EATON CORP
Form DEF 14A
March 18, 2011

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

Filed by the Registrant x

Filed by a Party other than the Registrant o

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

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

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

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

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

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

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(1) Amount Previously Paid: – –

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

(3) Filing Party: – –

(4) Date Filed: – –

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NOTICE OF MEETING

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

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

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

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

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

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

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

7. Other business properly brought before the meeting.

These matters are more fully described in the following pages.

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

By order of the Board of Directors

Thomas E. Moran
Senior Vice President and Secretary

March 18, 2011

Your Vote Is Important

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

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

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

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PROXY STATEMENT

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

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

Proxy Solicitation

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

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

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

Voting at the Meeting

Each Eaton shareholder of record at the close of business on February 28, 2011 is entitled to one vote for each share then held. On February 28, 340,833,439 Eaton common shares (par value, 50¢ each) were outstanding and entitled to vote.

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

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

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

Majority Voting in Director Elections

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

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

1. ELECTION OF DIRECTORS

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

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

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

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

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

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

Nominee

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

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

Director since 2010

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

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

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

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

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Directors whose present terms continue until April 2012:

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

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

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

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

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

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

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

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

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Directors whose present terms continue until April 2013:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors.

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

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

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

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

Communications to the Board The Board of Directors provides the following process for shareholders and other interested parties to send communications to the Board, individual directors, or the non-employee directors as a group:

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

Corporate Secretary
Eaton Corporation
1111 Superior Avenue
Cleveland, Ohio 44114-2584

In general, the Corporate Secretary forwards all such communications to the Lead Director. The Lead Director 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

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member of the Board, the Chair of a particular Board committee or the non-employee directors as a group, the Corporate Secretary forwards those communications directly to those individuals.

However, the directors have requested that communications that do not directly relate to their duties and responsibilities as our directors be excluded from distribution and deleted from email that they access directly. Such excluded items include spam, advertisements, mass mailings, form letters and email campaigns that involve unduly large numbers of similar communications, solicitations for goods, services, employment or contributions, surveys and individual product inquiries or complaints. Additionally, communications that appear to be unduly hostile, intimidating, threatening, illegal or similarly inappropriate will be screened for omission. Any omitted or deleted communications will be made available to any director upon request.

Director Attendance at Annual Shareholder Meetings The policy of the Board of Directors is that all directors should attend annual shareholder meetings. At our 2010 annual meeting held April 28, 2010, all members of the Board were in attendance.

Code of Ethics We have a Code of Ethics that was approved by the Board of Directors. We provide training globally for all employees on our Code of Ethics. We require that all directors, officers and employees of the Company, our subsidiaries and affiliates, abide by our Code of Ethics, which is available on our website at http://www.eaton.com/governance.

EXECUTIVE COMPENSATION

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COMPENSATION DISCUSSION AND ANALYSIS

The Compensation and Organization Committee of the Board of Directors (the Committee) determines the compensation for our elected officers and reviews, approves and oversees the administration of all of our executive compensation plans and programs. The Committee consists of five independent non-employee directors and is supported by our Human Resources Department as well as one or more independent compensation consultants who are chosen, retained and directed by the Committee. The Committee s charter and key responsibilities are available on our website at http://www.eaton.com/governance. Please note that the use of the terms we , us or our throughout this Compensation Discussion and Analysis refers to the Company or its management. Also note that on January 27, 2011 our Board of Directors declared a two-for-one stock split of our common shares payable in the form of a 100% stock dividend. Accordingly, the earnings per share objectives and results, the numbers of all shares, share units, share prices and other equity-based amounts used in this Compensation Discussion and Analysis have been adjusted to reflect the stock split.

Advisory Vote on Executive Compensation

We design our executive compensation plans and programs to help us attract, motivate, reward and retain highly qualified executives who are capable of creating sustained value for our shareholders. We implement compensation programs that promote a performance-based culture and are intended to align the interests of our executives with those of our shareholders. The Board of Directors is committed to understanding the views of our shareholders by providing an opportunity to endorse our executive compensation through an advisory vote. We encourage you to review the details of our performance and the Committee s processes and decisions that are described in the following pages. In summary, the foundation of our executive compensation programs rests on the following principles and best-practices:

The Committee is comprised solely of independent directors who are committed to upholding strong governance practices.

The Committee considers a variety of reports and analyses such as: market survey data, compensation Tally Sheets, proxy data of our peers, publicly-available performance data of our peers, shareholder votes or feedback, and reports from external proxy advisory agencies when making decisions to establish target compensation opportunities and to deliver actual rewards to our executive officers, including our Named Executive Officers.

Our compensation plans are closely linked to performance.

On average, 83% of our Named Executive Officers compensation is performance-based.

Awards under our plans are impacted when our performance does not meet threshold levels. This fact was demonstrated in 2009 when we did not pay any incentive awards under our annual incentive plans because we did not achieve the threshold levels of Earnings Per Share (EPS) and Cash Flow Return on Gross Capital (CFR) objectives necessary to deliver awards, despite record operating and free cash flow. Likewise, our plans are designed to deliver awards at or above target when we meet or exceed aggressive performance goals as was the case in 2010 when we achieved 117% growth in operating EPS.

Our compensation plans emphasize long-term performance.

Our program has a balanced-portfolio approach to deliver rewards in cash and equity based on sustained performance over time. The use of equity awards fosters retention and aligns our executives interests with those of our shareholders, while the use of cash focuses executives on internal performance metrics.

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We have share ownership requirements, clawbacks, caps on awards, and no employment contracts.

- Ownership requirements range from shares with a market value equal to one times base salary for our general managers to six times base salary for our Chairman and Chief Executive Officer. At least 20% of this requirement must be held in unrestricted shares. Executives must satisfy these requirements until they are no longer employed with the Company. Until 2011, all votable shares, including restricted shares, were counted toward the holding requirement.

- Our incentive plans are capped at individual and aggregate levels to eliminate the potential for unintended windfalls.

- We have a clawback policy that allows us to recover compensation in the case of employee misconduct and/or material restatement of financial results.

- Each of our salaried U.S. employees, including each Named Executive Officer, is employed at-will.

We believe that our executive compensation design and strategy, as guided by the principles noted above, were critical factors in motivating executives to seek innovative solutions which helped us emerge from the economic downturn as a stronger Company. We strongly encourage you to review the Compensation Discussion and Analysis and compensation tables in this document for detailed information on the extensive processes and factors the Committee considers when establishing performance objectives and pay targets and in making decisions regarding actual rewards from our short- and long-term performance-based incentive plans.

Frequency of Advisory Vote on Executive Compensation

The Board of Directors is committed to seeking and responding to the feedback of our shareholders on governance topics, and in particular, executive compensation. Shareholders may choose to cast their advisory vote annually, biennially, triennially, or they may abstain from voting on the frequency with which they prefer to cast an advisory vote on our executive compensation. Although shareholders may choose their preferred frequency, the Company recommends that shareholders have an opportunity to cast an advisory vote on our executive compensation each year. We and the Board believe that an annual vote will be the most effective because it will foster regular engagement and dialog between our Board and our constituents with regard to executive compensation-related matters.

For the reasons noted above, the Board of Directors recommends a vote for annual advisory votes on executive compensation, as noted on page 65.

Executive Summary

Summary of 2010 Performance

2010 was a year of very strong performance for Eaton. We capitalized on the extensive restructuring and broad-based process improvements that were initiated in late 2008 and early 2009 to respond to the global recession as well as significant new innovations which have allowed us to out-grow our primary markets. As a result, we reported stronger than expected financial results which significantly exceeded our own expectations. A few highlights of our 2010 achievements include:

- Sales of $13.7 billion represent a 16% improvement compared to the year ended December 31, 2009.

- We reported an enterprise-wide profit of $929 million.

Our operating earnings per share increased by 117% to $5.61 ($2.81 on an adjusted basis for the two-for-one stock split announced January 27, 2011), which exceeded our initial guidance of $1.93 for the year, adjusted for the stock split.

Our operating cash flow totaled $1.3 billion.

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Our total shareholder return of 64.2% far surpassed the total returns of the Dow Jones Industrial Average of 14.1%, S&P 500 of 15.1%, and NASDAQ of 18.5%. Our stock price reached a new market trading high on December 22, 2010 of $102.70 ($51.35 on an adjusted basis for the two-for-one stock split).

Summary of Performance-Based Compensation Earned During Award Periods Ending December 31, 2010

Our executive compensation program reflects the belief that the amount earned by our executives must, to a significant extent, depend on achieving rigorous Company, business unit and individual performance objectives designed to enhance shareholder value. The following paragraphs summarize actual results compared to target objectives under the short- and long-term incentive award periods that ended on December 31, 2010.

