business judgment in performing their duties as members of the Board and its Committees.

B. Agendas and Background Information. The Agenda for each meeting of the Board and Committees should be sent to the Directors or Committee members in advance, along with background information on important subjects. Any Board or Committee member may ask for additions or changes in the Agenda.

C. Access to Management and Independent Advisors. Directors should request from management, or any other sources they may desire, information that they consider helpful in the performance of their duties. The Board and each Board Committee may retain independent legal counsel, consultants or other advisors as the Board or such Committee deems necessary and appropriate, the cost of which is borne by the Company.

D. Executive Sessions. At each Board meeting, the Board holds an executive session, in which only the Directors are present. The outside Directors also meet in executive session at each Board meeting, without the inside Director present, to discuss whatever topics they may deem appropriate. These executive sessions are chaired on a rotating basis by the outside Directors who chair the Audit, Compensation and Organization, Finance and Governance Committees. At least one such executive session is held every year attended only by Directors who meet the independence criteria of the Board of Directors and of the New York Stock Exchange. In addition, at each meeting of the Audit, Compensation and Organization, Finance and Governance Committees, an executive session is held, which is attended only by the Committee members, all of whom are independent Directors, without any members of the Company's management present, to discuss whatever topics they may deem appropriate.

E. Board Meetings on Strategic Planning. The Board devotes one extended meeting per year to strategic planning, along with portions of additional meetings throughout the year. Company performance is to be measured in terms of the Company's strategic objectives and its relative performance among its peers.

F. Concurrent Committee Meetings. Because of scheduling constraints, certain meetings of Board Committees are held concurrently, although doing so requires the inside Director to be absent from certain Committee meetings.

G. Minutes. Minutes of all Committee meetings are sent to all Directors for their information in advance of the following Board meeting, together with the minutes of the prior Board meeting.

H. Company Spokesperson. The Board of Directors has delegated to the Chairman and Chief Executive Officer, or his or her designees, the responsibility to serve as Company spokesperson.

I. Orientation for New Directors. An orientation process has been developed for new Directors, including background briefings by the Chairman and Chief Executive Officer, other senior officers and the Secretary.

J. Continuing Education for Directors. The Governance Committee regularly reviews the continuing education needs of the Board members, provides guidance and monitors the continuing education process. All Directors are encouraged to obtain Governance Committee-approved continuing education relating to their roles and responsibilities as members of the Board.

Compensation of the Chief Executive Officer

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The compensation of Mr. Orr, the Chairman, President and Chief Executive Officer of the Company, is determined by benchmarking the compensation of the chief executive officers of the companies in the compensation peer group. Mr. Orr's performance is evaluated on an annual basis and, based on this evaluation, a determination is made regarding the level within the competitive compensation range that his compensation should be set for the upcoming year. The evaluation of Mr. Orr includes consideration of the Company's performance compared to a pre-determined set of financial goals, including annual earnings per share, as well as other specific personal, strategic, organizational and operational goals.

Mr. Orr's base salary for 2003, based on this evaluation of his performance during 2002, was \$880,000. Mr. Orr's annual bonus for 2003 was based on pre-established goals relating to his personal performance, revenue and operating income, and earnings per share (EPS) results. Although he fully achieved his personal performance, in light of the difficult business environment during 2003 the Company did not fully achieve all of its financial goals, resulting in an annual bonus for him for 2003 of \$859,200, which is less than his target amount.

In January 2003, Mr. Orr received 15,000 shares of restricted stock that vest after four years. In February 2003, Mr. Orr also received an option to purchase 230,000 Common Shares at an exercise price per share equal to \$11.55, which was the fair market value of a Common Share on the date of grant. The size of the option grant was determined, using the Black-Scholes method, based on the value of long-term incentives provided to the chief executive officers of the companies in the compensation peer group, and on Mr. Orr's performance during 2002.

Stock Ownership Guidelines

To further align the interests of the Company's executive officers with those of the Company's shareholders, the Compensation and Benefits Committee has established Common Share ownership guidelines for the Company's senior executives. At this time, all of the Company's senior executives hold stock in excess of these guidelines.

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Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code limits the federal income tax deduction for compensation paid to the Company's named executives. The Compensation and Benefits Committee intends to maximize the amount of compensation expense that is deductible by the Company when in its judgment it is appropriate and in the best interests of the Company and its shareholders.

Compensation and Benefits Committee

Steven C. Mason, *Chairperson*

John F. Barrett

Gary C. Butler

Joseph E. Gibbs

David R. Whitwam

James M. Zimmerman

Table of Contents**EXECUTIVE COMPENSATION****I. Summary Compensation Table**

The following table shows the compensation of the Chief Executive Officer and the other four most highly compensated executive officers of the Company. The Company sometimes refers to these individuals as the named executive officers.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)(d)	Securities Underlying Options (#)	Payouts (\$)	All Other Compensation \$(a)
James F. Orr Chairman, President and Chief Executive Officer	2003	\$ 880,000	\$ 859,200	(c)	\$ 228,600	245,108(e)	\$ 0	\$ 19,268
	2002	880,000	341,638(b)	\$ 69,173(c)	8,984,150	230,000	0	55,233
	2001	880,000	311,713	(c)	0	306,000	0	449,027
David F. Dougherty Executive Vice President, Global Information Management	2003	\$ 460,000	\$ 340,500	(c)	\$ 182,880	78,712(e)	\$ 0	\$ 10,630
	2002	460,000	83,944(b)	(c)	2,383,550	75,000	0	17,256
	2001	440,000	120,577	(c)	0	100,000	0	129,147
Steven G. Rolls Executive Vice President, Global Customer Management and Employee Care	2003	\$ 400,000	\$ 354,900	(c)	\$ 129,540	78,099(e)	\$ 0	\$ 19,816
	2002	400,000	115,303(b)	(c)	1,650,150	68,000	0	21,126
	2001	380,000	87,514	(c)	0	90,000	0	90,418
Ronald E. Schultz Senior Vice President, Business Development	2003	\$ 375,000	\$ 247,400	(c)	\$ 426,720	63,394(e)	\$ 0	\$ 18,926
	2002	375,000	76,746(b)	(c)	0	70,000	0	16,635
	2001	375,000	58,363	(c)	0	70,000	0	44,437
William H. Hawkins II Senior Vice President, General Counsel and Secretary	2003	\$ 315,000	\$ 239,190	(c)	\$ 121,920	57,344(e)	\$ 0	\$ 14,550
	2002	315,000	98,223(b)	(c)	1,558,475	53,000	0	16,325
	2001	300,000	90,000	(c)	410,550	22,000	0	9,253

(a) Represents Company contributions to defined contribution savings plans and Company contributions credited to the Executive Deferred Compensation Plan described on page 22 and the life insurance benefit described on page 22.

- (b) Of the total bonus, two-thirds of the bonus was paid in cash (\$227,873 for Mr. Orr; \$55,991 for Mr. Dougherty; \$76,907 for Mr. Rolls; \$51,190 for Mr. Schultz and \$65,513 for Mr. Hawkins) and the remaining one-third was paid through the issuance after year end of immediately vested non-statutory stock options with an exercise price equal to the fair market value of the underlying Common Shares on the grant date (15,108 stock options for Mr. Orr; 3,712 stock options for Mr. Dougherty; 5,099 stock options for Mr. Rolls; 3,394 stock options for Mr. Schultz; and 4,344 stock options for Mr. Hawkins).
- (c) Does not include the value of perquisites and other personal benefits because the total amount of such compensation, if any, does not exceed the lesser of \$50,000 or 10% of the total amount of the annual salary and bonus for the individual for that year, except for Mr. Orr who in 2002 had \$42,373 for personal use of Company provided transportation.
- (d) Restricted stock holdings as of December 31, 2003: Mr. Orr, 260,000 Common Shares with a value of \$4,518,800; Mr. Dougherty, 77,000 Common Shares with a value of \$1,338,260; Mr. Rolls, 53,500 Common Shares with a value of \$929,830; Mr. Schultz, 28,000 Common Shares with a value of \$486,640; and Mr. Hawkins, 75,500 Common Shares with a value of \$1,312,190.
- (e) Includes the vested non-statutory stock options described in footnote (b) above for bonuses earned in 2002.

Table of Contents**II. Grants of Stock Options**

The following table shows all options to purchase Common Shares granted to the named executive officers during the fiscal year ended December 31, 2003.

Name	Number of Securities Underlying Options Granted (#)(a)	% of Total Options Granted to Employees In Fiscal Year	Exercise Or		Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(b)	
			Base Price (\$/Sh)	Expiration Date	5%	10%
James F. Orr	15,108	.02	\$ 12.55	1/31/13	\$ 119,142	\$ 302,251
	230,000	4.27	\$ 11.55	2/25/13	1,668,880	4,235,220
David F. Dougherty	3,712	.01	\$ 12.55	1/31/13	\$ 29,272	\$ 74,261
	75,000	1.39	\$ 11.55	2/25/13	554,200	1,379,700
Steven G. Rolls	5,099	.01	\$ 12.55	1/31/13	\$ 40,211	\$ 102,081
	73,000	1.36	\$ 11.55	2/25/13	529,688	1,344,222
Ronald E. Schultz	3,394	.01	\$ 12.55	1/31/13	\$ 26,765	\$ 67,900
	60,000	1.11	\$ 11.55	2/25/13	435,360	1,104,840
William H. Hawkins II	4,344	.01	\$ 12.55	1/31/13	\$ 34,257	\$ 86,906
	53,000	1.00	\$ 11.55	2/25/13	384,568	975,942

- (a) The material terms of the options granted are: grant type, non-statutory; grant price, fair market value on grant date; exercisable 25% after one year, an additional 25% after the second year and the remaining 50% after the third year, except in the case of options expiring 1/31/13, which were immediately vested; term of grant, 10 years; except in case of retirement, disability or death, generally any unexercised options are cancelled upon termination of employment. All outstanding stock options become immediately exercisable in the event of a change in control of the Company.
- (b) As required by rules of the Securities and Exchange Commission, potential realizable values stated are based on the prescribed assumption that the Company's Common Shares will appreciate in value from the date of grant to the end of the option term at annualized rates of 5% and 10% (total appreciation of 62.9% and 159.4%) resulting in values of approximately \$20.44 and \$32.55 for the options granted at \$12.55 per share, and \$18.81 and \$29.96 for the options granted at \$11.55 per share. The stated values do not represent historical performance and are not intended to forecast possible future appreciation, if any, in the price of the Company's Common Shares. The total of all stock options granted to employees, including the named executive officers, during fiscal 2003 was approximately 3.08% of the total Common Shares outstanding during the year. As an alternative to the assumed potential realizable values stated in the above table, the Securities and Exchange Commission rules would permit stating the present value of such options at date of grant. Methods of computing present values suggested by different authorities can produce significantly different results. Moreover, since these stock options are not freely transferable, there are no objective criteria by which any computation of present value can be verified. Consequently, the Company's management does not believe there is a reliable method of computing the present value of such stock options for proxy disclosure purposes. However, when it is necessary to value such options, the Company has used the Black-Scholes method to determine the present value of stock options issued to employees.

Table of Contents**III. Aggregate Option Exercises**

The following table shows aggregate option exercises by the named executive officers in the last fiscal year and fiscal year-end values:

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Securities	
			Underlying Unexercised Options at FY-End (#)	Value of Unexercised In-the-Money Options at FY-End\$(a)
			Exercisable (E)/ Unexercisable (U)	Exercisable (E)/ Unexercisable (U)
James F. Orr	0	\$ 0	(E) 10,102,525 (U) 7,343,010	(E) 1,715,826 (U) 1,340,900
David F. Dougherty	0	\$ 0	(E) 3,948,107 (U) 2,397,312	(E) 406,970 (U) 437,250
Steven G. Rolls	0	\$ 0	(E) 2,759,719 (U) 2,164,815	(E) 200,748 (U) 425,590
Ronald E. Schultz	0	\$ 0	(E) 1,893,101 (U) 1,931,300	(E) 99,693 (U) 349,800
William H. Hawkins II	0	\$ 0	(E) 1,264,697 (U) 1,292,222	(E) 20,981 (U) 308,990

(a) Values stated for the options are based on the fair market value (average of the high and low trading prices on the New York Stock Exchange) of \$17.38 per Common Share on December 31, 2003.

IV. Long-Term Incentive Plan Awards Table

Since no awards pursuant to any long-term incentive plans were made to any named executive officer in the fiscal year ended December 31, 2003, no table has been included.

V. Defined Benefit or Actuarial Plan Disclosure

All of the named executive officers of the Company participate in both the Company's Pension Plan and a non-qualified pension plan known as the Supplemental Executive Retirement Plan (the "SERP").

Under the SERP, a participant's annual pension at retirement is 55% of the participant's average monthly compensation reduced by benefits payable under the Pension Plan, including amounts which are intended to supplement or be in lieu of benefits under the Pension Plan. There is a reduction of 2.5% of the amount determined under the preceding sentence for each year by which the sum of the participant's years of age and years of service at retirement total less than 75; and no benefits are payable if the participant leaves prior to attaining age 55 and completing at

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least 10 years of service except in the case of death or change in control. The compensation averaging period is the high 12 month period during the 60 month period preceding retirement; compensation is defined as base salary and annual bonus target. In the discretion of the Compensation and Benefits Committee, the age and service requirements of the SERP may be waived and any participant who retires prior to attaining age 62 may be provided a supplemental social security benefit. In lieu of a life annuity, a participant can elect to receive the actuarial equivalent of their benefit in the form of a lump sum, 15 annual installments or a joint and survivor annuity.

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The benefit formula under the Pension Plan is a cash balance formula. Under this formula, each participant has an account to which pension credits are allocated at the end of each year based upon the participant's attained age and covered compensation for the year. To the extent that a participant's covered compensation exceeds the Social Security wage base, additional pension credits are given for such excess compensation. The following chart shows the pension credits which will be given at the ages indicated:

Attained Age	Pension Credits
Less than 30 years	2.50% of total covered compensation plus 2.50% of excess compensation
30 but less than 35 years	2.75% of total covered compensation plus 2.75% of excess compensation
35 but less than 40 years	3.25% of total covered compensation plus 3.25% of excess compensation
40 but less than 45 years	4.00% of total covered compensation plus 4.00% of excess compensation
45 but less than 50 years	5.25% of total covered compensation plus 5.25% of excess compensation
50 but less than 55 years	6.50% of total covered compensation plus 6.50% of excess compensation
55 or more years	8.00% of total covered compensation plus 8.00% of excess compensation

At the end of each year, a participant's account is also credited with assumed interest at the rate of 6.5% per annum for 2002, 5.5% per annum for 2003, and 4% per annum for subsequent years. At retirement or other termination of employment, an amount equivalent to the balance then credited to the account is payable to the participant in the form of an immediate or deferred lump sum or annuity.

If Messrs. Orr, Dougherty, Rolls, Schultz and Hawkins were to continue in employment and retire at the normal retirement age of 65, their estimated straight life annuity annual pension amounts under both the Pension Plan and the SERP combined would be: \$979,000 for Mr. Orr, \$459,250 for Mr. Dougherty, \$412,500 for Mr. Rolls, \$371,250 for Mr. Schultz and \$313,500 for Mr. Hawkins. These annual pension amounts would be reduced: in the case of Mr. Orr (age 58 and fifteen years of service), if he retires prior to age 59; in the case of Mr. Dougherty (age 47 and thirteen years of service), if he retires prior to age 55; in the case of Mr. Rolls (age 49 and six years of service), if he retires prior to age 59; in the case of Mr. Schultz (age 49 and eight years of service), if he retires prior to age 58; and in the case of Mr. Hawkins (age 55 and three years of service), if he retires prior to age 64.

Employment Contracts and Termination of Employment and Change-In-Control Arrangements

The Company has entered into Employment Agreements with Messrs. Orr, Dougherty, Rolls and Hawkins which provide for their employment and retention for four years commencing on August 13, 1998 in the case of Messrs. Orr and Dougherty, June 1, 1998 in the case of Mr. Rolls, and May 28, 2000 in the case of Mr. Hawkins subject to automatic one year extensions. Convergys Customer Management Group Inc. has entered into an Employment Agreement with Mr. Schultz which provides for his employment and retention for five years commencing on January 1, 1998 subject to automatic one year extensions. The Employment Agreements provide a minimum annual base salary, a minimum annual bonus target, and annual grants of long-term incentives with a minimum present value. If their employment is terminated within two years after a change in control other than for death, disability or cause, or if they elect to leave within 90 days after a change in control, they will receive lump sum payments equal to three times the sum of their base salary and bonus targets, and benefits will continue to be provided for three years. If their employment is terminated by the Company without cause, they will receive lump sum severance payments equal to their base salary and bonus targets for the remainder of the Employment Agreement terms (but not less than two times the sum of their base salary and bonus targets), and certain benefits will continue to be provided for the remainder of the Employment Agreement terms (or, if longer, for two years).

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The Executive Deferred Compensation Plan (EDCP) permits executives to defer receipt of up to 75% of their base salary and up to 100% of their cash bonuses. There is a Company match of 100% of the first 3% of amounts deferred and 50% of the next 2% of amounts deferred (reduced by the Company match under the Company s Retirement and Savings Plan). Amounts deferred by participants (and the related Company match) are assumed to have been invested as directed by the executive in various mutual funds and other investments (including Common Shares). Executives may also elect to surrender restricted stock to the Company or, in the case of restricted stock units, their right to receive Common Shares in the future, in exchange for a credit to the participant s account in an amount equal to the value of the shares surrendered. There is a Company match of 4% of the value of shares surrendered on or after October 29, 2001. Amounts credited to the participant s restricted stock account on or after October 29, 2001 are assumed to have been invested in Common Shares. Amounts credited to a restricted stock account and the related matching contributions are subject to forfeiture at the same time and to the same extent as would have applied to the restricted shares had they not been surrendered. Upon termination of employment, the vested amounts then credited to the participant s account are distributed in a single lump sum payment or in monthly or annual installments for a term not to exceed 10 years. The 2003 match for Messrs. Orr, Dougherty, Rolls, Schultz and Hawkins is reflected in the Summary Compensation Table under the All Other Compensation column.

The Company established a life insurance arrangement effective January 1, 2002 to provide certain senior executives a death benefit in lieu of full participation in the group term life insurance program. The death benefit payable to the beneficiary of an insured named executive is three times the executive s base salary. The Company is entitled to receive all other proceeds under the policy, if any, in the event of death of the executive. Under the terms of the arrangement, title and ownership of the life insurance policy resides with the Company. The 2003 life insurance benefit for Messrs. Orr, Dougherty, Rolls, Schultz and Hawkins is reflected in the Summary Compensation Table under the All Other Compensation column.

In the event of a change in control, all outstanding stock options will become immediately exercisable, all restrictions applicable to restricted stock awards will lapse and a pro rata portion of all accrued long-term incentive awards will be paid in cash. The present values of all accrued benefits under the Executive Deferred Compensation Plan and the SERP will be funded within five days after a change in control of the Company.

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The following Performance Graph compares the percentage change, for the period from December 31, 1998 through December 31, 2003, of the cumulative total shareholder return on the Company's Common Shares with the cumulative total return of the S&P 500 Stock Index and the Custom Composite Index.

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	<u>Dec-98</u>	<u>Dec-99</u>	<u>Dec-00</u>	<u>Dec-01</u>	<u>Dec-02</u>	<u>Dec-03</u>
Convergys	\$ 100	\$ 137	\$ 203	\$ 168	\$ 68	\$ 78
S&P 500®	\$ 100	\$ 121	\$ 110	\$ 97	\$ 76	\$ 97
Old Custom Composite	\$ 100	\$ 204	\$ 186	\$ 112	\$ 42	\$ 74
New Custom Composite	\$ 100	\$ 208	\$ 195	\$ 96	\$ 36	\$ 62

The Old Custom Composite Index consists of Amdocs LTD, Portal Software Inc.(beginning 3Q99), Sitel Corp., CSG Systems Int'l Inc., Sykes Enterprises, Inc., APAC Customer Services Inc., Teletech Holdings Inc. and West Corp.

The New Custom Composite Index consists of ADC Telecommunications Inc., Amdocs LTD,

Exult Inc.(beginning 3Q00), Portal Software Inc.(beginning 3Q99), Sitel Corp., CSG Systems Int'l Inc., Sykes Enterprises, Inc., APAC Customer Services Inc., Teletech Holdings Inc. and West Corp.

The New Custom Composite Index includes ADC Telecommunications Inc. and Exult Inc. in order to provide better balance between our billing, customer service and employee care peers.

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AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During 2003, the Committee met eight times.

In discharging its oversight responsibility related to the audit process, the Committee obtained from the independent accountants a formal written statement describing all relationships between the accountants and the Company that might bear on the accountants' independence consistent with Independence Standards Board Standard No. 1 entitled, "Independence Discussions with Audit Committees." In accordance with the foregoing standard, the Committee discussed with the accountants any relationships that may impact their objectivity and independence and satisfied itself as to the accountants' independence. The Committee also considered the compatibility of non-audit services with the accountants' independence. The Audit Committee has determined that the provision of non-audit services is compatible with maintaining the independence of Ernst & Young LLP as the Company's independent accountants. In April, the Committee updated its process for pre-approving all services provided by the independent accountants to the Company. Also in April the Committee established a policy regarding the hiring of current or former employees of the independent accountants.

The Committee discussed with management, the internal auditors and the independent accountants the quality and adequacy of the Company's internal controls, disclosure controls and procedures, and the internal audit function's organization, responsibilities, budget and staffing. The Committee reviewed with both the independent accountants and the internal auditors their audit plans, audit scope, and identification of audit risks. The Committee received updates on legal issues from the Company's general counsel and any reports of accounting or auditing complaints received on the Company's Ethics Hotline. The Committee also reviewed and approved the Company's Code of Ethics for the CEO and Senior Financial Officers.

The Committee discussed and reviewed with the independent accountants all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of the independent accountants' examination of the financial statements. The Committee also discussed the results of the internal audit examinations.

In 2003 the Committee discussed the interim financial information contained in each of the three quarterly Forms 10-Q with management and the independent accountants. The Committee also reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2003 with management and the independent accountants. Management has the responsibility for the preparation of the Company's financial statements and the independent accountants have the responsibility for the examination of those statements. Based on the above-mentioned review and discussions with management and the independent accountants, the Committee recommended to the Board that the Company's interim financial statements be included in its three quarterly Forms 10-Q and that its audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for filing with the Securities and Exchange Commission. The Board approved these recommendations. The Committee also reappointed Ernst & Young LLP as the Company's independent accountants, subject to ratification by the shareholders.

The Committee acts pursuant to the revised Audit Committee Charter approved in February 2004, a copy of which is attached as Appendix II to this Proxy Statement. During the year the Committee's charter was revised to state that no Committee member may serve on more than three Audit Committees of public companies simultaneously. Each of the members of the Committee met the requirements of independence for Board directors and for Audit Committee membership as adopted by the New York Stock Exchange (NYSE) and the Securities and Exchange Commission. Several members of the Committee qualify as an Audit Committee

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Financial Expert, and the Committee has designated one of them, Mr. Odeen, its chairperson, as its Financial Expert. In addition, each member of the Committee is financially literate, as that term is defined by the NYSE. In August, Zoë Baird joined the Board of Directors and the Audit Committee.

Audit Committee

Philip A. Odeen, *Chairperson*

Zoë Baird

David B. Dillon

Eric C. Fast

Roger L. Howe

Sidney A. Ribeau

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION****Equity Compensation Plans**

The following table shows certain information as of December 31, 2003 with respect to compensation plans under which Common Shares of the Company are authorized for issuance:

	No. of Common Shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of common shares remaining available for future issuance
Equity compensation plans approved by shareholders (1)	20,653,026	\$ 25.14	9,471,298
Equity compensation plans not approved by shareholders (2)	536,890	\$ 3.15	0
Total	21,189,916	\$ 24.59	9,471,298

- (1) Represents stock options or shares issued under the Company's Long-Term Incentive Plan. For further discussion, see Note 12 to Notes to Financial Statements included in the Company's Form 10-K for the year ended December 31, 2003.
- (2) As disclosed in Note 12 of Notes to Financial Statements included in the Company's Form 10-K for the year ended December 31, 2003, in connection with its acquisition of Geneva Technology Ltd. (Geneva), the Company converted outstanding options to acquire Geneva shares into options to acquire Convergys Common Shares.

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APPROVAL OF CONVERGYS CORPORATION

1998 LONG TERM INCENTIVE PLAN, AS AMENDED

(Item 2 on the proxy card)

Amendments Proposed

On February 24, 2004, the Board of Directors adopted, subject to shareholder approval, several amendments to the Convergys Corporation 1998 Long Term Incentive Plan, as amended (the "LTIP"). The material changes to the LTIP include amendments: (a) specifying certain performance criteria upon which the Compensation and Benefits Committee may condition the amount or vesting of an award granted under the LTIP; (b) providing for a per calendar year, per individual limit of (i) 500,000 Company Common Shares, on awards granted under the LTIP in the form of stock options, SARs, performance shares, restricted stock specifying objective performance criteria or other stock unit awards specifying objective performance criteria and (ii) \$3,500,000 on cash payable pursuant to performance units granted during each year under the LTIP; (c) explicitly prohibiting, without shareholder approval, (i) the amendment of any outstanding option to reduce its exercise price or (ii) the cancellation of an option and replacement of it with an option having a lower exercise price; (d) permitting grants in the form of restricted stock units; (e) clarifying how shares are counted against the authorized number of Common Shares; (f) permitting grants in any form of award authorized under the LTIP (other than ISOs) to non-employee directors; and (g) clarifying how performance-based awards will be paid out in the event of a change of control. Approximately 850 employees of the Company and its subsidiaries are eligible to participate in the LTIP.

The number of shares authorized for issuance under the LTIP is not being increased. The number of shares authorized for issuance under the LTIP, as previously approved in 2002 by both the Board of Directors and the shareholders, remains 38,000,000. As of December 31, 2003, 9,471,298 shares remain available for issuance under the LTIP.

As described in the Compensation Committee Report on Executive Compensation, a number of changes have been made with respect to executives' long term incentive compensation. Beginning in 2004, at least fifty percent of executives' long term incentive compensation will be tied to Company performance; more specifically to the Company's total shareholder return relative to the total shareholder return of the proxy peer group over a three-year period. Long term incentive targets will be based on ranges which are benchmarked to the 50th percentile of long term incentive targets for executives of other companies in the compensation peer group described on page 15. The amendments described above will (i) enable the Company to implement these important changes and (ii) allow the taxable compensation for any year resulting from certain awards granted under the LTIP to the Chief Executive Officer and other named executive officers to be tax deductible, without regard to the limitations of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

The following is a summary of the material terms and provisions of the LTIP, including the amendments proposed above, which is attached hereto as Appendix III (the "Amended LTIP"). This summary does not contain all information which may be important to you. We encourage you to read the LTIP in its entirety to fully understand its terms and conditions.

Purposes of the Amended LTIP

The purposes of the Amended LTIP are to further the long term growth of the Company by offering competitive incentive compensation related to long term performance goals to those employees who will be largely responsible for planning and directing such growth, to reinforce the commonality of interest between the Company's shareholders and the participants in the Amended LTIP and to aid in attracting and retaining

employees of outstanding abilities and specialized skills.

Administration

The Compensation and Benefits Committee administers the Amended LTIP and selects the persons who are eligible to receive awards under the Amended LTIP. The Compensation and Benefits Committee may delegate to one or more members of the senior management of the Company the authority to make awards to employees of the Company who are not officers or directors of the Company or to non-employee advisors. The Compensation and Benefits Committee has complete authority to make awards in such format and amounts as it determines and

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to cancel, suspend or amend awards, provided that is shall not, without stockholder approval, amend an outstanding option to reduce its exercise price or cancel an option and replace it with an option having a lower exercise price.