Short-Term Incentive Compensation

Our Named Executive Officers earned short-term incentive awards that ranged from 158% to 313% of their base salaries as a result of our strong performance relative to our objectives. We establish a competitive annual cash incentive compensation opportunity for our executives who participate in either our Senior Executive Incentive Compensation Plan (the Senior EIC Plan) or our Executive Incentive Compensation Plan (the EIC Plan). Those executives who participate in one plan do not participate in the other plan. Additional details of the Senior EIC and EIC plans are provided on page 31 and the 2010 goals and results are summarized below.

Senior Executive Incentive Plan and Executive Incentive Plan**:** 2010 Senior EIC Plan participants include Mr. Cutler and each officer reporting directly to him. In addition to Mr. Cutler, the Named Executive Officers who participate in this plan include Messrs.: Arnold, Fearon, and Gross. Mr. Palchak participates in the EIC Plan. For 2010, the Committee established a bonus pool under the Senior EIC Plan equal to two percent (2%) of our Annual Net Income (as defined under the Plan) and also assigned a percentage share of the Net Income Incentive pool to each participant in the Senior EIC Plan, thus setting the maximum amount that the participant could receive under the Plan for 2010. The actual pool generated under the plan was approximately $19 million. Although the initial incentive payout for each participant in the Senior EIC Plan is formula driven, the Committee considers a variety of quantitative and qualitative factors in exercising its discretion to reduce the formula-driven awards that are generated by the Net Income Pool. The quantitative factors include our performance relative to the Earnings Per Share (EPS) (which includes acquisition integration charges) and Cash Flow Return on Gross Capital (CFR) objectives, weighted equally, that were established under our EIC Plan. For 2010, these objectives were achieved at the maximum level, as shown in the table on page 23. Qualitative factors include, but are not limited to, items such as: success in achieving the annual financial plan for the executive s business unit; success in achieving growth goals; success in building organizational capacity, which includes objectives that reinforce our ethical standards; environmental health and safety-related goals; ability to think and act strategically; and ability to demonstrate an effective leadership style.

After considering these factors, the Committee exercised its judgment to reduce the formula-driven awards that were generated by the Net Income Pool. These final awards were consistent with the awards delivered to other of our executives. The Committee believes it is appropriate to align the payouts under the two plans so that all employees are focused on the same objectives.

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Executive Incentive Plan Results Compared to Objectives:

	2010 Executive Incentive Plan Objectives			2010 Actual Results	2009 Actual Results (for Comparison)
	Threshold	Target	Maximum		
Payout % of Target	50%	100%	200%	**200%**	**0%**
CFR (50%)	11.1%	12.7%	15.1%	**15.8%**	**10.7%**
Operating EPS (50%)	$1.33	$1.75	$2.35	**$2.81**	**$1.30**

Long-Term Incentive Compensation

2007-2010 Executive Strategic Incentive Plan: Awards under our 2007-2010 ESIP award period (2007-2010 ESIP) were delivered at 25% of target, principally due to the lower than target performance during the recession in 2008 and 2009. These amounts were then adjusted to reflect individual performance. In February 2007, the Committee established EPS compound growth rate and CFR performance goals for the 2007-2010 ESIP, which is our long-term, cash-based incentive plan. The 2007-2010 ESIP objectives and results were as follows:

	2007-2010 ESIP Objectives				Actual
	CFR Threshold	Minimum	Target	Maximum	Results
Payout % of Target	25%	50%	100%	200%	**25%**
CFR (50%)	14.0%	22.5%	24.5%	26.6%	**16.8%**
EPS Compound Growth (50%)	n/a	$15.37	$17.31	$19.44	**$10.97**

2009-2010 Extension Grant Awards: Extension Grants were intended to provide executives with the potential to earn a portion of the long-term incentive opportunity that became unattainable as a result of the recession, provided that Eaton met its key 2009 and 2010 goals. The Committee approved Extension Grant performance goals for 2009 and 2010, which mirrored the 2009 and 2010 one-year EIC objectives, respectively. These one-year goals were designed to measure achievement against capturing the full benefits of the restructuring and reengineering actions undertaken during the recession. We did not meet the 2009 objectives, and although we exceeded the one-year goals established for 2010, the objectives were capped at 100% of target. The objectives for each year were weighted equally, resulting in a 50% payout, as shown below.

	2009-2010 Extension Grant Objectives				
	Threshold	Target	Maximum	Actual Results	Payout %
Payout % of Target	50%	100%	100%		
2009					
Operating EPS (50%)	$1.58	$2.25	$2.93	**$1.30**	**0%**
CFR (50%)	11.9%	14.4%	17.0%	**10.7%**	
2010					

Operating EPS (50%)	$1.33	$1.75	$2.35	**$2.81**	**100%**
CFR (50%)	11.1%	12.7%	15.1%	**15.8%**	
				Total Payout	**50%**

The combined 2007-2010 ESIP and 2009-2010 Extension Grant award opportunities were capped at 125% of the combined target opportunities. Actual combined awards were delivered at 75% of the combined target opportunities.

Summary of Actual Pay Earned by Our Chief Executive Officer in 2010 Compared to Performance

Our compensation programs for Mr. Cutler and the other Named Executive Officers are heavily weighted on performance. The table below summarizes Mr. Cutler s 2010 realized pay and performance over the period in which the elements of compensation were earned. The information in this table is intended to supplement the information contained in the Summary Compensation Table on page 43. The table differs substantially from the Summary Compensation Table required by the SEC and is not a substitute for that or any other prescribed table. The equity grants reported in the table below reflect gross compensation prior to the deduction of applicable taxes upon the exercise of stock options and vesting of restricted share awards in 2010, irrespective of when the awards were granted. The values for equity awards do not represent the grant date fair value of equity awards that were granted in 2010 as shown in the Summary Compensation Table. In addition, the Summary Compensation Table includes compensation based upon the change in pension value, above-market nonqualified deferred compensation earnings, and other compensation which is not shown in the table below. The Committee reviews these elements of compensation as part of the Tally Sheet review (discussed on page 29) in the context of a competitive overall benefit design and not as an element of its annual compensation decisions. Therefore, the change in pension values, above market earnings on non-qualified deferred compensation, and all other compensation are excluded from the tables in this Executive Summary. The table below also does not reflect the $38,855,622 distribution Mr. Cutler received upon the termination of the pre-2005 Deferred Incentive Compensation Plan and Incentive Compensation Deferral Plan, as described on page 53. The Committee determined it was appropriate to terminate these plans in February 2010 in order to reduce Company liabilities, administrative costs and the complexity of certain compensation arrangements. This distribution included compensation that was earned and deferred as far back as 1983.

COMPENSATION REALIZED BY OUR CEO IN 2010

Compensation Element	Period Earned	Target	Amount Earned	Performance Results Over Period Earned
Cash				
Base Salary	2010	$1,200,000	$ 1,175,100	We generally target the market median when establishing base salaries. The Committee determined it was appropriate to deliver a 4.3% salary increase effective July 1, 2010 to align Mr. Cutler s base salary with the market median.
Annual Incentive	2010	$1,500,000	$ 3,750,000	Mr. Cutler s individual performance objective was set at 125% of base salary. His actual award was $3,750,000, or 250% of his individual performance objective, which was consistent with awards delivered to other executives. The Committee determined this was an appropriate reward after considering a variety of factors, including the Company s net income, CFR and EPS performance. Please see the Short-Term Incentives section that begins on page 31 for additional details of how this award was determined.
ESIP Long-Term Incentive	2007-2010	$1,800,000	$ 562,500	In 2007, EPS and CFR objectives for the 2007-2010 ESIP award period were established. Actual results

				delivered a payment at 25% of target, which was multiplied by Mr. Cutler s individual performance rating of 125%.
Extension Grant Award	2009-2010	$1,800,000	$ 2,352,563	In 2009, the Committee approved Extension Grant Awards and set objectives that mirrored the 2009 and 2010 CFR and EPS objectives that were established for our short-term Executive Incentive Plan for each year. The 2009 objectives were not achieved but 2010 results exceeded the maximum objectives. Each year s objectives were weighted equally and were capped at 100% of target, resulting in overall goal achievement of 50% of target. This award was denominated in contingent share units using the average closing price over the first 20 trading days of the award period ($24.05). The share units were adjusted for goal achievement (50%) and converted back to cash based on our average share price of the last 20 trading days of the award period ($50.26) and then multiplied by Mr. Cutler s individual performance rating (125%) to determine the final payout.
Total Cash		$6,300,000	$ 7,840,163	
Equity (Amounts realized upon the exercise of stock options and vesting of restricted share awards and restricted share unit awards)				
Stock Option Exercises	2001-2010	n/a	$ 18,722,771	The gains upon exercise of stock options were based on the stock price appreciation from 2001-2010. Shareholders also experienced a 211.2% gain during this time period. Additional details, including the number of share exercised, are reported in the Option Exercises and Stock Vested Table on page 49.
Restricted Shares Vesting	2005-2009	n/a	$ 1,769,485	This represents the vesting of 52,166 restricted share awards that were granted in 2005, 2008, and 2009. Additional details are reported in the Option Exercises and Stock Vested table on page 49.
Total Realized Value from Equity			$ 20,492,256	
Total Realized Compensation			**$ 28,332,419**	

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2010 Target Compensation for Our Chairman and Chief Executive Officer

As shown on the previous page, a significant amount of Mr. Cutler s compensation is performance based. The charts below illustrate the mix of Mr. Cutler s target compensation opportunity established in 2010. Performance-based pay elements represent 87% of target total compensation, while fixed elements represent 13% of target total compensation. Fixed pay represents the annualized base salary the Committee approved in February 2010 and differs from the base salary reported in the Summary Compensation Table, which reflects base salary actually paid in 2010. Performance-based pay includes the target short-term incentive opportunity, target long-term cash (ESIP) opportunity, and target equity incentive opportunities. The values for the performance-based pay elements are reported in the Grants of Plan Based Award table. Items categorized as All Other Compensation and Changes in Pension Values and Non-Qualified Deferred Compensation , as shown in the Summary Compensation Table, are not included in the charts below because the Committee does not consider these items in the context of its annual compensation decisions.

Summary of Other Compensation Elements Impacted by Our Recovery

Our significantly improved performance resulted in above target awards under our annual incentive plan. In addition, we were able to restore several compensation programs in 2010 that had been cancelled or modified in 2009. Although the following pages discuss our compensation programs with respect to the total compensation of Mr. Cutler and the other Named Executive Officers, it should be noted that some of the items listed below impacted all other officers and executives who participated in our short- and long-term incentive plans.

We employ a balanced portfolio approach by delivering long-term compensation to our executives in a mix of equity and a performance-based, long-term award payable in cash (ESIP). We granted opportunities under our four-year ESIP for the 2010-2013 award period, which represented approximately one-half of executives long-term incentive opportunity. The remaining half of the long-term opportunity was granted in the form of restricted share units. In 2009, we delivered 100% of the executives long-term incentive opportunity in equity as a result of cancelling the 2009-2012 ESIP opportunity and replacing it with a grant of restricted share units. ESIP was cancelled early in the second quarter of 2009 because the Committee had significant concerns about executive retention due to severely compromised short- and long-term incentive awards for successive years. Therefore, the restricted share units were granted to sharpen the focus on recovery and to foster engagement and retention.

On January 1, 2010, we restored the base salaries of all executives who elected to take a pay reduction in 2009. (Those executives who did not elect to have their base salaries reduced took unpaid leaves of absence.)

We restored our merit pay program effective in July of 2010. The 2010 merit pay increases were virtually the first general increase since 2008.

We restored employer matching contributions for the 401(k) savings plans in the United States and Puerto Rico on July 1, 2010.

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In 2010, we exceeded the maximum objectives under our EIC Plan and delivered awards at 200% of target. In 2009, our performance did not meet threshold objective levels and no short-term incentive awards were paid.

Information About Our Compensation Philosophy, Plans and Programs

Our Executive Compensation Philosophy: We design our executive compensation plans and programs to help us attract, motivate, reward and retain highly qualified executives capable of creating long-term and sustained value for our shareholders. We implement compensation programs that are intended to align the interests of our executives with those of our shareholders. In addition, we endorse compensation actions that fairly reflect company performance as well as the responsibilities and personal performance of individual executives. Our executive compensation philosophy is reviewed and updated by the Committee annually, typically in January.

Pay for Performance Culture: Our executive compensation program reflects the belief that a significant portion of earned compensation must depend on achieving rigorous Company, business unit and individual performance objectives designed to enhance shareholder value. Our executive incentive compensation programs are intended to deliver target awards when our performance aligns with the peer group median performance and awards that exceed 150% of target when our performance is at or above the top quartile of the peer group.

Market Competitiveness: We target total compensation to be within the median range of compensation paid by similarly-sized industrial companies. For this purpose, total compensation includes base salary, a target annual cash incentive opportunity, a target long-term cash incentive opportunity and equity-based incentives. We continuously monitor and assess the competitive retention and recruiting pressures for executive talent in applicable industries and markets. As a result, the Committee has periodically exercised its judgment to set target compensation levels for certain executives above the market median in order to foster retention.

Internal Pay Equity:
Internal equity among similarly-situated positions is an important consideration in establishing individual pay targets. When determining what positions are similarly situated, we consider: the essential functions of the position, ability to influence results, educational requirements for the position, leadership level, and job demands such as frequency of travel and being required to respond to business matters at any time under any circumstances. We measure and maintain internal equity by reviewing an employee s salary relative to the midpoint of the salary range for his or her position and by establishing approximately the same target incentive opportunities for similarly situated positions.

Use of Compensation Consultants: The Committee selects and retains the services of an independent executive compensation consultant to support its oversight and management of our executive compensation programs. The Committee validates our executive compensation plans and programs through periodic comprehensive studies conducted with the assistance of its consultant. For several years, and again in 2010, the Committee retained Peter Egan, a senior consultant with Aon Hewitt, as its primary advisor to assist the Committee in its review of our executive compensation policies, programs and processes. In 2010, Mr. Egan performed the following assignments for the Committee:

Reviewed all Company-prepared materials in advance of each Committee meeting;

Assisted the Committee in its review and discussions of all material agenda items throughout the year;

Provided the Committee with his independent review and confirmation of our analytical work;

Provided insight and advice to the Committee and management in connection with possible design changes to our equity grants and incentive plans;

Provided the Committee feedback regarding the appropriateness of individual executive total compensation plans including specific recommendations regarding the total compensation plan for Mr. Cutler; and

Provided the Committee with insight and advice on appropriate alternatives to consider in responding to the effect the unprecedented global economic crisis had on our compensation programs.

The Committee has adopted a formal policy that requires us to obtain its review and approval prior to awarding any material consulting assignment to any firm that has already been engaged by the Committee. This policy ensures the Committee s consultant is well-positioned to provide qualified independent advice on executive compensation and governance matters, In 2010, the only work performed by Aon Hewitt was advice and recommendations on executive and director compensation provided to the Committee. In addition to the Committee s work with Aon Hewitt, we also employ a variety of outside compensation, benefit and actuarial consultants to support various types of technical and administrative work. Typically, this includes data analysis, broad-based employee compensation and benefit benchmarking and design, actuarial work, drafting selected employee communications, business processes and administrative recordkeeping services, and assistance with acquisition and divestiture due diligence. We choose firms for individual consulting and service assignments based upon their specific project capabilities and the proposed price for their work.

In 2010, the Committee also selected and retained Dr. David Hofrichter, an independent consultant from Aon Hewitt, to coordinate and support the process of conducting the Chief Executive Officer s annual performance appraisal, which is described below.

Chairman and Chief Executive Officer Annual Appraisal: The Committee thoroughly assesses the performance of our Chairman and Chief Executive Officer annually. The Committee selected and retained Dr. David Hofrichter to support this process in 2010. After reviewing a comprehensive annual goal report and self-evaluation prepared by our Chairman and Chief Executive Officer, each director confidentially provided Dr. Hofrichter with his or her independent ratings recommendations, comments and suggestions for performance improvement. The items that were addressed in this review included:

Long-term strategy development and progress;

Our operations and financial results;

Success in building organizational depth, capability and diversity;

Board support and development;

Shareholder engagement;

Execution of corporate governance practices;

Personal leadership style; and

Community and industry involvement.

Each director s feedback on these performance areas was compiled anonymously and independent of management by Dr. Hofrichter. He prepared a draft consensus evaluation for review and approval by Ms. McCoy, Chair of the Committee. This evaluation was also reviewed in an Executive Session of the Board of Directors and shared with our

Chairman and Chief Executive Officer prior to his performance evaluation discussion with Ms. McCoy. The Committee used this appraisal as one of several factors in determining Mr. Cutler s payouts under our short- and long-term incentive plans. The results of the annual appraisal are also considered when determining any adjustments to Mr. Cutler s base salary or his short- and long-term incentive targets.

How We Set and Validate Pay

We prepare four primary analyses that the Committee uses to establish and validate our compensation plans and programs. These analyses are summarized in the table below and discussed in greater detail on the following pages.