Shares Available

A total of 38,000,000 Common Shares are reserved for issuance under the Amended LTIP. Of this number, the aggregate number of Common Shares that may be issued upon the exercise of incentive stock (ISOs) may not exceed 15,000,000. Furthermore, no participant may be granted stock options, SARs, performance shares, restricted stock specifying objective performance criteria or other stock unit awards specifying objective performance criteria, in the aggregate, for more than 500,000 Common Shares during any one calendar year. No more than \$3,500,000 may be paid to any one individual in any one calendar year pursuant to LTIP awards in the form of performance units. Any Common Shares issued under the Amended LTIP may consist, in whole or in part, of authorized and unissued Common Shares or Common Shares held as treasury shares. Any Common Shares subject to any award that are forfeited or withheld in payment of any exercise price or taxes will again be available for grant. Also, if an award terminates without the issuance of Common Shares, the Common Shares subject to such award will again be available for grant.

Types of Awards

Awards under the Amended LTIP may be in any one or a combination of the following: (a) stock options, including ISOs, (b) stock appreciation rights (SARs), in tandem with stock options or free standing, (c) restricted stock and restricted stock units, (d) performance shares and performance units conditioned upon meeting certain objective performance criteria and (e) other awards valued in whole or in part by reference to or otherwise based on Common Shares (other stock unit awards). In addition, in connection with any award or deferred award, payments may also be made representing dividends or interest or their equivalents.

Stock Options

The Amended LTIP provides that the purchase price of Common Shares purchasable under any stock option shall be determined by the Compensation and Benefits Committee; provided that the purchase price of any ISOs shall not be less than 100% of the fair market value of the Common Shares on the date that the option is granted. Payment of the purchase price for option shares must be made in cash or by delivery of other Common Shares of the Company or other property, or a combination thereof, having a fair market value equal to the purchase price of the option shares.

The period of any option shall be determined by the Compensation and Benefits Committee, but no ISO may be exercised later than 10 years after the date of grant or earlier than one year after the date of grant. The aggregate fair market value, determined at the date of grant of the ISO, of Common Shares for which ISOs are exercisable for the first time during any calendar year as to any participant shall not exceed the maximum limitation as provided in Section 422 of the Code.

Stock Appreciation Rights

A SAR represents the right to receive payment of a sum not to exceed the amount, if any, by which the fair market value of the Common Shares covered thereby on the date of exercise of the SAR exceeds the grant price of the SAR. The grant price and other terms of the SAR shall be determined by the Compensation and Benefits Committee. A SAR may be granted free-standing or in tandem with new options or after the grant of a related option which is not an ISO. Upon the exercise of a SAR, payment may be made in cash, Common Shares or other property, or a combination thereof, as the Compensation and Benefits Committee shall determine.

Restricted Stock

Restricted stock will consist of Common Shares which are subject to such conditions, restrictions and limitations as the Compensation and Benefits Committee determines to be appropriate, including but not limited to vesting conditioned upon satisfaction of objective performance criteria described in more detail below under **Performance Shares and Units** . Restricted stock will be awarded without consideration other than the rendering of services or the payment of any minimum amount required by law, unless the Compensation and Benefits

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Committee decides otherwise. With respect to Common Shares awarded as restricted stock, the recipient shall have all rights of a shareholder of the Company, including the right to vote and the right to receive cash dividends, unless the Compensation and Benefits Committee shall otherwise determine. Upon termination of the participant's employment during the restriction period, all restricted stock shall be forfeited subject to such exceptions, if any, as are authorized by the Compensation and Benefits Committee as to termination of employment, retirement, disability, death or special circumstances.

Restricted Stock Units

The Amended LTIP permits the grant of restricted stock units. Restricted stock units represent the right of the recipient to receive a number of Common Shares in the future, but subject to the fulfillment of such conditions as the Compensation and Benefits Committee may specify, including but not limited to the satisfaction of objective performance criteria described in more detail below under Performance Shares and Units. Restricted stock units will be awarded without consideration other than the rendering of services, unless the Compensation and Benefits Committee decides otherwise.

Performance Shares and Units

The Amended LTIP permits the grant of performance shares and performance units (performance awards) as additional compensation to participants for services to the Company or one of its subsidiaries based on performance periods and objective performance criteria established by the Compensation and Benefits Committee for the Company or any subsidiary of the Company. Payment of performance awards may be made in cash, Common Shares or other property, or a combination thereof, as the Compensation and Benefits Committee shall determine. There may be more than one award in existence at any one time and performance periods may differ. Recipients of performance awards are not required to provide consideration other than the rendering of service, unless the Compensation and Benefits Committee decides otherwise.

The objective performance criteria upon which performance shares or units may be based will be measured in terms of one or more of the following objectives, described as they relate to Company-wide objectives or of a subsidiary, division, department or function of the Company: earnings per share; stock price; total shareholder return; return on investment; return on capital; revenues; earnings from operations; earnings before or after interest and taxes; net income; cash flow; debt to capital ratio; economic value added; return on equity; return on assets; earnings before or after interest, depreciation, amortization or extraordinary or special items; free cash flow; cash flow return on investment (discounted or otherwise); net cash provided by operations; cash flow in excess of cost of capital; operating margin; and profit.

With each performance award the Compensation and Benefits Committee will specify the objective performance criteria to be achieved, a minimum acceptable level of achievement below which no payment will occur, and a formula for determining the amount of any payment to occur if performance is at or above the minimum acceptable level but falls short of full achievement of the specified performance criteria.

If the Compensation and Benefits Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the objective performance criteria to be unsuitable, the Compensation and Benefits Committee may modify such objective performance criteria or the related minimum acceptable level of achievement, in whole or in part, as the Compensation and Benefits Committee deems appropriate and equitable; provided, however, that no such modification shall be made if the effect would be to cause a payment under the Plan to fail to qualify for the performance-based compensation exception to Section 162(m) of the Code.

Other Stock Unit Awards

The Amended LTIP permits the award of other stock unit awards, either alone or in addition to other awards granted under the Amended LTIP, subject to such conditions, restrictions, and limitations as the Compensation and Benefits Committee determines to be appropriate. Other stock unit awards are awards of Common Shares or other awards that are valued in whole or in part by reference to, or are otherwise based on, Common Shares.

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Other stock unit awards may be paid in cash, Common Shares or other property, or a combination thereof, as the Compensation and Benefits Committee shall determine.

Grants to Non-Employee Directors

Under the Amended LTIP, awards (other than ISOs) may be made to Directors who are not employees of the Company. With respect to any awards to non-employee Directors, the Board of Directors will exercise the powers otherwise reserved to the Compensation and Benefits Committee under the Amended LTIP, including authority to select the non-employee Directors who will receive awards, to select the types of awards and to impose limitations, conditions and restrictions on the awards as the Board of Directors may deem appropriate.

Grant to Non-Employee Advisors

Under the Amended LTIP, awards (other than ISOs) may be made to non-employee advisors who participate in a foreign advisory board. With respect to any grants to non-employee advisors, the Compensation and Benefits Committee has authority to select the non-employee advisors who will receive awards, to select the types of awards, and to impose limitations, conditions and restrictions on the awards as the Compensation and Benefits Committee may consider appropriate.

Change of Control

In the event of a change in control, all outstanding options and SARs become exercisable in full, all restrictions applicable to Common Shares awarded as restricted stock lapse, all Common Shares subject to restricted stock units granted under the plan will be issued and the performance criteria relating to outstanding performance shares, performance units and other LTIP awards will be deemed to have been satisfied in full and the awards will be paid in full. In addition, unless the Compensation and Benefits Committee revokes the entitlement prior to the change in control, any optionee who is considered a statutory officer for purposes of Section 16 of the Securities Exchange Act of 1934, as amended, shall be entitled to receive in lieu of the exercise of any stock option, to the extent that it is then exercisable, a cash payment in an amount equal to the difference between the aggregate price of such option, or portion thereof, and (a) in the event of a tender offer or similar event, the final offer price per share paid for Common Shares times the number of Common Shares covered by the option or portion thereof, or (b) the aggregate value of the Common Shares covered by the stock option.

Amendment and Termination

The Amended LTIP may be amended or terminated by the Board of Directors of the Company, provided that no such action shall impair the rights of a participant without the participant's consent and provided that no amendment shall be made without shareholder approval which (a) increases the total number of Common Shares reserved for issuance under the Amended LTIP, the total number of Common Shares which may be issued upon the exercise of ISOs or the total number of Common Shares which may be issued to any one individual, (b) changes the class of persons eligible to receive awards under the Amended LTIP or (c) is required to be approved by shareholders to comply with applicable laws or rules.

Federal Income Tax Consequences

The following is a brief summary of some of the Federal income tax consequences of transactions under the Amended LTIP based on the Internal Revenue Code of 1986, as amended. This summary is not intended to be complete and does not describe state or local tax consequences.

No income will be recognized by an optionee upon the grant of a non-qualified stock option. At the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the Common Shares and the fair market value of the Common Shares, if unrestricted, on the date of exercise. At the time of a sale of Common Shares acquired pursuant to the exercise of a non-qualified stock option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as short-term or long-term capital gain (or loss) depending on the holding period.

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No income will be recognized by an optionee upon the grant or exercise of an ISO. However, the excess of the fair market value of the Common Shares on the exercise date over the option price will be included in the optionee's income for purposes of the alternative minimum tax. If Common Shares are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such shares is made by such optionee within two years after the date of the grant or within one year after the transfer of such shares to the optionee, then upon sale of the shares, any amount realized in excess of the option price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss. If Common Shares acquired upon exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or if less, the amount realized on the disposition of the shares in a sale or exchange) over the option price paid for the shares. Any further gain (or loss) realized by the optionee generally will be taxed as either short-term or long-term capital gain (or loss) depending on the holding period.

No income will be recognized by a participant in connection with the grant of a tandem or freestanding SAR. When the SAR is exercised, the participant will be required to include as ordinary income in the year of exercise an amount equal to the amount of cash received and/or the fair market value of any unrestricted Common Shares received on the exercise.

No income will be recognized upon the grant of performance shares or performance units. Upon satisfaction of the objective performance criteria upon which any such awards are conditioned, the recipient will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and/or the fair market value of any unrestricted Common Shares received.

The recipient of restricted stock generally will be subject to tax at ordinary income rates on the fair market value of the restricted stock (reduced by an amount, if any, paid by the participant for the restricted stock) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Internal Revenue Code Section 83. However, a participant who so elects under Code Section 83(b) within 30 days of the date of receipt of the shares will have taxable ordinary income on the date of receipt of the shares equal to the excess of the fair market value of the shares (determined without regard to the restrictions) over the purchase price, if any, of the restricted stock. If a Section 83(b) election has not been made, any dividends received with respect to restricted stock that are subject to the restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

No income will be recognized upon the award of restricted stock units. The recipient of a restricted stock unit award will be subject to tax at ordinary income rates on the fair market value of unrestricted Common Shares on the date that the shares are transferred to the participant under the award (reduced by any amount paid by the participant for the restricted stock units), and the capital gain/loss holding period for the shares will also commence on the date that the shares are transferred to the participant.

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company generally will be entitled to a corresponding deduction. However, the Company's deduction is only permitted to the extent that the amount recognized as income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Code Section 280G and is not disallowed by the limitation on certain executive compensation under Code Section 162(m).

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE CONVERGYS CORPORATION 1998 LONG TERM INCENTIVE PLAN, AS AMENDED. A MAJORITY OF THE COMMON SHARES REPRESENTED AT THE ANNUAL MEETING, IN PERSON OR BY PROXY, AND ENTITLED TO VOTE ON THIS PROPOSAL IS NECESSARY FOR APPROVAL OF THE AMENDMENT. ABSTENTIONS WILL COUNT AS VOTES AGAINST THE PROPOSAL. BROKER NON-VOTES DO NOT COUNT FOR VOTING PURPOSES.

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APPROVAL OF CONVERGYS CORPORATION

EMPLOYEE STOCK PURCHASE PLAN

(Item 3 on the proxy card)

On February 24, 2004, the Board of Directors approved the restated Convergys Corporation Employee Stock Purchase Plan (the "ESPP"). According to new New York Stock Exchange rules, the ESPP is now required to be approved by shareholders. If the plan is not approved by shareholders, employees who participate in the ESPP will no longer receive the 15% Company matching contribution provided for under the ESPP.

The following is a summary of the material terms and provisions of the ESPP, the complete text of which is attached hereto as Appendix IV. This summary does not contain all information which may be important to you. We encourage you to read the ESPP in its entirety to fully understand its terms and conditions.

The material changes to the ESPP included amendments (i) limiting the number of Common Shares that can be delivered under the ESPP to 5,000,000 and (ii) providing for a ten year term.

Purpose of the ESPP

The purpose of the ESPP is to promote the interests of the Company by providing eligible employees of the Company and its affiliates with the opportunity to acquire Common Shares through participation in a payroll deduction-based stock purchase plan. Eligible employees generally include all US, Canadian and UK based employees. Approximately 48,717 employees are eligible to participate in the ESPP.

Administration

The Company's Employee Benefits Committee administers the ESPP and has full authority to interpret and construe the provisions of the ESPP and to adopt rules for administering the ESPP.

Shares Available

A total of 5,000,000 Common Shares are reserved for delivery under the ESPP. Any Common Shares delivered under the ESPP may consist, in whole or in part, of authorized and unissued Common Shares or Common Shares held as treasury shares or Common Shares purchased in the open market.

Contributions and Purchase of Common Shares

Participants may authorize payroll deductions of up to 20% of their compensation. In no event, may payroll deductions during any calendar year exceed \$25,000. The Company makes a matching contribution equal to 15% of participants' payroll deductions. Common Shares are purchased with the amount collected through payroll deductions and the matching contributions on or about the 15th and the 30th day of each month. The purchase price is equal to the fair market value of the shares on the date of purchase. Participants may sell Common Shares purchased pursuant to the ESPP at anytime.

Amendment and Termination

The ESPP may be amended or terminated by the Board of Directors of the Company, provided that no amendment shall be made without shareholder approval which shall increase the total number of Common Shares reserved for issuance under the ESPP. The ESPP has a term of ten years from the date of shareholder approval.