Analysis	Data Source	Purpose	How It s Used	When It s Conducted
Total Compensation Analysis and Planning Process	Aon Hewitt, Towers Watson and Hay Industrial Executive Compensation databases	Setting pay for our executives	Setting base pay, and short- and long-term incentive targets for the next year/award cycle	October February
Tally Sheet	Internal compensation and benefits data	Evaluating total remuneration and internal pay equity of our executives	Evaluating the total remuneration of the CEO and his direct reports in order to determine if adjustments to our compensation plans or programs are necessary. This includes reviewing payments upon various termination scenarios.	February
Pay and Performance Analysis	Publicly-available financial and compensation information as reported for the 16 Diversified Industrial Companies that we have identified as Peers for strategic planning purposes	Evaluating pay and performance to validate individual compensation plans that were established in February	Comparing pay and performance results with that of the Peer Group over one-, three- and five-year time periods using a wide range of performance metrics to determine the efficacy of the Total Compensation Analysis and Planning Process	July
Pay Targeting and Performance Hurdle	Publicly-available financial and	Evaluating whether we are setting	Providing insight into how each of our	July

Analysis	compensation information as reported for the 16 Diversified Industrial Companies that we have identified as Peers for strategic planning purposes	appropriate performance hurdles	Peers establish their pay for performance profile relative to their own peer group to determine whether we are setting appropriately high performance hurdles in our incentive plans; also used to guide future performance target setting to achieve our strategic objectives

Our Total Compensation Analysis and Planning Process

Compensation Surveys: We use executive compensation surveys published by three separate national consulting firms to prepare an analysis that the Committee uses to establish compensation opportunities for our executives. We participate in and use the annual surveys sponsored by: Aon Hewitt, Towers Watson and Hay Associates. Although each survey provides comprehensive compensation data covering hundreds of companies across a range of industries, we focus on the median and mean data reported in the surveys for similarly-sized industrial companies, which the Committee currently defines as companies with annual sales of $5 billion to $30 billion.

From October through December of each year, we conduct a market analysis that aligns each of our executives with comparable positions as reported in each of the three surveys by similarly sized companies. If the surveys do not report data for a specific executive officer s position, each compensation element for that position is extrapolated from the available survey data. The elements of compensation included in our analysis are: base salary, annual incentive opportunity, total annual cash compensation, long-term incentive opportunity and total direct compensation. We calculate the average of the median value for each element of compensation as reported in each of the three surveys. We prepare a comprehensive worksheet for the Committee that compares each element of our executives compensation to the average of the survey median data for each compensation element. This provides the Committee with a current view of how each executive officer s resulting total compensation plan will compare to current market practices for similar positions among the similarly-sized industrial companies. The Committee uses this data to establish base salary levels, target annual incentive opportunities and target long-term incentive opportunities for the next fiscal year.

As a key part of the Total Compensation and Planning Process, Mr. Cutler meets individually with his direct reports to discuss the performance assessment for their respective direct reports and to formulate initial recommendations for an appropriate total compensation plan for each executive. No member of management, including Mr. Cutler, makes recommendations regarding his or her own pay. In preparing his recommendations, Mr. Cutler considers individual performance as well as any element of an executive s compensation plan that is above or below the market median. Mr. Cutler presents to the Committee the proposed total compensation plan for each elected officer who reports directly to him and the elected officers who lead our operational and functional business groups.

Following this discussion, which occurs annually in February, the Committee establishes a total compensation plan for each executive officer. The Committee also meets in Executive Session with its independent consultant (but with no members of our management in attendance) to review the same comprehensive market data for Mr. Cutler s position and to establish a total compensation plan for him. In 2010, the Committee followed this process to establish the total compensation plans for Mr. Cutler and our other executive officers.

Compensation for the Named Executive Officers and the majority of our other executives is intended to align with the market median. From time to time, the Committee exercises its judgment to set target compensation levels for select executives above the market median in order to foster retention or recognize market-competitiveness for certain positions. Similarly, the Committee may also exercise its judgment to set target compensation levels below the market median based on items such as the position s ability to influence results, reporting relationship, length of an executive s time in that position and individual performance.

How We Validate Whether Our Compensation Programs, Philosophy and Opportunities are Appropriate

Use of Tally Sheets: In February of each year, we provide the Committee with a comprehensive compensation Tally Sheet for each Named Executive Officer. The Tally Sheet is reviewed prior to making decisions about the compensation of the Named Executive Officers for the next year. The Tally Sheet includes all components of each executive s current compensation including: base salary, annual incentive compensation, long-term cash incentive compensation, equity incentive compensation, retirement and savings programs, health and welfare programs and the cost of personal executive benefits.

In reviewing these Tally Sheets, the Committee also reviews potential payments under various termination of employment scenarios, including in the event of a change of control of the Company. This process includes a review of potential severance payments that we would expect to make, the potential values of vested and unvested restricted share awards and restricted share units and stock options, and accumulated balances and projected payment obligations in connection with our retirement and savings programs, including our deferred compensation and limited service supplement and restoration retirement income plans.

Based upon this review in 2010, the Committee determined that total compensation in the aggregate for Mr. Cutler and the other Named Executive Officers is appropriate. This analysis did not suggest the need for any material changes to our executive compensation program or its administration.

Peer Group: We do not use the compensation data reported by our Peer Group to establish compensation targets for our executives. Instead, each July we analyze the publicly-available financial results and executive compensation data as reported by our Peer Group to validate the

appropriateness of not only the individual compensation plans for our Named Executive Officers but also the performance hurdles that underlie our short- and long-term incentive plans.

The Peer Group that we review in these analyses is comprised of 16 publicly-held diversified industrial companies and is the same group used by our Board of Directors in reviewing our 2010 Strategic Plan and Annual Profit Plan, which are the basis for setting short- and long-term incentive plan performance goals. We rank at approximately the median of this group in terms of revenue. In 2010, the Peer Group consisted of the following organizations:

ABB Ltd.

Danaher Corporation

Dover Corporation

Emerson Electric

General Electric Company

Honeywell International, Inc.

Illinois Tool Works, Inc.

Ingersoll-Rand Company, Ltd.

ITT Corporation

Parker Hannifin Corporation

Siemens AG

SPX Corporation

Textron, Inc.

3M Company

Tyco International Ltd.

United Technologies Corporation

Pay and Performance Analysis: The Committee uses this analysis to assess whether our pay for performance profile is appropriate and aligned with industry and Peer Group practices. In addition, we and the Committee use this comprehensive Peer Group financial analysis, together with available analyst reports on our Company and our Peer Group, to support the process of reviewing and establishing our stretch short- and long-term cash and equity incentive plan goals that are intended to drive and reward top quartile performance.

We provide the Committee an analysis that includes compensation data reported by each Peer Group company for its chairman and chief executive officer, its chief financial officer and, to the extent available, any positions equivalent to our other Named Executive Officers. The analysis also compares our performance with that of the Peer Group over one-, three- and five-year time periods using a wide range of performance metrics. This provides the Committee with insight into how each of the Peer Group companies has actually rewarded its executive officers in comparison to the returns that it produced for its investors. As part of this process, the Committee s independent compensation consultant provides the Committee with his views and commentary on our analysis.

Pay Targeting and Performance Hurdle Analysis: This study is intended to provide the Committee with insight into how each of our Peer Group companies establishes its pay for performance profile. In February of each year, the Committee uses EPS growth rate guidance as a key starting point for setting aggressive performance hurdles for our short- and long-term performance-based pay plans. In July of each year, we prepare this analysis which is based upon publicly available information and analysts reports. The analysis attempts to estimate how each of the companies in our Peer Group:

Determines its own individual peer group;

Establishes target compensation levels as compared to the companies in its own peer group;

Sets its publicly announced EPS guidance (if any) compared to each of the companies in its own peer group; and,

The industry EPS expectations for these companies as reported by the market analysts who follow them.

In prior years, these two analyses led to decisions to adjust our compensation programs in the next year, such as the decision to deliver additional restricted share grants in years in which our long-term incentive opportunity lagged the market. However, in 2010, these analyses did not lead to any meaningful conclusions because they were heavily influenced by the many changes we and our peers made to our compensation programs in response to the economic turbulence.

Components of Executive Compensation and Benefits

Base Salary: We pay a competitive base salary to our executive officers in recognition of their job responsibilities. In general, the Committee sets base salaries at approximately the market median as described in the Total Compensation Analysis and Planning Process. On occasion, the Committee may set an executive s base salary above the reported market median to foster retention and/or recognize superior performance. Executives must demonstrate consistently effective individual performance in order to be eligible for a base salary increase. In making salary adjustments, the Committee considers the executive s base salary and total compensation relative to the market median and other factors such as: individual performance against business plans, initiative and leadership, time in position, experience, knowledge and success in building organizational capability. The Committee uses this same process to establish a base salary for Mr. Cutler.

2010 Base Salary Actions:

In 2009, many executives, including each of the Named Executive Officers, elected to reduce their pay instead of taking a voluntary leave of absence. The reduction for Mr. Cutler was equal to eight weeks of pay and the reduction for the other Named Executive Officers was equal to four weeks of pay. On January 1, 2010, we restored each executive s base salary to the level that the Committee had approved during the 2009 Total Compensation and Planning Process.

Effective July 1, 2010, each Named Executive Officer received a merit increase in recognition of his individual performance and contributions to the organization, and to align base pay with the market median. The Committee previously authorized the increases in February 2010 during its Total Compensation and Planning Process. The table below summarizes the pay reduction and restoration and subsequent merit increases for each of the Named Executive Officers.

Named Executive Officer	Committee Approved 2009 Annualized Base Salary	June 1, 2009 Reduced Annualized Base Salary	January 1, 2010 Restored Annualized Base Salary	2010 Merit Increase %	Base Salary as of July 1, 2010
A.M. Cutler	$ 1,150,200	$ 922,688	$ 1,150,200	4.3%	$ 1,200,000
R.H. Fearon	$ 622,680	$ 561,096	$ 622,680	4.0%	$ 647,640
C. Arnold	$ 624,780	$ 583,586	$ 624,780	4.0%	$ 649,800
T. S. Gross	$ 600,000	$ 540,659	$ 600,000	4.0%	$ 624,000
J. P. Palchak	$ 489,600	$ 415,678	$ 489,600	3.0%	$ 504,300

Short-Term Incentives: We establish a competitive annual cash incentive compensation opportunity for our executives who participate in either our Senior EIC Plan or our EIC Plan. The Committee determined target opportunities for each executive in February during its Total Compensation and Planning Process. As we previously discussed, the average of the median annual incentive value as reported in three compensation surveys is used as the basis for determining our executives targets.

2010 Short-Term Incentive Compensation Decisions: For 2010, the Committee established a bonus pool under the Senior EIC Plan equal to two percent (2%) of our Annual Net Income (as defined under the Plan). The Committee also assigned a percentage share of the Net Income Incentive pool to each participant in the Senior EIC Plan, thus setting the maximum amount that the participant could receive under the Plan for 2010. These percentages ranged from 12% to 34.7% of the Annual Net Income Incentive Pool for the Named Executive Officers. No participant may be assigned a percentage share that is worth more than $7,500,000.

Although the initial incentive payout for each participant in the Senior EIC Plan is formula driven, the Committee may exercise its discretion to reduce the size of these initial award amounts. Decisions related to 2010 short-term incentive awards, the Committee considered the EIC Plan EPS and CFR

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objectives and results as one factor in making actual award determinations for our Named Executive Officers. The 2010 EIC Plan Objectives and Results were as follows:

	2010 Executive Incentive Plan Objectives				
	Threshold	**Target**	**Maximum**	**2010 Results**	**2009 Results**
Payout % of Target	50%	100%	200%	**200%**	**0%**
CFR (50%)	11.1%	12.7%	15.1%	**15.8%**	**10.7%**
Operating EPS (50%)	$1.33	$1.75	$2.35	**$2.81**	**$1.30**

The Committee selected the EPS and CFR goals based on its review of market analyses, our annual profit plan as approved by the Board of Directors, external research reports and comparative analyses of our Peer Group. The Committee believed that the target levels that it established at the beginning of 2010 for the EPS and CFR goals were demanding but attainable with sustained effort.

In addition to EPS and CFR objectives, the Committee also considered each participant s performance against his or her individual and/or business unit objectives when making final award determinations. These individual goals included, but were not limited to, the following categories and examples:

Achieving the annual financial plan which included both earnings growth and return on investment criteria;

Growth: building our brand, out-growing the markets in which we operate, and introducing new products and services;

Operational Excellence: supply chain improvement, excellence in manufacturing and materials management, workplace safety and emissions reduction; and

Building organizational capacity: recruiting and developing talent, promoting a learning culture, introducing a wellness initiative, community involvement, and reinforcing our ethical standards and doing business right.

Although the Committee may use these performance objective as one factor in making its determinations, this information is not the Committee s sole basis for deciding whether to pay incentive awards. Ultimately, the Committee applies its own business judgment and experience to assess actual performance against these goals and to determine the incentive payouts, if any, for the participants in the Senior EIC and EIC Plans.

The following table illustrates each Named Executive Officer s 2010 target and actual Senior EIC Plan incentive award relative to his individual performance objective. Mr. Palchak participates in the EIC Plan; therefore, the Senior EIC net income pool is not applicable to his award.

Named Executive	**Individual Performance Objective as %**	**Individual Performance**	**Maximum Award**	**Actual**	**Actual Award as % of Individual Performance**

Officer	of Base	Objective $	Opportunity	Award	Objective
A.M. Cutler	125%	$ 1,500,000	$ 6,918,903	$ 3,750,000	250%
R.H. Fearon	80%	$ 518,112	$ 2,601,200	$ 1,191,658	230%
C. Arnold	85%	$ 552,330	$ 2,656,940	$ 1,325,592	240%
T. S. Gross	85%	$ 530,400	$ 2,601,200	$ 1,272,960	240%
J. P. Palchak	76%	$ 383,268	$ 1,724,706	$ 796,815	208%

Long-Term Incentives: We provide long-term incentive compensation to our executive officers in two components: equity and a four-year performance-based cash incentive compensation opportunity. We believe that this portfolio approach to structuring long-term incentives provides an appropriate balance that focuses executives on both an external measure of our success (via equity awards) and on internal performance metrics (via the four-year cash incentive plan). This strategy is intended to

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drive executive performance while fostering retention. The independent compensation consultant has confirmed that this approach is appropriate and consistent with market practices.

Equity Grants: The Committee has the authority to fix the date and all terms and conditions of equity grants to executive officers and other executives or key employees under our various stock plans, all of which have been approved by our shareholders. In 2010, approximately fifty percent of each Named Executive Officer s long-term incentive opportunity was delivered in the form of an equity grant. The Committee strictly adheres to the following grant practices:

We grant awards at the same time each year in the regularly scheduled February Committee meeting. In the case of an equity grant for a newly-hired executive, the process is described in the fifth bullet point below.

In 2010, we granted restricted share units as our primary equity vehicle. Restricted share units vest over, or upon conclusion of, at least a four-year period.

In certain circumstances, we grant restricted share awards to our executives, including our Named Executive Officers. These awards are approved by the Committee for retention purposes. An executive receiving a restricted share grant could, in the year of the award, have total compensation above the median of market practice. Retention-based restricted share grants generally vest over four years. The vesting of restricted share grants is contingent on continued service with us over the vesting period.

We set the strike price for all of our stock options at the fair market value of our common shares on the date of grant. Our current shareholder-approved stock plans define fair market value as the closing price as quoted on the New York Stock Exchange on the date of grant (unless the Committee specifies a different method to determine fair market value). Stock options vest over, or upon conclusion of, at least a three-year period.

The Committee has delegated limited authority to Mr. Cutler to make individual equity grants in order to recruit new executives. In delegating this authority, the Committee (a) approved a pool of 200,000 shares for use by Mr. Cutler in making grants to newly hired executives, (b) confirmed that it must approve any equity grant to a newly recruited executive that exceeds 150% of the target long-term incentive award opportunity established for the incumbent s position, and (c) confirmed that the grant date for such new-hire equity awards would be the first NYSE trading day of the next month following the date of employment. Several times each year, we provide the Committee with an update on the year-to-date new-hire grants approved by Mr. Cutler under this authority and the balance of the authorized shares remaining in the pool. In the event that the equity grants to newly hired executives exhaust this approved pool of authorized shares, we would seek Committee approval for an allocation of additional shares for these recruiting purposes. New-hire grants in 2010 did not exceed the authorized share pool.

In addition, the Committee has on rare occasions approved mid-year special equity grants to executives who join us as the result of a business acquisition. The Committee reviews and approves awards to these executives at a regularly scheduled Committee meeting. In 2010 the Committee did not make any mid-year grants to executives of acquired companies.