Federal Income Tax Consequences

The following are the federal income tax consequences generally arising with respect to contributions under the ESPP. The Company matching contribution is considered taxable income; the Company is entitled to a deduction equal to the amount of the matching contribution. Upon the subsequent sale of Common Shares acquired

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under the ESPP, the participant will realize a capital gain or loss equal to the difference between the sale price of such shares and the tax basis of such shares. The holding period of the shares, for purposes of determining whether the capital gain or loss is short-term or long-term, commences when the shares are purchased.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE CONVERGYS CORPORATION EMPLOYEE STOCK PURCHASE PLAN. A MAJORITY OF THE COMMON SHARES REPRESENTED AT THE ANNUAL MEETING, IN PERSON OR BY PROXY, AND ENTITLED TO VOTE ON THIS PROPOSAL IS NECESSARY FOR APPROVAL OF THE PLAN. ABSTENTIONS WILL COUNT AS VOTES AGAINST THE PROPOSAL. BROKER NON-VOTES DO NOT COUNT FOR VOTING PURPOSES.

Table of Contents**APPOINTMENT OF INDEPENDENT ACCOUNTANTS****(Item 4 on the proxy card)**

The Audit Committee of the Board of Directors reappointed the firm of Ernst & Young LLP as independent accountants to audit the financial statements of the Company for the year 2004, subject to shareholder ratification. We are asking you to ratify that appointment.

One or more members of the firm of Ernst & Young LLP will attend the annual meeting, will have an opportunity to make a statement and will be available to answer questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT ACCOUNTANTS. A MAJORITY OF THE COMMON SHARES REPRESENTED AT THE ANNUAL MEETING, IN PERSON OR BY PROXY, AND ENTITLED TO VOTE ON THIS PROPOSAL IS NECESSARY FOR APPROVAL OF THE RATIFICATION. ABSTENTIONS WILL COUNT AS VOTES AGAINST THE PROPOSAL. BROKER NON-VOTES DO NOT COUNT FOR VOTING PURPOSES.

AUDIT FEES

Fees paid to Ernst and Young in 2003 were as follows:

	2003	2002
Audit Fees	\$ 897,405	\$ 608,379
Audit-Related Fees	407,613	355,700
Tax Fees	559,411	299,641
All Other Fees	19,400	122,700
Total	\$ 1,883,829	\$ 1,386,420

Audit Fees are the fees billed for professional services rendered for the audit of the Company's annual financial statements, the review of quarterly financial statements, statutory audits of the Company's foreign subsidiaries, accounting consultations and other attest services. The increase in 2003 versus 2002 was primarily due to increased effort auditing the Company's financial statements, increased accounting and auditing services supporting the Company's filing of its Shelf Registration Statement that became effective in June 2003, and increased statutory audit fees resulting from the Company's international expansion.

Audit-Related Fees are the fees billed for assurance and related services that are reasonably related to the performance of the audit of the Company's financial statements and assurance and related services that traditionally are performed by the independent accountants. This includes employee benefit plan audits, due diligence related to mergers and acquisitions, audits of acquired businesses and internal control reviews. The increase in 2003 versus 2002 was primarily due to an increased level of activity reviewing the Company's controls over data processing and employee care services it provides to its clients.

Tax Fees are the fees billed for professional services rendered for tax compliance, tax advice and tax planning. In 2003, 88% of these fees related to the preparation of state tax refund claims, 8% related to tax compliance for several of the Company's foreign subsidiaries and 4% related to advice on benefit plans and assistance for tax audits. The increase in 2003 versus 2002 was primarily due to the completion of an engagement started in 2000 (prior to Ernst and Young's appointment as the Company's independent accountants) assisting the Company's efforts in securing state income tax refunds.

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All Other Fees are the fees for products and services other than those described in the three categories above. In 2003, these fees were for exploratory studies of potential locations to support the Company's geographic expansion. The decrease in 2003 was due to support provided in 2002 in connection with the divestiture of a European call center.

The Convergys Audit Committee has adopted a Policy to pre-approve audit and non-audit services performed by the independent accountants. A summary of the pre-approval policy is attached as Appendix V.

In 2003, 100% of all the services provided by the independent accountants to the Company were approved by the Audit Committee pursuant to the pre-approval policy.

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SHAREHOLDER PROPOSALS

Shareholder proposals intended for inclusion in the Proxy Statement for the annual meeting in 2005 must be received by the Company on or before November 11, 2004 and must comply with Rule 14a-8 promulgated under the Securities Exchange Act of 1934. If a shareholder notifies the Company after January 24, 2005 of the intent to present a proposal, the Company will have the right to exercise discretionary voting authority with respect to that proposal without including information regarding such proposal in its proxy materials. Proposals or notices should be sent to W. H. Hawkins II, Secretary, Convergys Corporation, 201 E. Fourth Street, P. O. 1638, Cincinnati, Ohio 45201.

ADDITIONAL INFORMATION

Other Business

At the time this Proxy Statement was released for printing on March 12, 2004, the Company knew of no other matters which might be presented for action at the meeting. If any other matters properly come before the meeting, it is intended that the Common Shares represented by proxies will be voted with respect thereto in accordance with the judgment of the persons voting them.

How We Solicit Proxies

In addition to this mailing, Convergys employees may solicit proxies personally, electronically, or by telephone. Convergys pays the costs of soliciting this proxy. We are paying Georgeson Shareholder Communications Inc. a fee of \$10,000 plus expenses to help with the solicitation. We also reimburse brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Duplicate Annual Reports

Registered shareholders with multiple accounts may write Convergys Corporation to discontinue the mailing of extra annual reports and proxy statements to a single address. One set of materials must be received at the address.

FINANCIAL STATEMENTS AVAILABLE

The Company's Annual Report to shareholders for the year 2003 includes the Company's Annual Report on Form 10-K, which contains the financial statements for the Company and its subsidiaries as filed with the Securities and Exchange Commission for the year 2003, and is enclosed with this mailing. Requests for additional copies of any of these reports can be addressed to Convergys Corporation, 201 E. Fourth Street, P. O. Box 1638, Cincinnati, Ohio 45201, Attention: Investor Relations Department. These reports are also available on the Company's website, www.convergys.com/investinconvergys.

By Order of the Board of Directors

W.H. Hawkins II

Secretary

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APPENDIX I

Convergys Corporation

Governance Principles

Introduction

In discharging their responsibilities, the Board of Directors (the Board) shall exercise their business judgment to act in a manner that they believe is in the best interests of the Company and its shareholders. Directors are expected to attend all or substantially all Board meetings and meetings of the Committees of the Board on which they serve. Directors are also expected to spend the necessary time to discharge their responsibilities effectively and to ensure that other existing or future commitments do not materially interfere with their responsibilities as members of the Board. Directors are kept informed of the Company's business by various reports and documents provided to them, as well as by operating and financial reports presented at Board and Committee meetings by the Company's management.

All Directors participate in an orientation program at the time of their election or appointment to the Board and continue to expand their knowledge through attendance and participation at Board meetings and through the review of materials provided to them by management.

Compliance With Laws, Rules and Regulations

Directors shall comply, and generally oversee compliance by employees, officers and other Directors, with laws, rules and regulations applicable to the Company, including the Code of Business Conduct and applicable financial and accounting principles. Transactions in Company securities are governed by the Company's Insider Trading Policy, with which all Directors must comply.

Code of Business Conduct

To guide the operations of the Company's business, the Company has adopted a Code of Business Conduct (the Code) which addresses among other topics: (i) conflicts of interest; (ii) confidentiality; (iii) fair dealing; (iv) protection and proper use of Company assets; and (v) compliance with laws, rules and regulations. The Code of Business Conduct requires the reporting of any unethical or illegal behavior and ensures prompt action for violations of the Code. Any waiver of the Code for Directors may be made only by the Board of Directors or a Board Committee, if so delegated, and must be disclosed to shareholders. Any waiver of the Code of Business Conduct for senior management may be made only by the Board of Directors or a Board Committee, if so delegated, and must be disclosed to shareholders.

Corporate Opportunities

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No Director may: (i) without the prior consent of the Board (a) take for himself or herself personally opportunities provided to a Director by the Company, resulting from his/her position as a Director or that are discovered through the use of Company property, information or position, or (b) use Company property, information or position for personal gain; or (ii) compete with the Company. Employees, officers and Directors owe a duty to the Company to advance its interests.

Selection and Composition of the Board

Board Size

The Company's Regulations provide that the Board shall be not less than three nor more than seventeen Directors. No reduction in the number of Directors shall have the effect of shortening the term of any incumbent Director.

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Independence of the Board

A majority of the Board shall be Directors who qualify as independent Directors (Independent Directors) under the listing standards of the New York Stock Exchange and applicable law. The Board will review annually the relationship that each Director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Following such annual review, only those Directors who the Board affirmatively determines have no material relationship with the Company will be considered Independent Directors, subject to their meeting any additional qualifications prescribed under the listing standards of the New York Stock Exchange and applicable law.

Selection of Directors/Board Membership Criteria

The Governance and Nominating Committee, comprised entirely of Independent Directors, is responsible for identifying, screening and recommending persons for nomination by the Board for election as Directors. The Committee may solicit advice from the Chairman of the Board (the Chairman) and other members of the Board. After the Committee's deliberations are completed, it shall report its findings and recommendations to the Board. The Board shall nominate an appropriate slate of Director candidates for election.

An assessment of the skills and characteristics needed by the Board in the context of the current status of the Board shall be performed on a regular basis. Skills and characteristics to be considered include: (i) judgment; (ii) diversity; (iii) experience; (iv) skills; (v) accountability and integrity; (vi) financial literacy; (vii) industry knowledge; (viii) other Board appointments; and (ix) independence.

In determining whether a Director should stand for re-election, consideration will be given to the Director's attendance at meetings, achievement of satisfactory performance, and other matters determined by the Board.

Extending the Invitation to a Potential Director to Join the Board

The invitation to join the Board shall be extended on behalf of the Board by the Chairman of the Board and the Chairman of the Governance and Nominating Committee and other Directors, as appropriate.

Change in Job Responsibilities of Directors

In certain instances, a change in a Director's personal or business status may make it advisable to review whether that Director should continue to serve. Examples would include a material change in the Director's company or institutional affiliation or job responsibilities not previously considered by the Governance and Nominating Committee, a change in the business of Convergys or of the Director's company or any companies with which the Director is affiliated such that a conflict of interest is present or is likely to emerge or the appearance of a conflict is present, a significant change in health, or poor meeting attendance. It is the Director's responsibility to advise the Chairman of the Board of any such changes. The Chairman of the Board will review the matter with the Governance and Nominating Committee. The Committee shall discuss with the individual Director the appropriateness of the Director's continuing service.

Term of Office

Directors shall be elected for three year terms, subject to the provisions set forth in the Articles of Incorporation and these Governance Principles. The Board of Directors shall be divided into three classes (Class I, Class II and Class III) with each Class containing as nearly equal a number of Directors as the then fixed number of Directors permits, with the term of office of one class expiring each year, as determined by the Board of Directors.

Board Communications

Directors receiving inquiries about the Company should refer all such inquiries to the Chief Executive Officer and should interact with the press and other third parties only in concurrence with the Chief Executive Officer or the Investor Relations Department.

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Board Performance

The Governance and Nominating Committee shall administer an annual self-evaluation of the Board. This self-evaluation will focus on the performance of the Board as a whole, concentrating on areas where performance might be improved. The Committee shall review all evaluations, report the results to the Board and make such recommendations, if any, it deems appropriate.

Committee Performance

The Governance and Nominating Committee shall administer an annual performance evaluation by Committee members of their respective Committee(s). This evaluation will focus on the performance of each Committee as a whole, concentrating on areas where performance might be improved. The Committee shall review all evaluations, report the results to the respective Committee(s) and make such recommendations, if any, it deems appropriate.

Board Compensation

Directors (other than those who are officers of the Company or any of its subsidiaries) are entitled to receive reasonable compensation for their services, as may be recommended from time to time by the Compensation and Benefits Committee and approved by the Board, as well as reimbursement of their expenses.

Reasonable compensation also may be paid to any person (other than a salaried officer or employee of the Company or any of its subsidiaries) requested by the Board to attend a meeting or assist the Board in the discharge of its duties and responsibilities.

Board Leadership

The Board has adopted a practice whereby one Director (the Lead Director) acts as the principal communicator between the Board and the Chief Executive Officer. The Lead Director also leads Executive Sessions where only outside Directors are present.

Board Meetings

Frequency and Conduct of Meetings

The Board of Directors shall meet at least four times annually. In addition, an organizational meeting following the annual meeting of shareholders will be held. Additional meetings of the Board may be called as needed.

The Chairman of the Board shall prepare an annual schedule of meetings for the Board of Directors and the standing Committees thereof. To the extent practicable, the schedule shall reflect agenda subjects that are generally of a recurring nature and are expected to be discussed during the year. Certain matters shall be addressed by the Board of Directors at least annually. These matters include a review and evaluation of the Company's (i) strategic plan; (ii) strategic objectives; (iii) business and financial performance for the prior year, including a review of the achievement of strategic objectives; (iv) principal current and future risk exposures; (v) compliance with applicable law and listing standards; (vi) Employee Development Program and Succession Planning for senior management; and (vii) the Chief Executive Officer.

The proposed annual schedule of meetings of the Board and its standing Committees shall be presented to the Board of Directors for review and approval.

The Chairman of the Board shall chair all meetings of the Board of Directors. The Secretary, the Chief Financial Officer, and the General Counsel shall also attend all meetings of the Board, subject to the Board's discretion to excuse one or more of these officers from all or portions of any meeting.

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Attendance of Non-Directors at Board Meetings

The Board encourages the Chairman of the Board to invite members of management to make presentations at Board meetings in order to provide insight into aspects of the Company's business or to provide individuals with exposure to the Board of Directors for purposes of management development. Directors may suggest possible guests and/or topics for presentation and discussion to the Chairman.

Agenda Items

Specific agenda items for meetings of the Board of Directors are designated by the Chairman in consultation with other Directors, senior management, and others as determined by the Chairman.

Distribution of Materials to the Board

Materials for review, discussion and/or action by the Board shall, to the extent practicable, be distributed sufficiently in advance of meetings to allow time for review prior to the meeting. It is recognized that certain exigent circumstances may cause written materials to be unavailable in advance of the meeting.

Executive Sessions of Non-Management Directors

The non-management Directors will meet in Executive Session on a regular basis. Executive Sessions will be chaired by the Lead Director selected by the Board.

Access to Senior Management

Directors shall have access to the senior management of the Company and information necessary for the Directors to discharge their responsibilities. Management shall be responsive to requests for information from Board members.

Board Advisors

The Board of Directors and the Committees thereof shall be entitled, at the expense of the Company, to engage such independent legal, financial or other advisors as they deem appropriate, without consulting or obtaining the approval of any officer of the Company, with respect to any matters within their authority.

Minutes

The Secretary of the Company shall record minutes of all meetings of the Board of Directors and shareholders. In the absence or incapacity of the Secretary, the Chairman may designate as Assistant Secretary, a Director, the General Counsel or outside counsel for the Company to record the minutes of meetings of the Board of Directors or shareholders.

Share Ownership

Under usual circumstances, the expectation is that a member of the Board of Directors will invest a minimum of three times the annual Board retainer in Convergys common shares within four years of the date the member becomes a Director. The achievement of this goal is not a condition of Board membership.

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Leadership Development

Succession Planning

The Board of Directors is responsible for developing a plan of succession for the Chairman and/or Chief Executive Officer, in the event of either of their retirement, death, disability, removal or resignation. This plan will be reviewed by the Board at least annually.

Management Development

Management will direct the creation and maintenance of a program for management development. The Chief Executive Officer will review the program annually with the Board.

Committee Matters

Number, Structure and Independence of Committees

There shall be an Executive Committee, Governance and Nominating Committee, Audit Committee, Finance Committee and Compensation and Benefits Committee. The purpose and responsibilities of each of these Committees will be outlined in written Committee charters adopted by the Committee and approved by the Board which shall be in compliance with applicable law, rules and regulations and listing standards. The Charters are to be reviewed annually by the Committee and the Board, through the Governance and Nominating Committee. The Board may, subject to limitations in the Company Regulations, appoint such additional standing or temporary committees from time to time as the Directors see fit, delegating to such committees all or part of the Board's powers.

The Governance and Nominating Committee, Audit Committee, Finance Committee and Compensation and Benefits Committee shall be comprised entirely of Independent Directors as required pursuant to applicable law, rules or regulation or prescribed under the listing standards of the New York Stock Exchange.

The Executive Committee shall have a minimum of five members and shall include the Chairman of the Board and the Chairs of the Governance and Nominating Committee, Audit Committee, Finance Committee, and Compensation and Benefits Committee. The Committee meets on the call of the Chairman of the Board, whenever needed and has authority to act on all matters during the intervals between Board meetings, except for those matters reserved to the full Board of Directors by the Ohio General Corporation Law or the Regulations of the Company. From time to time the Committee makes reports and recommendations to the Board with respect to the foregoing, as it deems appropriate.

The Audit Committee shall have a minimum of three members, none of whom shall be an officer or an employee of the Company and all of whom meet the independence requirements for Audit Committee membership as adopted by the NYSE. The Committee meets with management

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to consider the adequacy of the disclosure controls and procedures, the internal controls of the Company and the objectivity of its financial reporting. The Committee also meets with the independent accountants and with appropriate Company financial personnel and internal auditors concerning these matters. The Committee is responsible for the appointment, compensation, oversight and dismissal of the independent accountants who shall report directly to the Committee. Both the internal auditors and the independent accountants shall periodically meet alone with the Committee and have unrestricted access to the Committee. In addition, the Committee shall address other matters set forth in its Charter. From time to time the Committee makes reports and recommendations to the Board with respect to the foregoing, as it deems appropriate.

Because of the demanding role and responsibilities of the Company's Audit Committee, no member of the Company's Audit Committee shall serve simultaneously on more than three audit committees of public companies.

The Compensation and Benefits Committee shall have three or more members, none of whom shall be an officer of the Company. The Committee makes recommendations to the Board with respect to the compensation

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of the Chief Executive Officer and Non-Employee Directors. The Committee also approves the compensation of certain executive officers of the Company and reviews and approves policies relating to the design of cash and/or equity incentive plans and non-qualified executive compensation plans for officers of the Company. In addition, it shall address other matters set forth in its Charter. From time to time the Committee makes reports and recommendations to the Board with respect to the foregoing, as it deems appropriate.

The Finance Committee shall have three or more members, none of whom shall be an officer of the Company. The Committee reviews the capital structure of the Company, short-term borrowing limits, proposed financings, options available for the financing of material acquisitions by the Company, pension plan funding and the performance of the portfolio managers. In addition, it shall address other matters set forth in its Charter. From time to time the Committee makes reports and recommendations to the Board with respect to the foregoing, as it deems appropriate.

The Governance and Nominating Committee shall have three or more members, none of whom shall be an officer of the Company. The Committee reviews the performance of senior management, screens and recommends candidates for the Board, monitors and evaluates the performance of the Board and Board Committees and suggests shareholder concerns to be addressed by the Board. In addition, it shall address other matters as set forth in its Charter. From time to time the Committee makes reports and recommendations to the Board with respect to the foregoing, as it deems appropriate.

Compensation of Committee Members

The members of Committees are entitled to receive such fees as may be recommended by the Compensation and Benefits Committee and approved by the Board. The compensation received by the members of the Audit Committee from the Company is limited to those fees paid for their service as a Director and as a member or chair of any Committee(s) of the Board.

Assignment and Rotation of Committee Members and Chairs

The Chairman of the Board shall serve as Chair of the Executive Committee.

Directors are nominated by the Governance and Nominating Committee for Committee membership subject to the Board's consideration and approval.

The Governance and Nominating Committee shall consider on a periodic basis whether it is in the Company's best interest to rotate chairs and/or members within and among Committees.

Director Orientation and Education

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New Directors shall participate in an orientation program, which shall generally be conducted within two months of the meeting at which new Directors are elected. The agenda for the orientation program shall be determined by the Chairman of the Board, and the Secretary of the Company with concurrence of the Chairman of the Governance and Nominating Committee. The orientation program shall address the Company's strategic plans and objectives, business and financial performance for the prior year, material current and future risk exposures of the Company, compliance programs (including the Code of Business Conduct) and may include presentations by the Company's senior management, internal auditors and independent accountants, as well as one or more visits to the Company's headquarters or other operating sites or facilities. All other Directors shall also be invited to attend each orientation program.

Revision to these Governance Principles

The Governance and Nominating Committee shall review these Governance Principles at least annually and recommend to the Board of Directors such revisions as it deems necessary or appropriate for review and approval by the Board.

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APPENDIX II

Convergys Corporation

Audit Committee Charter

Adopted February 24, 2004

Purpose

The Convergys Corporation Board of Directors Audit Committee (the Committee) is established by the Board of Directors for the primary purpose of assisting the Board in:

overseeing the integrity of the Company s financial statements,

overseeing the Company s compliance with legal and regulatory requirements,

overseeing the independent accountant s qualifications and independence,

overseeing the performance of the Company s internal audit function and independent accountants, and

overseeing the Company s system of disclosure controls and procedures and system of internal controls regarding finance, accounting, legal compliance, and ethics that Management and the Board have established.

Consistent with these functions, the Committee shall encourage continuous improvement of, and adherence to, the Company s policies, procedures and practices at all levels. The Committee shall also provide an open avenue of communication among the independent accountants, senior management and financial management, the internal auditing department, and the Board of Directors.

Organization

The Board shall elect all members of the Committee, which shall solely consist of three or more Board Directors who meet the requirements of independence for Audit Committee membership as adopted by the SEC and New York Stock Exchange (NYSE).

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At all times, at least one member of the Committee must be an audit committee financial expert as that term is defined in the applicable laws, regulations or listing standards. In addition, all other members must possess knowledge and experience in financial matters, including the ability to read and understand the Company's financial statements. No Committee member shall serve on more than three Audit Committees of public companies simultaneously.

Responsibilities

General

In order to discharge its responsibilities, the Committee shall each year establish a schedule of meetings. In planning the annual schedule of meetings, the Committee shall ensure that it meets at least quarterly, and that sufficient opportunities exist for its members to meet separately at least quarterly, with Management, the Director of Internal Audit and the independent accountants. Additional meetings may be scheduled as needed.

The Committee may ask Management or others to attend meetings and provide pertinent information as necessary. The Committee shall report its actions regularly to the Board and shall make recommendations as appropriate.

On an annual basis, the Committee shall review and reassess the adequacy of this charter and shall recommend changes to the Board. The Committee shall disclose in the proxy statement for the Company's

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annual shareholders meeting that a formal written charter has been adopted and the degree to which the Committee has satisfied its responsibilities during the prior year in compliance with the charter. At least once every three years, the Committee should verify that the Committee charter is filed with the annual proxy statement by Management.

The Committee shall perform any other activities consistent with this charter, the Company's Regulations and governing law, as the Committee or the Board deems necessary or appropriate.

In carrying out its duties, the Committee has the authority to obtain advice and assistance from outside legal, accounting, or other advisors, as it deems appropriate to execute fully its duties and responsibilities. The Company shall provide appropriate funding as determined by the Committee for compensation to the independent accountants and to any advisors that the Committee chooses to engage.

Financial Reporting Process

The Committee shall regularly review key financial systems, procedures and controls that provide the information necessary to manage and report properly the operations of the Company. In fulfilling this responsibility, the Committee shall take the following actions:

The Committee shall review and discuss with Management and the independent accountants the financial information to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of the Form 10-K) and the Company's Quarterly Reports on Form 10-Q, including the disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, the clarity of the disclosures in the financial statements and the adequacy of internal controls. The Committee shall discuss the results of the annual audit and the quarterly reviews and any other matters required to be communicated to the Committee by the independent accountants under generally accepted auditing standards and applicable law or listing standards. Based on such review and discussion, the Committee shall make a determination whether to recommend that the audited / reviewed financial statements be included in the Company's Form 10-K / 10-Q. The Committee shall also receive reports from the Company's Certification Subcommittee as part of this process.

In consultation with the independent accountants and internal auditors, the Committee shall review the integrity of the Company's internal and external financial reporting processes and Management's effectiveness in maintaining such integrity. In performing its review, the Committee will consider whether adequate procedures exist to comply with the regulations of the SEC and the NYSE. The Committee shall review and consider the independent accountants' and Management's judgments about the quality and appropriateness of the Company's accounting principles and financial disclosure practices and proposed major changes thereto.

The Committee shall review with the Chief Executive Officer, the Chief Financial Officer and the General Counsel the Company's disclosure controls and procedures, procedures established by the Company for issuing the Company's earnings press releases and financial information and earnings guidance periodically provided to analysts and rating agencies. The Committee shall review periodically, but in no event less frequently than quarterly, Management's conclusions about the efficacy of such disclosure controls and procedures, including any significant deficiencies in or material deviations from such controls and procedures.

Systems of Disclosure Controls and Procedures and Internal Controls

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The Committee assists the Board in overseeing the systems of disclosure controls and procedures and internal controls established by Management and the Board, particularly with respect to maintenance of adequate controls related to financing, financial reporting, accounting, compliance with applicable laws and regulations,

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and ethics. The Committee shall review their adequacy and effectiveness with the independent accountants, the Director of Internal Audit, and financial and accounting personnel. In so doing, the Committee shall review recommendations for the improvement of disclosure and internal control procedures and Management's responses to the recommendations.

The Committee shall discuss with Management, the Director of Internal Audit, and the independent accountants the guidelines and policies to govern the process by which risk assessment and management are undertaken. The Committee shall discuss the Company's major financial risk exposures and the steps Management has taken to monitor and control such exposures. The Committee shall review Management's actions to establish and maintain processes to assure that internal control systems are considered in the Company's planning process, including acquisition and integration of new businesses and companies and the development and implementation of new computer systems.

The Committee shall also review with the Chief Executive Officer and the Chief Financial Officer any fraud, whether or not material, that involves Management or other employees who have a significant role in the issuer's internal controls. The Committee shall approve a Code of Ethics for the Chief Executive Officer and Senior Financial Officers, and shall be promptly notified if any amendments or waivers to the code are granted.

Audit Processes

The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of its independent accountants (including resolution of any disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The independent accountants shall report directly to the Committee.

The Committee shall review and pre-approve both audit and non-audit services to be provided by the independent accountants. The pre-approval of non-audit services may be delegated to one or more designated members of the Committee with any such pre-approval reported to the Committee at its next regularly scheduled meeting. The Committee's pre-approval policies and procedures shall be disclosed in periodic reports as required by applicable law or listing standards. The Committee shall also periodically consider whether there should be rotation of the independent accountants firm.

The Committee shall review the performance of the Company's independent accountants annually. In doing so, the Committee shall consult with Management and the Director of Internal Audit and shall obtain and review a report by the independent accountants describing their internal control procedures, any material issues raised by their most recent internal quality-control review, or by any inquiry or investigation by governmental or professional authorities within the preceding five years and the response of the independent accountants, and all relationships between the independent accountants and the Company.

The Committee shall maintain ongoing communications with the independent accountants to review whether the accountants maintain their independence. The Committee shall review with the independent accountants any major unresolved problems encountered during their examinations as well as any restrictions imposed by Management on their audit scope.

The Committee shall establish hiring policies, compliant with governing laws or regulations, for employees or former employees of the independent accountants. The Committee shall present its conclusions with respect to the qualifications, performance and independence of the

independent accountants to the full Board.

With respect to the Internal Audit function, the Committee shall review its functions and activities. The Committee shall also review and approve the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit. It shall at least annually review and approve the Internal Audit Charter and the

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Internal Audit Plan and review any difficulties encountered in the course of performing the audit function as defined in its charter and approved audit plan. The Committee shall review the objectivity of the Internal Audit function. While the Internal Audit function shall report functionally to the Company's Chief Financial Officer through the Director of Internal Audit, it must report at least on a quarterly basis to the Committee.

Complaint Procedures

The Committee shall establish and maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The Committee shall periodically review with Management, including the General Counsel, and the independent accountants any correspondence with, or other action by, regulators or governmental agencies and any employee complaints or published reports that raise concerns regarding the Company's financial statements, accounting or auditing matters or compliance with the Company's Code of Business Conduct and Ethics. The Committee shall also meet periodically with the General Counsel and other appropriate legal staff of the Company to review material legal affairs of the Company and the Company's compliance with applicable law and listing standards.