Long-Term Cash Incentive Plan: Approximately one-half of each Named Executive Officer s long-term incentive target is delivered through our long-term, performance-based Executive Strategic Incentive Plan (ESIP). Each year, the Committee creates a new long-term cash incentive opportunity under ESIP and establishes objectives for the four-year award period. We base awards under ESIP on our success in achieving aggressive growth in four-year EPS and CFR goals which have historically been weighted equally. The Committee uses a comprehensive report that analyzes publicly-available

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Peer Group financial data to establish EPS and CFR objectives. This report is also used by the Board of Directors in reviewing our Strategic and Profit Plans. The analysis includes:

A comparison of our past performance across a range of performance metrics compared to those same metrics as reported for our Peer Group;

Our estimated financial results and those for each of our Peer Group companies as projected by financial analysts who follow these companies (generally covering two or three year periods into the future); and

A review of our strategic objectives and annual business plans for the four-year performance period.

The Committee sets performance hurdles for each four-year award period such that: (a) payment at approximately 100% of the target incentive opportunity would be made if our performance over the four-year period is at or above the projected median of the performance of our Peer Group and (b) payment at or above 150% of the target incentive opportunity would be made if our performance over the four-year period is at or above the projected top 25th percentile of the performance of our Peer Group.

Decisions Affecting Long-Term Compensation Established Prior to 2010: The objectives and results for the ESIP award period that concluded on December 31, 2010 are shown in the following table.

	2007-2010 ESIP Objectives				
	CFR Threshold	**Minimum**	**Target**	**Maximum**	**Actual Results**
Payout % of Target	25%	50%	100%	200%	**25%**
CFR (50% Weighting)	14.0%	22.5%	24.5%	26.6%	**16.8%**
EPS Compound Growth (50%)	n/a	$15.37	$17.31	$19.44	**$10.97**

Each Named Executive Officer s 2007-2010 target ESIP award opportunity was multiplied by 25% to reflect the fact that our actual EPS performance did not meet the threshold for a payout, but that our CFR performance did meet the threshold goal established by the Committee at the start of this four-year period. The Committee used its judgment to determine each executive s actual award by applying an individual performance rating to the initial formulaic award. The Committee generally determines the individual performance ratings for the four-year award period by taking the average of the four annual performance ratings that were assigned to each executive for each of the years in the ESIP award period. Actual individual ratings for the Named Executive Officers ranged from 105% to 125%. When combined with the 25% adjustment related to our EPS and CFR performance, the final adjusted cash awards delivered to the Named Executive Officers ranged from 26% to 31% of the executives original target ESIP opportunities.

In February 2009, the Committee realized that the EPS and CFR objectives for the then open award periods (2006-2009, 2007-2010, 2008-2011) were largely unattainable. The Committee determined that successive years of potential low to no payouts would not foster the executive engagement, motivation and retention that would be necessary to emerge from the recession as a stronger company. As a result, the Committee implemented Extension Grant opportunities from our Supplemental ESIP. This plan is intended to provide executives with an opportunity to earn some portion of the long-term incentive opportunity that had become unattainable.

The objectives under the 2009-2010 Extension Grant mirrored the EPS and CFR objectives that were established for 2009 and 2010 EIC award periods. Payouts, if any, under the Extension Grant are based on weighted EIC goal results over the extension periods, subject to a cap on the award such

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that achievement of EIC goals at or above 100% of target generates the maximum Extension Grant payment. The 2009-2010 Extension Grant objectives and results are shown below.

	2009-2010 Extension Grant Objectives				
	Threshold	**Target**	**Maximum**		
Payout % of Target	50%	100%	100%	**Actual**	**Payout %**
2009					
Operating EPS (50%)	$1.58	$2.25	$2.93	**$1.30**	**0%**
CFR (50%)	11.9%	14.4%	17.0%	**10.7%**	
2010					
Operating EPS (50%)	$1.33	$1.75	$2.35	**$2.81**	**100%**
CFR (50%)	11.1%	12.7%	15.1%	**15.8%**	
				Total Payout	**50%**

All active employees who participated in the 2007-2010 ESIP award period received an Extension Grant opportunity. Each participant s target award opportunity was equal in value to his or her ESIP target for the 2007-2010 award period. The target value of each Extension Grant opportunity was converted to contingent share units by dividing it by the average closing price of our common shares for the first 20 trading days of 2009, which was $24.05 and rounding up the results to the nearest 50 whole units. Contingent share units align the interests of the executives with those of the shareholders because the units reflect appreciation or depreciation and earnings on our common shares during the performance period. The target award value and contingent share units awarded to each Named Executive Officer are shown below.

	2009-2010 Extension Grant Targets	
	Target Extension Grant Value	**Contingent Share Units**
A.M. Cutler	$ 1,800,000	74,900
R.H. Fearon	$ 550,000	22,900
C. Arnold	$ 668,750	27,900
T. S. Gross	$ 568,750	23,700
J. P. Palchak	$ 351,250	14,700

At the end of the award period, the number of share units is modified by the percentage of goal achievement and an individual performance factor. The Committee considers the same quantitative and qualitative metrics that are factored into an executive s short-term incentive performance rating, described on page 32, when determining Extension Grant individual performance ratings. The modified number of contingent share units is multiplied by the average closing price of our shares over the last twenty trading days of the award period to determine the final cash award.

For the 2007-2010 award period, the aggregate long-term cash award for each executive consists of the payout from the original ESIP plus the payout from the Extension Grant. For the 2007-2010 award period, the combined awards were capped at 125% of the combined target opportunity. Mr. Cutler s actual award is shown below as an illustrative example of how the ESIP and Extension Grant operates:

2007-2010 ESIP Opportunity			Extension Grant				
		A				B	A+B
Original Target $	Adjusted Award (25% Corporate Performance)	Adjusted Award (125% Individual Performance)	Original Phantom Share Units	Adjusted Units (50% Corporate Performance)	Adjusted Units (125% Individual Performance)	Payout Based on $50.26	Combined ESIP + Extension Grant Final Award
$1,800,000	$ 450,000	$ 562,500	74,900	37,450	46,812	$ 2,352,563	$ 2,915,063

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Individual awards for the other Named Executive Officers are listed in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

Decisions Affecting Long-Term Compensation Established in 2010: The Committee determined target opportunities for each executive in February during its Total Compensation and Planning Process. As previously discussed, the average of the median long-term incentive value as reported in three compensation surveys is used as the basis for determining our executives targets.

For 2010, the Committee chose to award RSUs as the primary equity vehicle to all eligible long-term incentive plan participants. We granted RSUs because they consume fewer shares from our stock plan compared to the number of stock options it would take to deliver awards at the target levels that were determined when we analyzed the market survey data. We would have to grant four stock options for every one full-value share to deliver awards of a similar grant date fair value. This multiple, coupled with the depressed stock price, which was around $30 during the Compensation Planning Process, would cause us to consume more shares than we anticipated when we sought approval for the plan.

The Committee also determined that the mix of the long-term incentive elements for each executive who participated in the 2010-2013 ESIP award period would be delivered in an equal mix of cash via the 2010-2013 ESIP opportunity and RSUs. The Committee believes this balanced portfolio approach is appropriate because it focuses executives on both an external measure of success (via the equity awards) as well as on internal measures (via the ESIP opportunity). In addition, this balanced portfolio approach to delivering long-term incentives is consistent with external market practices. Employees who were eligible for long-term incentives but did not participate in ESIP received 100% of their long-term incentive opportunity in RSUs. In 2010, the Committee also approved stock option grants for a small number of executives residing in countries with regulatory limitations that made the use of RSUs impractical or unlawful.

RSUs granted to the Named Executive Officers are shown in the Grants of Plan Based Awards Table. The number of RSUs was determined by dividing one-half of the Executive s target total long-term incentive opportunity by the average closing price of our shares over the last 90 NYSE trading days of the previous year, which was $30, and rounding to the nearest 5 shares.

The Committee has the authority to adjust the number of RSUs granted to each participant based on his or her individual performance and potential. In February 2010, the Committee granted our executive officers, except Mr. Cutler, a number of RSUs in excess of his or her target equity opportunity. These grants were made in recognition of the contributions each made towards our recovery throughout 2009 and to foster retention. The RSU grants will vest in equal, annual installments over the subsequent four years, subject to the executive s continued employment with us. Dividends are not accrued or paid on RSUs.

In February 2010, the Committee established EPS and CFR performance goals for the 2010-2013 ESIP award period under the amended ESIP (which meets the requirements of Internal Revenue Code Section 162(m) and was approved by the shareholders in 2008). In addition to establishing performance objectives for the four-year ESIP award period, the Committee approved 2010-2013 ESIP award period opportunities expressed in the form of contingent share units for Messrs. Cutler, Fearon, Arnold, Gross and, Palchak as shown in the Grants of Plan Based Awards Table. The

Committee discussed and approved Mr. Cutler s award opportunity in Executive Session with only its independent compensation consultant in attendance. The number of contingent share units was determined by dividing the cash ESIP target, which represents approximately one-half of the Named Executive Officers total long-term incentive opportunity, by the average closing price of our common shares over the first twenty days of the award period and rounding up to the nearest 50 shares.