Annual Reporting of Committee Activities with Respect to Audited Financial Statements

The Committee shall issue a report to be included in the annual proxy statement stating whether the Committee had reviewed and discussed the financial statements with Management, had discussed the required communications with the independent accountants, had received the required correspondence from the independent accountants regarding independence matters and whether the Committee recommended to the full Board the inclusion of the audited financial statements in the Company's Form 10-K. Additionally, the Committee should review the annual written affirmation provided by the Company to the New York Stock Exchange (NYSE) that the Committee complied with the NYSE's rules for members' audit committees.

Performance Evaluation

The performance of the Committee shall be evaluated on an annual basis.

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APPENDIX III

CONVERGYS CORPORATION

1998 LONG TERM INCENTIVE PLAN, AS AMENDED

1. *Purpose.*

The primary purpose of the Convergys Corporation 1998 Long Term Incentive Plan, as amended (the Plan) is to further the long term growth of Convergys Corporation (the Company) by offering competitive incentive compensation related to long term performance goals to those employees of the Company and its affiliates who will be largely responsible for planning and directing such growth. The Plan is also intended as a means of reinforcing the commonality of interest between the Company's shareholders and the employees who are participating in the Plan and as an aid in attracting and retaining employees of outstanding abilities and specialized skills. The Plan became effective on July 20, 1998, the date on which it was approved by the shareholders of the Company (the Effective Date).

2. *Administration.*

2.1 The Plan shall be administered by the Compensation and Benefits Committee (the Committee) of the Company's Board of Directors (the Board). The Committee shall consist of at least three members of the Board (a) who are neither officers nor employees of the Company and (b) who are outside directors within the meaning of section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended (the Code).

2.2 Subject to the limitations of the Plan, the Committee shall have complete authority (a) to select from the employees and Non-Employee Advisors (as defined in Section 10B) of the Company and its affiliates those individuals who shall participate in the Plan, (b) to make awards in such forms and amounts as it shall determine and to cancel, suspend or amend awards, (c) to impose such limitations, restrictions and conditions upon awards as it shall deem appropriate, (d) to interpret the Plan and to adopt, amend and rescind administrative guidelines and other rules and regulations relating to the Plan and (e) to make all other determinations and to take all other actions necessary or advisable for the proper administration of the Plan; provided, however, that notwithstanding the foregoing, except as otherwise permitted under Section 14, the Committee shall not, without the further approval of the shareholders of the Company, authorize the amendment of any outstanding option to reduce its exercise price or cancel an option and replace it with an option having a lower exercise price. Determinations of fair market value under the Plan shall be made in accordance with the methods and procedures established by the Committee. The Committee's determinations on matters within its authority shall be conclusive and binding on the Company and all other parties.

2.3 The Committee may delegate to one or more Senior Managers or to one or more committees of Senior Managers the right to make awards to employees who are not officers or directors of the Company and to Non-Employee Advisors.

2.4 In order to facilitate the making of any grant or combination of grants under this Plan, the Committee may provide for such special terms for awards to participants who are foreign nationals or who are employed by the Company or any subsidiary outside of the United States of America as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to or amendments, restatements or alternative versions of this Plan as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of this Plan as in effect for any other purpose, and the Corporate Secretary or other appropriate officer of the Company may certify any such document as having been approved and adopted in the same manner as this Plan.

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No such special terms, supplements, amendments or restatements, however, shall include any provisions that are inconsistent with the terms of this Plan as then in effect unless this Plan could have been amended to eliminate such inconsistency without further approval by the shareholders of the Company.

Table of Contents3. *Types of Awards.*

Awards under the Plan may be in any one or more of the following: (a) stock options, including incentive stock options (ISOs), (b) stock appreciation rights (SARs), in tandem with stock options or free-standing, (c) restricted stock, (d) restricted stock units, (e) performance shares and performance units conditioned upon meeting performance criteria and (f) other awards based in whole or in part by reference to or otherwise based on Company Common Shares, without par value (Common Shares). In connection with any award or any deferred award, payments may also be made representing dividends or interest or other equivalent. No awards shall be made under the Plan after ten years from the Effective Date.

4. *Shares Subject to Plan.*

Subject to adjustment as provided in Section 14 below, 38,000,000 of the Company's Common Shares may be issued or transferred (1) upon the exercise of options or SARs, (2) as restricted shares (whether or not deferred pursuant to Section 12) and released from substantial risks of forfeiture, (3) in payment of restricted stock units or performance units or performance shares that have been earned, or (4) in payment of dividend equivalents paid with respect to awards made under the Plan. Common Shares available in any year which are not used for awards under the Plan shall be available for award in subsequent years. Notwithstanding the foregoing, subject to adjustment as provided in Section 14 below, (a) the total number of Common Shares actually issued by the Company upon the exercise of ISOs shall not exceed 15,000,000, (b) the total number of Common Shares that may be subject to awards granted under the Plan, in the form of stock options, SARs, performance shares, restricted stock specifying objective performance criteria or other stock awards specifying objective performance criteria to any one individual, during any calendar year, shall not exceed separately or in the aggregate, 500,000 and (c) the total amount of cash (or fair market value of property) payable pursuant to performance units granted to any one individual during any calendar year shall not exceed \$3,500,000. In the future, if another company is acquired, any Common Shares covered by or issued as result of the assumption or substitution of outstanding grants of the acquired company shall not be deemed issued under the Plan and shall not be subtracted from the Common Shares available for grant under the Plan. The Common Shares issued or transferred under the Plan may consist in whole or in part of authorized and unissued shares or treasury shares. If any Common Shares subject to any award are forfeited, terminated, cancelled or settled in cash or otherwise terminated with or without issuance or transfer of Common Shares, the Common Shares subject to such award shall again be available for grant pursuant to the Plan. Common Shares withheld in payment of any exercise price or taxes relating to an award shall be deemed to constitute Common Shares not issued or transferred to the participant and shall be deemed to again be available for awards under the Plan. This Section shall apply to the number of Common Shares reserved and available for ISOs only to the extent consistent with applicable provisions of the Code and Treasury regulations related to ISOs.

5. *Stock Options.*

Except as provided in Sections 10A and 10B, all stock options granted under the Plan shall be subject to the following terms and conditions:

5.1 The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may prescribe, grant to any employee of the Company or affiliate of the Company options to purchase Common Shares, which options may be options that comply with the requirements for incentive stock options set forth in section 422 of the Code (ISOs) or options which do not comply with such requirements (NSOs) or both. The grant of an option shall be evidenced by an Evidence of Award containing such terms and conditions as the Committee may from time to time prescribe (Stock Option Agreement). For purposes of the Plan, Evidence of Award means an agreement, certificate, resolution or other type or form of writing or other evidence, including electronic evidence, approved by the Committee which sets forth the terms and conditions of the award.

5.2 The purchase price per Common Share of options granted under the Plan shall be determined by the Committee; provided that the purchase price per Common Share of any ISO shall not be less 100% of the fair market value of a Common Share on the date the ISO is granted.

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5.3 Unless otherwise prescribed by the Committee in the Stock Option Agreement, each option granted under the Plan shall be for a period of ten years, shall be exercisable in whole or in part after the commencement of the second year of its specified term and may thereafter be exercised in whole or in part before it terminates under the provisions of the Stock Option Agreement. The Committee shall establish procedures governing the exercise of options and shall require that notice of exercise be given and that the option price be paid in full in cash at the time of exercise. The Committee may permit an optionee, in lieu of part or all of the cash payment, to make payment in Common Shares or other property valued at fair market value on the date of exercise, as partial or full payment of the option price. As soon as practicable after receipt of each notice and full payment, the Company shall deliver to the optionee a certificate or certificates representing the acquired Common Shares, unless, in accordance with rules prescribed by the Committee, the optionee has elected to defer receipt of the Common Shares.

5.4 Any ISO granted under the Plan shall be exercisable upon the date or dates specified in the Stock Option Agreement, but not earlier than one year after the date of grant of the ISO and not later than 10 years after the date of grant of the ISO, provided that the aggregate fair market value, determined as of the date of grant, of Common Shares for which ISOs are exercisable for the first time during any calendar year as to any individual shall not exceed the maximum limitations in section 422 of the Code. Notwithstanding any other provisions of the Plan to the contrary, no individual will be eligible for or granted an ISO if, at the time the option is granted, that individual owns (directly or indirectly, within the meaning of section 424(d) of the Code) stock of the Company possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its subsidiaries.

6. *Stock Appreciation Rights.*

6.1 A SAR may be granted free-standing or in tandem with new options or after the grant of a related option which is not an ISO. The SAR shall represent the right to receive payment of a sum not to exceed the amount, if any, by which the fair market value of the Common Shares on the date of exercise of the SAR (or, if the Committee shall so determine in the case of any SAR not related to an ISO, any time during a specified period before the exercise date) exceeds the grant price of the SAR.

6.2 The grant price and other terms of the SAR shall be determined by the Committee.

6.3 Payment of the amount to which an individual is entitled upon the exercise of a SAR shall be made in cash, Common Shares or other property or in a combination thereof, as the Committee shall determine. To the extent that payment is made in Common Shares or other property, the Common Shares or other property shall be valued at fair market value on the date of exercise of the SAR.

6.4 Unless otherwise determined by the Committee, any related option shall no longer be exercisable to the extent the SAR has been exercised and the exercise of an option shall cancel the related SAR to the extent of such exercise.

7A. *Restricted Stock.*

Common Shares awarded as restricted stock may not be disposed of by the recipient until certain restrictions established by the Committee lapse. Recipients of restricted stock are not required to provide consideration other than the rendering of services or the payment of any minimum amount required by law, unless the Committee otherwise elects. The recipient shall have, with respect to Common Shares awarded as restricted stock, all of the rights of a shareholder of the Company, including the right to vote the Common Shares, and the right to receive any cash dividends, unless the Committee shall otherwise determine. Upon termination of employment during the restricted period, all restricted stock shall be forfeited, subject to such exceptions, if any, as are authorized by the Committee, as to termination of employment, retirement, disability, death or special circumstances. Restricted stock grants may specify objective performance criteria (in accordance with Section 8 below) the

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achievement of which is a condition to termination or early termination of the restrictions applicable to some or all of such shares. Each such grant may specify in respect of such objective performance criteria a minimum acceptable level of achievement and may set forth a formula for determining the number of restricted shares on which restrictions will terminate if performance is at or above the minimum level, but falls short of full achievement of the specified criteria.

7B. *Restricted Stock Units.*

The Committee may award to any participant restricted stock units. Each such grant shall represent the right of the recipient to receive a number of Common Shares in the future, but subject to the fulfillment of such conditions as the Committee may specify. Recipients of restricted stock units are not required to provide consideration other than the rendering of service, unless the Committee otherwise elects. Each award of restricted stock units shall be evidenced by an Evidence of Award containing such terms and conditions as the Committee may determine. An award of restricted stock units may specify objective performance criteria (in accordance with Section 8 below), the achievement of which is a condition to the Company's obligation to deliver Common Shares thereunder. Each such grant may specify in respect of such objective performance criteria a minimum acceptable level of achievement and may set forth a formula for determining the number of Common Shares deliverable under the award if performance is at or above the minimum level, but falls short of full achievement of the specified criteria.

8. *Performance Shares and Units.*

8.1 The Committee may award to any participant performance shares or performance units (*Performance Award*). Each performance share shall represent, as the Committee shall determine, one Common Share or other security. Each performance unit shall represent the right of the recipient to receive an amount equal to the value determined in the manner established by the Committee at the time of the award. Recipients of Performance Awards are not required to provide consideration other than the rendering of service, unless the Committee otherwise elects.

8.2 Each Performance Award under the Plan shall be evidenced by an Evidence of Award containing such terms and conditions as the Committee may determine.

8.3 Each Performance Award shall specify objective performance criteria which, if achieved, will result in payment or early payment of the award, and each award may specify in respect of such specified objective performance criteria a minimum acceptable level of achievement and shall set forth a formula for determining the number of performance shares or performance units that will be earned if performance is at or above the minimum level, but falls short of full achievement of the specified objective performance criteria. Each award shall specify that, before the performance share or performance units shall be earned and paid, the Committee must determine that the objective performance criteria have been satisfied. Objective performance criteria may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual participant or a subsidiary, business unit, division, department, region or function within the Company or subsidiary. The objective performance criteria may be made relative to the performance of other corporations. The objective performance criteria shall be based on specified levels of or growth in one or more of the following criteria: earnings per share; stock price; total shareholder return; return on investment; return on capital; revenues; earnings from operations; earnings before or after interest and taxes; net income; cash flow; debt to capital ratio; economic value added; return on equity; return on assets; earnings before or after interest, depreciation, amortization or extraordinary or special items; free cash flow; cash flow return on investment (discounted or otherwise); net cash provided by operation; cash flow in excess of cost of capital; operating margin; and profit.

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If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances (including those events and circumstances described in Section 14 of this Plan) render the objective performance criteria unsuitable, the Committee may in its discretion modify such criteria or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable, except in the case where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.

The performance period for each award within which the objective performance criteria are to be achieved shall be of such duration as the Committee shall establish at the time of award (Performance Period). There may be more than one award in existence at any one time, and Performance Periods may differ.

8.4 The Committee may provide that amounts equivalent to dividends paid shall be payable with respect to each Performance Share awarded, and that amounts equivalent to interest at such rates as the Committee may determine shall be payable with respect to amounts equivalent to dividends previously credited to the participant. The Committee may provide that amounts equivalent to interest at such rates as the Committee may determine shall be payable with respect to performance units.

8.5 Payments of performance shares and any related dividends, amounts equivalent to dividends and amounts equivalent to interest may be made in a lump sum or in installments, in cash, property or in a combination thereof, as the Committee may determine. Payment of performance units and any related amounts equivalent to interest may be made in a lump sum or in installments, in cash, property or in a combination thereof, as the Committee may determine.

9. *Other Stock Unit Awards.*

9.1 The Committee is authorized to grant to employees of the Company and its affiliates, either alone or in addition to other awards granted under the Plan, awards of Common Shares or other securities of the Company or any subsidiary of the Company and other awards that are valued in whole or in part by reference to, or are otherwise based on, Common Shares or other securities of the Company or any subsidiary of the Company (other stock unit awards). Other stock unit awards may be paid in cash, Common Shares, other property or in a combination thereof, as the Committee shall determine.

9.2 The Committee shall determine the employees to whom other stock unit awards are to be made, the times at which such awards are to be made, the number of shares to be granted pursuant to such awards and all other conditions of such awards. The provisions of other stock unit awards need not be the same with respect to each recipient. The recipient shall not be permitted to sell, assign, transfer, pledge, or otherwise encumber the Common Shares or other securities prior to the later of the date on which the Common Shares or other securities are issued, or the date on which any applicable restrictions or performance or deferral periods lapse. Common Shares (including securities convertible into Common Shares) and other securities granted pursuant to other stock unit awards may be issued for no cash consideration or for such minimum consideration as may be required by applicable law. Common Shares (including securities convertible into Common Shares) and other securities purchased pursuant to purchase rights granted pursuant to other stock unit awards may be purchased for such consideration as the Committee shall determine, which price shall not be less than the fair market value of such Common Shares or other securities on the date of grant, unless the Committee otherwise elects.

10A. *Grants to Non-Employee Directors.*

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10A.1 For purposes of the Plan, Non-Employee Director means a member of the Board who is not an employee of the Company or an affiliate of the Company. In addition to awards to employees and Non-Employee Advisors, awards (other than ISOs) also may be made to Non-Employee Directors under the Plan. Except as otherwise provided in this Section 10A, any award to a Non-Employee Director shall be subject to all of the terms and conditions of the Plan.

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10A.2 The Board, in its sole discretion, may make awards to Non-Employee Directors. In exercising such authority, the Board shall have all of the power otherwise reserved to the Committee under the Plan, including, but not limited to, the sole and complete authority (a) to select the Non-Employee Directors who shall be eligible to receive awards, (b) to select the types and amounts of awards which may be made and (c) to impose such limitations, restrictions and conditions upon awards as the Board shall deem appropriate.

10B. Grants to Non-Employee Advisors.

10B.1 For purposes of the Plan, Non-Employee Advisor means an individual selected by the Company or one or more of its affiliates to participate in one or more foreign advisory boards who is neither an employee of the Company or an affiliate of the Company nor a Non-Employee Director. In addition to awards to employees and Non-Employee Directors, awards (other than ISOs) also may be made to Non-Employee Advisors under the Plan. Except as otherwise provided in this Section 10B, any award to a Non-Employee Advisor shall be subject to all of the terms and conditions of the Plan.

10B.2 The Committee, in its sole discretion, may make awards to Non-Employee Advisors. In exercising such authority, the Committee shall have complete authority (a) to select the Non-Employee Advisors who shall be eligible to receive awards, (b) to select the types and amounts of awards which may be made and (c) to impose such limitations, restrictions and conditions upon awards as the Committee shall deem appropriate.

11. Nonassignability of Awards.

Unless permitted by the Committee, no award granted under the Plan shall be assigned, transferred, pledged or otherwise encumbered by the recipient, otherwise than (a) by will, (b) by designation of a beneficiary after death or (c) by the laws of descent and distribution. Each award shall be exercisable during the recipient's lifetime only by the recipient or, if permissible under applicable law, by the recipient's guardian or legal representative or, in the case of a transfer permitted by the Committee, by the recipient of the transferred amount.

12. Deferrals of Awards.

The Committee may permit recipients of awards to defer the distribution of all or part of any award in accordance with such terms and conditions as the Committee shall establish.

13. Provisions Upon Change of Control.

In the event of a Change in Control occurring on or after the Effective Date, the provisions of this Section 13 will supersede any conflicting provisions of the Plan.

13.1 In the event of a Change in Control, (a) all outstanding stock options and SARs under Sections 5 and 6 of the Plan shall become exercisable in full, (b) the restrictions otherwise applicable to any Common Shares awarded as restricted stock under Section 7A of the Plan shall lapse, (c) all Common Shares that are the subject of restricted stock units granted under Section 7B shall be issued, and (d) the performance criteria relating to outstanding performance shares, performance units and other awards under Sections 8 and 9 of the Plan shall be deemed to have been satisfied in full and such awards shall be paid in full within five business days of such Change in Control; further, unless the

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Committee shall revoke such an entitlement prior to a Change in Control, any optionee who is deemed by the Committee to be a statutory officer (insider) for purposes of Section 16 of the Securities Exchange Act of 1934, as amended (the 1934 Act), shall be entitled to receive in lieu of exercise of any stock option, to the extent that it is then exercisable, a cash payment in an amount equal to the difference between the aggregate price of such option, or portion thereof, and (a) in the event of a tender offer or similar event, the final offer price per share paid for Common Shares times the number of Common Shares covered by the option or portion thereof, or (b) the aggregate value of the Common Shares covered by the stock option.

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In the event of a tender offer in which fewer than all Common Shares which are validly tendered in compliance with such offer are purchased or exchanged, then only that portion of the Common Shares covered by a stock option as results from multiplying such Common Shares by a fraction, the numerator of which is the number of Common Shares acquired pursuant to the offer and the denominator of which is the number of Common Shares tendered in compliance with such offer, shall be used to determine the payment thereupon. To the extent that all or any portion of a stock option shall be affected by this provision, all or such portion of the stock option shall be terminated.

13.2 For purposes of this Section 13, a **Change in Control** of the Company means and shall be deemed to occur if:

- (a) a tender shall be made and consummated for the ownership of 30% or more of the outstanding voting securities of the Company;

- (b) the Company shall be merged or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, other than affiliates (within the meaning of the 1934 Act) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation;

- (c) the Company shall sell substantially all of its assets to another corporation which is not a wholly owned subsidiary;

- (d) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) of the 1934 Act, shall acquire 20% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record), or a person, within the meaning of Section 3(a)(9) or Section 13(d)(3) of the 1934 Act, controls in any manner the election of a majority of the directors of the Company; or

- (e) within any period of two consecutive years commencing on or after the Effective Date of the Plan, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period. For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) pursuant to the 1934 Act.

13.3 In the event of a Change in Control, the provisions of this Section 13 may not be amended on or subsequent to the Change in Control in any manner whatsoever which would be adverse to any recipient of an award under the Plan without the consent of such recipient who would be so affected; provided, however, the Board may make minor or administrative changes to this Section 13 or changes to conform to applicable legal requirements.

14. *Adjustments.*

14.1 In the event of any change affecting the Common Shares by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other corporate change, or any distributions to common shareholders other than cash dividends, the Committee shall make such substitution or adjustment in the aggregate number or class of shares which may be distributed under the Plan and in the number, class and option price or other price of shares subject to the outstanding awards granted under the Plan as it deems to be appropriate in order to maintain the purpose of the original grant.

14.2 Subject to restrictions and limitations otherwise provided under the Plan, the Committee shall be authorized to make adjustments in performance award criteria or in the terms and conditions of other awards in recognition of unusual or non-recurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any award in the manner and to the extent it shall deem desirable to carry it into effect.

Table of Contents15. *Amendments and Terminations.*

Notwithstanding any other provisions hereof to the contrary, the Board may assume responsibilities otherwise assigned to the Committee and may amend, alter or discontinue the Plan or any portion thereof at any time, provided that no such action shall impair the rights of any recipient of an award under the Plan without such recipient's consent and provided that no amendment shall be made without shareholder approval which (a) increases the total number of Common Shares reserved for issuance pursuant to the Plan or the total number of Common Shares which may be issued upon the exercise of ISOs or the total number of Common Shares which may be issued to any one individual (b) changes the classes of persons eligible to receive awards under the Plan or (c) is required to be approved by the shareholders of the Company in order to comply with applicable law or the rules of the principal national securities exchange upon which the Common Shares are traded.

16. *Withholding.*

To the extent required by applicable federal, state, local or foreign law, the recipient of an award under the Plan shall make arrangements satisfactory to the Company for the satisfaction of any withholding obligations that arise in connection with the award and the Company shall have the right to withhold from any cash award the amount necessary, or retain from any award in the form of Common Shares a sufficient number of Common Shares, to satisfy the applicable withholding tax obligation. Unless otherwise provided in the applicable award agreement, a participant may satisfy any tax withholding obligation by any of the following means or any combination thereof: (a) by a cash payment to the Company, (b) by delivering to the Company Common Shares owned by the participant or (c) by authorizing the Company to retain a portion of the Common Shares otherwise issuable to the participant pursuant to the exercise or vesting of the award.

17. *CBI Stock Plan.*

17.1 For purposes of this Section 17, *CBI* means Cincinnati Bell Inc., *CBI Option* means an option to purchase CBI common shares granted under a CBI Stock Plan, *CBI Restricted Stock* means an award of CBI common shares as restricted stock under a CBI Stock Plan, *CBI Stock Plan* means, collectively, the Cincinnati Bell Inc. 1988 Long Term Incentive Plan, the Cincinnati Bell Inc. 1989 Stock Option Plan, the Cincinnati Bell Inc. 1997 Long Term Incentive Plan, the Cincinnati Bell Inc. 1988 Stock Option Plan for Non-Employee Directors and the Cincinnati Bell Inc. 1997 Stock Option Plan for Non-Employee Directors and *Distribution* means the date as of which CBI distributes to its shareholders all of the Common Shares owned by CBI.

17.2 At the time of the Distribution, each holder of a CBI Option shall receive an additional stock option under this Plan (*Company Option*) to purchase a number of Common Shares equal to the number of CBI common shares subject to the CBI Option. Each Company Option shall have the same terms and conditions (including vesting) as the CBI Option with respect to which it is granted, except that termination of employment shall mean, (a) in the case of a CBI employee or director, termination of employment with CBI and (b) in the case of a Company employee or director, termination of employment with the Company. The exercise price per share of each CBI Option (the *CBI Exercise Price*) shall be reduced, and the exercise price per share of the associated Company Option (the *Company Exercise Price*) shall be set so that (a) the sum of the CBI Exercise Price (after the reduction provided herein) and the Company Exercise Price is equal to the CBI Exercise Price (before the reduction provided herein) and (ii) the ratio of the CBI Exercise Price (after the reduction provided herein) to the Company Exercise Price is equal to the ratio of the average of the high and low per-share prices of CBI common shares on the New York Stock Exchange (*NYSE*) on January 4, 1999 to the average of the high and low per-share prices of Common Shares on the NYSE on January 4, 1999. Notwithstanding the foregoing, in the event that the number of Common Shares to be distributed to each CBI shareholder at the time of the Distribution with respect to each CBI common share owned by the shareholder on the record date for the Distribution is greater or less than one, the number of Common Shares represented by each Company Option and the Company Exercise Price shall be adjusted to reflect such difference.

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17.3 At the time of the Distribution, the Common Shares to be distributed with respect to each CBI common share which constitutes CBI Restricted Stock shall be deemed to have been issued under this Plan and shall be subject to the same terms, conditions and restrictions (including vesting) which apply to the CBI Restricted Stock with respect to which the distribution is being made, except that termination of employment shall mean, (a) in the case of a CBI employee, termination of employment with CBI and (b) in the case of a Company employee, termination of employment with the Company.

18. *Governing Law.*

The Plan and each Evidence of Award shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

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APPENDIX IV

CONVERGYS CORPORATION

EMPLOYEE STOCK PURCHASE PLAN

1. Purpose of the Plan. The Employee Stock Purchase Plan is intended to promote the interests of Convergys Corporation, an Ohio corporation, by providing eligible employees with the opportunity to acquire a proprietary interest in the Company through participation in a payroll deduction-based employee stock purchase plan.

2. Definitions. Capitalized terms used herein shall have the meanings assigned to such terms in this Section 2.

Board shall mean the Company's Board of Directors.

Change in Control shall mean the occurrence of any of the following events: (i) a tender offer shall be made and consummated for the ownership of 30% or more of the outstanding voting securities of the Company; (ii) the Company shall be merged or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, other than affiliates (within the meaning of the 1934 Act) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation; (iii) the Company shall sell substantially all of its assets to another corporation which is not a wholly owned subsidiary; (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) of the 1934 Act, shall acquire 20% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record), or a person, within the meaning of Section 3(a)(9) or Section 13(d)(3) of the 1934 Act, controls in any manner the election of a majority of the directors of the Company; (v) or within any period of two consecutive years commencing on or after the Effective Date, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period. For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) pursuant to the 1934 Act.

Common Shares shall mean the Company's common shares, without par value.

Company shall mean Convergys Corporation, an Ohio corporation, and any corporate successor to all or substantially all of the assets or voting shares of Convergys Corporation that shall by appropriate action adopt the Plan.

Company Affiliate shall mean any direct or indirect parent or subsidiary corporation of the Company or Company division or business unit, whether now existing or subsequently established.

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Compensation shall mean total salary, hourly wages, pay in lieu of paid time off, differential pay, company-paid short term disability pay, commissions, team awards, bonuses and overtime paid to a Participant by one or more Participating Companies during a Purchase Interval, which amount shall be determined prior to reduction for any elective deferrals or withholdings made by the Participant under any plan or arrangement of the Company or any Company Affiliate.

Effective Date shall mean the date on which the Plan is approved by the Company's shareholders. Any Company Affiliate that becomes a Participating Company after such Effective Date shall designate a subsequent Effective Date with respect to its employee-Participants.

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Eligible Employee shall mean any person who is employed by a Participating Company and has reached the age of majority for the location in which he or she resides, other than a person who is classified as a job bank employee, a co-op, or an intern.

Fair Market Value means, as of any particular date, (a) with respect to Common Shares purchased in the open market, the average purchase price paid for such shares and (b) with respect to Common Shares purchased from the Company, the average of the daily high and low sales prices for Common Shares, as reported on the New York Stock Exchange, for the last five days on which Common Shares were traded on the New York Stock Exchange which end on the date of the purchase of such shares from the Company.

1934 Act shall mean the Securities Exchange Act of 1934 as amended.

1933 Act shall mean the Securities Act of 1933, as amended.

Participant shall mean any Eligible Employee of a Participating Company who is actively participating in the Plan.

Participating Company shall mean the Company and any Company Affiliate to which participation in the Plan has been extended by the Company.

Plan shall mean the Employee Stock Purchase Plan, as amended from time to time.

Plan Administrator shall mean the Company's Employee Benefits Committee.

Purchase Date shall mean on or about the 1st day and the 30th day of each calendar month.

Purchase Interval shall mean each period between Purchase Dates.

3. Administration of the Plan. The Plan Administrator shall have full authority to interpret and construe the provisions of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary. Decisions of the Plan Administrator shall be final and binding on all parties having an interest in the Plan.