At the end of the award period, the number of contingent share units will be modified based on corporate performance relative to the EPS and CFR objectives. The modified number of contingent share units is capped at 200% of the initial number of shares. The modified number of share units will be converted to cash by multiplying the final number of contingent share units by the average closing price of our shares over the last twenty days of the award period. Dividend equivalents will be paid based on the final number of contingent share units and the aggregate dividends paid during the award period.

In addition to these long-term incentive opportunities, the Committee reviewed and approved a retention-based restricted share grant of 4,000 shares for Mr. Fearon, 30% of which will vest at the end of 24 months and another 30% will vest at the end of 36 months. The remaining 40% of the shares vest at the end of 48 months, subject to his continued employment with us.

Other Executive Compensation Policies and Guidelines

Share Ownership Guidelines We expect all of our executive officers and, depending on their level in the Company, certain other key executives to hold a number of our common shares with a value equal to a pre-determined multiple of their base salary. We also require each executive to hold a minimum of 20% of the ownership requirement in unrestricted shares. Until 2011, all votable shares, including restricted shares, were counted toward the holding requirement. Executives are expected to reach these guidelines within five years of appointment to a new position. These multiples, as shown below, represent the minimum guidelines and are consistent with trends we have seen in the competitive market. Executives are expected to satisfy these guidelines for the duration of their employment with the Company.

Position	**Guideline**
Chairman and CEO	6 times base salary
Vice Chairmen	4 times base salary
Other Officers	2-3 times base salary
General Managers and other ESIP Participants	1 times base salary

The Committee annually reviews the progress of the individual executive officers toward these ownership levels and our Chairman and Chief Executive Officer annually reviews the progress of other non-officer executives. On December 31, 2010, our Chairman and Chief Executive Officer and the other Named Executive Officers exceeded their ownership requirements.

As discussed on page 59 under Director Compensation, we also require our Board of Directors to hold all Eaton shares granted to them until retirement.

Anti-Hedging We have a policy that prohibits directors and employees, including the Named Executive Officers, from engaging in financial hedging of their investment risk in our shares.

Health and Welfare Benefits and Retirement Income Plans With certain exceptions described below, we provide our executive officers with the same health and welfare and retirement income benefit programs that we provide to our other salaried employees. In place of typical Company-paid group term life insurance, we provide all executive officers and certain other executives with Company-paid life insurance coverage under two separate policies. The aggregate value of the two policies is approximately equal to an executive s annual base salary and this level of coverage is consistent with the level of coverage provided to other salaried employees through our group term life policy. The majority of the executives life insurance is covered under an executive-owned individual whole life policy, with the remaining $50,000 of insurance covered under our group term life policy.

The value of the Company-paid premium for the whole life policy is imputed as taxable income to each covered executive. We decided to provide this executive life insurance arrangement to allow each executive to have a paid up policy at retirement that would mirror Company-provided post-retirement group term life insurance but with less post-retirement tax complexity for both the executive and us.

The tax-qualified pension plans that we maintain for our U.S. salaried and non-union employees define the term compensation to include base salary, overtime pay, pay premiums and awards under any annual variable pay or incentive compensation plan (including amounts deferred for receipt at a later date). We use this same definition for calculating pension benefits under the nonqualified executive retirement income arrangements described below.

Other Retirement and Compensation Arrangements The pension benefits table on page 51 reports retirement benefits for Mr. Cutler and the other Named Executive Officers. Certain provisions of the Internal Revenue Code limit the annual benefits that may be paid from a tax-qualified retirement plan. As permitted under the Code, the Board of Directors has authorized plans under which payment will be made from our general funds for any benefits that may exceed those limits. These non-qualified benefits accrued prior to January 1, 2005 will be paid at retirement in the form of an annuity (unless otherwise determined by the Committee). Upon a proposed change of control of the Company, the benefits will be paid at the time of that event (unless otherwise determined by the Board of Directors) in a single sum. These benefits accrued after January 1, 2005 will be paid in the form of a single sum at retirement.

In response to market practices and to enhance our ability to attract and retain key executives, the Board of Directors also has adopted plans that provide supplemental annual retirement income to certain executives who we hire mid-career who do not have the opportunity to accumulate significant credited service with us under our tax-qualified retirement income or nonqualified restoration plans. These plans deliver a benefit if the executive either retires at age 55 or older and has at least 10 years of service with us or retires at age 65 or older regardless of the years of service.

Pension benefits (inclusive of the unfunded benefits described above) for executives under the cash balance plan formula fall below the median of pension programs. The previous final average pay formula (inclusive of the unfunded restoration benefits), which covers executives hired before January 1, 2002 including Mr. Cutler and several of the Named Executive Officers, is approximately at the median of traditional pension plan designs. We do not have a plan that allows for base salary deferrals and do not match 401(k) contributions in excess of the Code limits, resulting in below median retirement benefit values for executives (most of our competitors provide base salary deferral plans with matching contributions in excess of the Code limits).

These qualified and nonqualified retirement income plans are the only compensation or benefit plans or programs that we provide to executive officers that consider base salary and earned annual incentive awards in the calculation of the executives account balances. Long-term incentives, including cash and amounts realized upon the exercise of stock options and/or vesting of RSUs or restricted share awards, are not factored into these calculations.

Employment Contracts and Change of Control Agreements

We do not provide our executive officers with employment contracts.

We do enter into double-trigger change of control agreements with each executive officer. These agreements provide benefits if an executive s employment is terminated or materially changed for certain reasons following a change of control. We believe that these agreements are in the best interest of our shareholders because they help ensure that we will have the continued dedication and focus of key executives in the event of a change of control of the Company. Details of our change of control agreements may be found in the narrative discussion accompanying the Potential Payments Upon Termination section beginning on page 53.

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Deferral Plans
We provide our executives with opportunities to defer the receipt of their earned and otherwise payable awards under our annual and long-term cash incentive plans. We offer these deferral arrangements in order to (a) provide our executives with a competitive opportunity to accumulate additional retirement assets, (b) provide a means for acquiring common shares in order to meet our share ownership guidelines and (c) provide an additional form of retention. We do not currently provide our executives with a nonqualified defined contribution plan that enables them to defer base salary amounts in excess of the Code limits applicable to our tax-qualified defined contribution Section 401(k) plan, despite the fact that these plans are quite common across our industry.

On February 10, 2010, the Committee approved the termination of the Deferred Incentive Compensation Plan and the Incentive Compensation Deferral Plan with respect to all participants accounts. These plans were not subject to Section 409A of the Code. The Committee determined it was appropriate to terminate these plans at that time in order to reduce Company liabilities, administrative costs and the complexity of certain compensation arrangements. The Committee determined it was appropriate to maintain the Deferred Incentive Compensation Plan II and Incentive Compensation Deferral Plan II, which comply with Section 409A of the Code to provide deferral opportunities to those who desire to continue doing so.

The amounts credited to the terminated accounts were distributed in March 2010. Approximately 80% was distributed in Eaton shares and the remainder was distributed in cash in accordance with the participants investment elections at the time the deferral election was made. These were savings that had accrued to participants in the course of their annual deferrals, some of which were originally earned and deferred as far back as 1983. Details on our deferral programs and these distributions may be found in the Nonqualified Deferred Compensation discussion and table on pages 51-53.

Personal Benefits We provide our executive officers with a limited amount of personal benefits including a vehicle allowance and reimbursement for financial and estate planning, both of which are treated as taxable income to the executive. Beginning in 2011, Named Executive Officers will no longer receive the vehicle allowance.

Use of Our Aircraft We own, operate and maintain Company aircraft to enhance the ability of our executive officers and other corporate and operations leaders to conduct our business in an effective manner. This principle guides how the aircraft is used. Our stringent aircraft use policy ensures that the primary use of this mode of transportation is to satisfy business needs and that all aircraft use is accounted for at all times and in accordance with applicable laws. The Board of Directors has directed Mr. Cutler to use our aircraft for all business and personal travel whenever feasible to ensure his personal security and enhance his productivity. Our aircraft policy does not permit other executives to use Company-owned aircraft for personal use without the advance approval of the Chairman and Chief Executive Officer. No Named Executive Officers received tax protection on the imputed income for personal use of Company aircraft in 2010.

Tax and Accounting Considerations We carefully monitor and comply with any changes in the tax laws and regulations as well as accounting standards and related interpretive guidance that impact our executive compensation plans and programs. Tax and accounting considerations have never played a central role in the process of determining the compensation or benefit plans and programs that are provided to our executives. Instead, the Committee has consistently structured our executive compensation program in a manner intended to ensure that it (a) is competitive in the marketplace for executive talent and (b) provides incentives and rewards that focus executives on reaching desired internal and external performance levels. Once the appropriate programs and plans are identified, we administer and account for them in accordance with applicable requirements.