4. Shares Subject to the Plan. The stock purchasable under the Plan shall be shares of authorized but unissued or reacquired Common Shares and Common Shares purchased on the open market. The maximum number of Common Shares to be delivered to Participants during the period commencing on the Effective Date and ending on the tenth anniversary of the Effective Date shall be 5,000,000. Should any change be made to Common Shares by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change

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affecting the outstanding Common Shares as a class without the Company's receipt of consideration, the Plan Administrator shall make appropriate adjustments to the maximum number and class of securities issuable under the Plan.

5. Eligibility. Each individual who is an Eligible Employee may participate in a Purchase Interval by completing the enrollment forms prescribed by the Plan Administrator (which may include a stock purchase agreement and a payroll deduction authorization) and filing such forms with the Plan Administrator (or its designate) on or before the Purchase Date for such Purchase Interval.

6. Payroll Deductions.

a. The payroll deduction authorized by a Participant for purposes of acquiring Common Shares during a Purchase Interval may be up to 20% of his or her Compensation for such Purchase Interval. In no event, however, may a Participant's payroll deductions under the Plan during any calendar year exceed \$25,000. The deduction rate so authorized shall continue in effect for future Purchase Intervals, *provided, however*, that a Participant may, at any time, modify his or her rate of payroll deduction to become effective as soon as administratively practicable after filing the appropriate form with the Plan Administrator.

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b. Payroll deductions for a Purchase Interval shall begin as soon as administratively practicable following the date an effective election to participate is filed with the Plan Administrator and shall continue until the date modified by the Participant, the date of the Participant's termination of employment or the date the Plan terminates. The amounts so collected shall be credited to a bookkeeping account established on behalf of the Participant under the Plan. The amounts collected from the Participant shall not be required to be held in any segregated account or trust fund and may be commingled with the general assets of the Company and used for general corporate purposes. Interest shall not accrue on amounts credited to the Participant's bookkeeping account under the Plan.

7. Matching Contributions. The Company shall make a matching contribution equal to 15% of a Participant's payroll deductions during any Purchase Interval, which contribution shall be credited to the Participant's bookkeeping account under the Plan. Interest shall not accrue on any matching contributions credited to the Participant's bookkeeping account under the Plan.

8. Purchase of Shares.

a. *Purchases.* On each Purchase Date, Common Shares shall be purchased on behalf of each Participant who participates in the Purchase Interval ending with such Purchase Date. Such shares shall be purchased either directly from the Company or in the open market. The purchase shall be effected by applying the amount collected for the Participant through payroll deductions and matching contributions during the Purchase Interval ending with that Purchase Date to the purchase of Common Shares at a purchase price per share equal to the Fair Market Value per Common Share on that Purchase Date.

b. *Number of Purchasable Shares.* The number of Common Shares purchasable on behalf of a Participant on each Purchase Date shall be the number of shares (including fractional shares) obtained by dividing the amount collected for the Participant through payroll deductions and matching contributions during the Purchase Interval ending with that Purchase Date by the purchase price in effect for the Participant for that Purchase Date.

c. *Change in Control.* Any then-existing Purchase Interval shall automatically terminate immediately prior to the occurrence of a Change in Control, and any payroll deductions and matching contributions held on behalf of a Participant at such time shall be used to purchase Common Shares at a purchase price per share equal to the Fair Market Value per Common Share immediately prior to the effective date of such Change in Control.

d. *Proration of Purchase Rights.* Should the total number of Common Shares to be purchased on any particular date exceed the number of shares then available for delivery under the Plan, the Plan Administrator shall make a pro-rata allocation of the available shares on a uniform and nondiscriminatory basis, and the payroll deductions (but not matching contributions) of each Participant, to the extent in excess of the aggregate purchase price payable for the Common Shares pro-rated to such individual, shall be refunded.

e. *Assignability.* Each Participant's purchase rights under the Plan shall be exercisable only by the Participant and shall not be assignable or transferable by the Participant.

f. *Shareholder Rights.* A Participant shall have no shareholder rights with respect to shares until such shares are purchased on the Participant's behalf in accordance with the provisions of the Plan and the Participant has become a holder of record of the purchased shares.

9. Issuance and Sale of Common Shares.

a. *Issuance of Common Shares.* Common Shares purchased under the Plan shall be held by the Plan Administrator or its designate. Participants shall receive periodic statements that will evidence all activity in the accounts that have been established on their behalf. Such statements will be issued by the Plan Administrator or its designate. In the event a Participant wishes to hold certificates in his or her own name, the Participant must instruct the Plan Administrator or its designate independently and bear the costs associated with the issuance of such certificates and pay, if required, a fee for each certificate so issued.

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b. *Sale of Common Shares.* Each Participant may sell at any time all of any portion of the Common Shares acquired under the Plan and held by the Plan Administrator or its designate by notifying the Plan Administrator or its designate, who will direct the broker to execute the sale on behalf of the Participant. The Participant shall pay any expenses incurred with regard to the sale of the Common Shares. All such sales of Common Shares will be subject to compliance with any applicable federal or state securities, tax, or other laws.

10. Effective Date and Term of Plan. The amendment and restatement of the Plan shall become effective upon its approval by the Company's shareholders. The Plan shall terminate on the tenth anniversary of the Effective Date.

11. Amendment of the Plan.

a. The Board may alter, amend, suspend or terminate the Plan at any time to become effective immediately following the close of any Purchase Interval, provided, however, that the Board may not increase the number of Common Shares deliverable under the Plan, except for permissible adjustments pursuant to Section 4 in the event of certain changes in the Company's capitalization, without the approval of the Company's shareholders.

b. Notwithstanding anything contained herein to the contrary, the Plan Administrator may restrict any purchase or sale of Common Shares under the Plan on behalf of any Participant during any period if, in the opinion of the Plan Administrator, such purchase or sale is restricted by any applicable law or regulation or could result in liability of the Plan or a Participant. During any such restricted period pertaining to a purchase or sale of Company Securities, any payroll deductions and matching contributions of an affected Participant that are not applied to the purchase of Common Shares on any Purchase Date because of this Section 11 shall be held for the purchase of Common Shares on a succeeding Purchase Date designated by the Plan Administrator in its sole discretion.

12. Foreign Employees. The Plan Administrator may provide for such special terms for purchases on behalf of Participants who are foreign nationals or who are employed by the Company or any Company Affiliate outside of the United States of America as the Plan Administrator may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Plan Administrator may approve such supplements to or amendments, restatements or alternative versions of the Plan as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of the Plan as in effect for any other purpose, and the Corporate Secretary or other appropriate officer of the Company may certify any such document as having been approved and adopted in the same manner as the Plan.

13. General Provisions. Except as provided in Section 9, all costs and expenses incurred in the administration of the Plan shall be paid by the Company. The Company shall be entitled to withhold or cause to be withheld from a Participant's Compensation any taxes or other amounts as shall be legally required as a result of his or her participation in the Plan. Nothing in the Plan shall confer upon the Participant any right to continue in the employ of the Company or any Company Affiliate for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Company Affiliate employing such person) or of the Participant, which rights are hereby expressly reserved by each, to terminate such person's employment at any time for any reason, with or without cause. The provisions of the Plan shall be governed by the laws of the state of Ohio without resort to that State's conflict-of-laws rules.

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APPENDIX V

SUMMARY OF CONVERGYS AUDIT COMMITTEE PRE-APPROVAL POLICY

I. STATEMENT OF PRINCIPLES

The Audit Committee is required to pre-approve the audit and non-audit services performed by the independent accountants in order to assure that the provision of such services does not impair the accountants' independence. Unless a type of service to be provided by the independent accountants has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels will also require specific pre-approval by the Audit Committee.

The Audit, Audit-Related, Tax and All Other services that have the pre-approval of the Audit Committee are listed in Sections III - VI below. The term of any pre-approval is for the stated fiscal year, unless the Audit Committee specifically provides for a different period. The Audit Committee will periodically revise the list of pre-approved services, based on subsequent determinations. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent accountants to management.

II. DELEGATION

The Audit Committee may delegate pre-approval authority only to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

III. AUDIT SERVICES

The annual Core Audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Company structure or other matters.

In addition to the annual Core Audit services engagement approved by the Audit Committee, the Audit Committee may grant pre-approval for other Audit services, which are those services that only the independent accountants reasonably can provide. The Audit Committee has pre-approved the following Audit services:

Core Audit

Statutory audits or financial audits for subsidiaries or affiliates of the Company

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Services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings (e.g., comfort letters, consents) and assistance in responding to SEC comment letters

Consultations requested by the Company's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, FASB, or other regulatory or standard-setting bodies.

Sarbanes Oxley Section 404 Attestation audit services

All other Audit services not listed above must be separately pre-approved by the Audit Committee.

IV. AUDIT-RELATED SERVICES

Audit-Related services are assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and that are traditionally performed by the independent accountants in connection with their Core Audit. The Audit Committee believes that the provision of Audit-related services does not impair the independence of the independent accountants, and has pre-approved the following Audit-related services:

Due diligence services pertaining to potential business acquisitions/dispositions

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Financial statement audits of employee benefit plans

Agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters

SAS 70 internal control reviews and assistance with internal control reporting requirements

Attest services not required by statute or regulation

Sarbanes Oxley Section 404 consultation services

V. TAX SERVICES

The Audit Committee believes that the independent accountants can provide Tax services to the Company such as tax compliance, tax planning and tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the independent accountants in connection with a transaction initially recommended by the independent accountants, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code or state statutes, and related regulations. The Audit Committee has pre-approved the Tax services listed below:

Tax planning and consulting including support to secure income tax refunds or provide assistance for tax audits

Tax compliance particularly for the Company's foreign subsidiaries

All Tax services involving large and complex transactions, or services not listed above must be separately pre-approved by the Audit Committee.

VI. ALL OTHER SERVICES

The Audit Committee may grant general pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, and would not impair the independence of the independent accountants. The Audit Committee has pre-approved the following All Other services:

Support for acquisitions/divestitures (other than due diligence or consulting on accounting treatment)

All Other services not listed above must be separately pre-approved by the Audit Committee.

A list of the SEC's prohibited non-audit services is listed below:

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Bookkeeping or other services related to the accounting records or financial statements of the Company

Financial information systems design and implementation

Appraisal or valuation services, fairness opinions or contribution-in-kind reports

Actuarial services

Internal audit outsourcing services

Management functions

Human resources

Broker-dealer, investment adviser or investment banking services

Legal services

Expert services unrelated to the audit

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The SEC's rules and relevant guidance should be consulted to determine the precise definitions of these services and the applicability of exceptions to certain of the prohibitions.

VII. PRE-APPROVAL FEE LEVELS

Pre-approval fee levels for all services to be provided by the independent accountants will be established periodically by the Audit Committee. Any proposed services exceeding these levels by more than 5% will require specific pre-approval by the Audit Committee.

VIII. SUPPORTING DOCUMENTATION

The independent accountants will provide to the Audit Committee detailed back-up documentation, regarding the specific services to be provided.

IX. PROCEDURES

Requests or applications to provide services that require separate approval by the Audit Committee will be submitted to the Audit Committee by both the independent accountants and the Controller and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on accountant independence.

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THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF CONVERGYS

CORPORATION FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 27, 2004

The undersigned hereby appoints John F. Barrett, Roger L. Howe and James F. Orr, and each or any of them, proxies, with full power of substitution, to represent and to vote all common shares of Convergys Corporation held of record by the undersigned on March 1, 2004, at the annual meeting of shareholders to be held on April 27, 2004 at 11:30 A.M. in Ballroom C of the Northern Kentucky Convention Center, One West River Center Blvd., Covington, Kentucky 41011, and at any adjournment thereof, notice of which meeting together with the related proxy statement have been received.

In their discretion the proxies are authorized to vote upon such other business as may properly come before the meeting. This proxy when executed will be voted in the manner directed by the undersigned shareholder(s). **If no direction is made, this proxy will be voted for items 1, 2, 3 and 4.**

(Continued and to be voted on reverse side.)

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Admission Ticket

Please tear off this Admission Ticket. If you plan to attend the annual meeting of shareholders, you will need this ticket to gain admission to the meeting.

The annual meeting of shareholders will be held at the following address: Ballroom C of the Northern Kentucky Convention Center, One West River Center Blvd., Covington, Kentucky 41011, at 11:30 A.M. on April 27, 2004. You must present this ticket to gain admission to the meeting. You should send in your proxy or vote electronically even if you plan to attend the meeting.

MR A SAMPLE
DESIGNATION (IF ANY)

- ADD 1
- ADD 2
- ADD 3
- ADD 4
- ADD 5
- ADD 6

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Proxy - Convergys Corporation

A Election of Directors

1. The Board of Directors recommends a vote **FOR** the listed nominees.

	For	Withhold		For	Withhold
01 - Zoë Baird	**	**	03 - Philip A. Odeen	**	**
02 - Roger L. Howe	**	**	04 - James M. Zimmerman	**	**

B Proposals

The Board of Directors recommends a vote **FOR** the following proposals.

	For	Against	Abstain		For	Against	Abstain		
2. To approve the Convergys Corporation 1998 Long Term Incentive Plan, as amended.	**	**	**	*	4. To ratify the appointment of independent accountants.	**	**	**	*
3. To approve the Convergys Corporation Employee Stock Purchase Plan.	**	**	**	*	5. To act upon such other matters as may properly come before the meeting.				

*An abstention will count as a vote against the proposal.

C Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 - Please keep signature within the box

Signature 2 - Please keep signature within the box

Date (mm/dd/yyyy)

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Title 1 - Please indicate title within the box

Title 2 - Please indicate title within the box

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Internet and Telephone Voting Instructions

You can vote by telephone OR Internet! Available 24 hours a day 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

To vote using the Telephone (within U.S. and Canada)

Call toll free 1-866-396-1503 in the United States or Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

To vote using the Internet

Go to the following web site:

WWW.COMPUTERSHARE.COM/US/PROXY

Enter the information requested on your computer screen and follow the instructions.

If you vote by telephone or the Internet, please DO NOT mail back this proxy card.

Proxies submitted by telephone or the Internet must be received by 1:00 a.m., Eastern Time, on April 27, 2004.

THANK YOU FOR VOTING

00BJFG