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Tax Gross-Ups We and the Committee believe that tax protection is appropriate in limited circumstances to avoid the potential for the value of a benefit to be reduced as a result of tax requirements that are beyond an employee s control. Specifically:

Relocation/Repatriation: We provide tax protection for our employees under our relocation and repatriation policies so that they are able to make decisions to accept new assignments without concern that relocating would be a disadvantage to them from a tax standpoint.

Change of Control: U.S. tax law imposes a 20% excise tax on certain compensation that is contingent on a change of control of the Company (contingent compensation). As is common practice, we have agreed to provide the Named Executive Officers and other officers with full tax protection for liability for the 20% excise tax. When contingent compensation exceeds 300% of the officer s average annualized Form W-2 compensation for the five-year period preceding the year of the change of control, an excess parachute payment is triggered. If an excess parachute payment occurs, the excise tax applies to the contingent compensation that exceeds 100% of the officer s five year average compensation as described above. If the excise tax applies, the amount of tax protection is calculated using a gross up formula that computes a total payment to the officer that (1) reimburses the excise tax liability on the initial excess parachute payment, and (2) reimburses any additional income, FICA and excise tax liability on the gross up amount. The tax protection is intended to ensure that the affected executive receives the same after-tax payments that the executive would have received had the executive not been subject to the excise tax.

We believe this benefit is in the best interest of our employees and shareholders because executives may have significantly different average compensation over the five-year period preceding the change of control due to length of service with the company, timing of stock option exercises, elections to voluntarily defer compensation, and other personal decisions that were made without knowledge of the change of control or its potential tax implications. In addition, the tax protection eliminates the potential for the pending tax liability to influence an executive s behavior or support for a change of control.

$1 Million Tax Deduction Limit Prior to 2008, we did not qualify our short- and long-term incentive awards as performance based compensation under Internal Revenue Code Section 162(m). Under this law, any remuneration in excess of $1 million paid to Mr. Cutler and the three other most highly compensated executive officers of the Company (other than the Chief Financial Officer) in a given year is not tax deductible unless paid pursuant to formula-driven, performance-based arrangements that preclude Committee discretion to adjust compensation upward after the beginning of the period in which the compensation is earned. The shareholders approved a Senior Executive Incentive Compensation Plan and an amended Executive Strategic Incentive Plan (as previously discussed), which meet the requirements needed to qualify incentive payments under these Plans as deductible compensation under Internal Revenue Code Section 162(m).

Clawback Policy on Incentive Compensation, Stock Options and Other Equity Grants Upon the Restatement of Financial Results The Board of Directors has adopted a formal policy stating that, if an executive engaged in any fraud, misconduct or other bad-faith action that, directly or indirectly, caused or partially caused the need for a material accounting restatement for any period as to which a Performance-Based Award was paid or credited to the executive during the twelve-month period following the first public issuance of the incorrect financial statement, such award shall be subject to reduction, cancellation or reimbursement to the Company at the discretion of the Board. As used in this policy, the term executive means any executive who participates in either the Executive Strategic Incentive Plan I or the Executive Strategic Incentive Plan II, or both, or any successor plans. Our incentive compensation plans, stock plans and deferral plans include the provisions of this policy. Additional details regarding this policy and related processes may be found on our website at http://www.eaton.com/governance.

Relationship Between Compensation Plans and Risk

Annually the Committee and management conduct a comprehensive review of our compensation programs, including executive compensation and major broad-based compensation programs in which salaried and hourly employees at various levels of the organization participate. The goal of this review is to assess whether any of our compensation programs, either individually or in the aggregate, would encourage executives or employees to undertake unnecessary or excessive risks that were reasonably likely to have a material adverse impact on the Company.

The Committee reviewed an inventory of our variable pay and sales commission plans that had been established for 2010. The inventory included the number of participants in each plan, the participants levels within the organization, the target and maximum payment potential and the performance criteria under each plan, and the type of plan (for example, management-by-objective and goal sharing). The Committee concluded that none of the broad-based programs (base salary, traditional sales commission or variable incentive arrangements) that extend to hourly and salaried employees would likely give rise to a material risk.

The Committee also applied a risk assessment to those plans that were identified as having the potential to deliver a material amount of compensation, which for 2010 were the annual and long-term incentive plans that are described earlier in the Compensation Discussion and Analysis. The analysis included, but was not limited to, the following items:

Whether the performance goals were balanced and potential payments were reasonable based on potential achievement of those goals at the threshold, target and maximum levels;

When applicable, whether the relationship between performance objectives under the annual incentive programs were consistent with performance objectives tied to the long-term incentive plans;

The caps on individual awards and aggregate payments under the plans; and

How our performance objectives and target award opportunities compared to the objectives and target awards underlying our peers incentive programs.

The Committee and management also concluded that our executive compensation strategy and programs are structured in the best interest of the Company and its stakeholders and do not pose a material risk due to a variety of mitigating factors. These mitigating factors include:

An emphasis on long-term compensation that utilizes a balanced portfolio of compensation elements, such as cash and equity and delivers rewards based on sustained performance over time;

The Committee s sole power to set short- and long-term performance objectives for our incentive plans. These objectives have historically been stretch CFR and operating EPS goals and qualitative goals under the EIC Plan, such as leadership development, growth, operational excellence and building organizational capacity. We believe all of these items contribute to increased shareholder value;

Our long-term cash incentive plan (ESIP) focuses on cumulative EPS over overlapping four-year award periods. This creates a focus on driving sustained performance over multiple award periods which mitigates the potential for executives to take excessive risks to drive one-time short-term performance spikes in any one award period;

The use of equity awards to foster retention and align our executive s interests with those of our shareholders;

Capping the potential payouts under both short- and long-term incentive plans to eliminate the potential for windfalls;

A clawback policy that allows us to recover compensation in the case of material restatement of financial results and/or employee misconduct;

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- Share ownership guidelines; and
- A broad array of competitive health and welfare benefit programs that offer employees and executives an opportunity to build meaningful retirement assets throughout their career.

Adjustments to Programs and Practices in 2011

We have implemented the following changes to our executive compensation programs for 2011:

- Delivered long-term incentive opportunities to elected officers and operational leaders in a mix of long-term cash (denominated in phantom share units), RSUs and stock options. In 2010, these executives received their long-term incentive opportunity in a mix of cash (denominated in phantom share units) and RSUs. In 2009, long-term incentive opportunities were delivered in RSUs.
- Discontinued the vehicle allowance that was provided to certain executives.
- Revised our holding requirement under our share ownership guidelines to reflect that 20% of the shares must be held in unrestricted shares. Previously, all votable shares, including unvested restricted share awards, were counted toward the guideline.

Compensation and Organization Committee Report

The Compensation and Organization Committee of the Board of Directors has reviewed and discussed with the Company s management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on this review and discussion, the Compensation and Organization Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION AND ORGANIZATION COMMITTEE

Deborah L. McCoy, Chair
Todd M. Bluedorn
Christopher M. Connor
Ned C. Lautenbach
Gary L. Tooker

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SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation of our Chairman and Chief Executive Officer, our Vice Chairman and Chief Financial and Planning Officer, and our three other most highly compensated executive officers in 2010. Salary, as shown in column (c), consists of base salary, which accounted for, on average, 11.95% of the total compensation of the Named Executive Officers in 2010. The Named Executive Officers were not entitled to receive Bonus payments under column (d) for 2010 (Bonus payments are defined under the disclosure rules as discretionary payments that are not based on any performance criteria). Column (e), Stock Awards, consists of the grant date fair value of awards delivered to each Named Executive Officer in the year reported. Column (f), Option Awards, reports the grant date fair value of stock options awarded in each respective year shown below. The grant date fair value is based on the Black-Scholes option pricing model. Column (g), Non-Equity Incentive Plan Compensation, is the amount paid under the Senior EIC Plan, four-year ESIP for the 2007-2010 award period and 2009-2010 Extension Grant award period. The incentive payments reported in Column (g) were approved by the Committee at its January 25, 2011 meeting and, to the extent not deferred by the executive, will be paid on March 15, 2011. Column (h), Change in Pension Value and Nonqualified Deferred Compensation Earnings, contains two distinct components. Change in Pension Value represents the total change in the actuarial present value of each Named Executive Officer s accumulated benefit under all of our defined benefit pension plans (both tax qualified and nonqualified) from the measurement date used for financial reporting purposes. Nonqualified Deferred Compensation Earnings include earnings on deferred compensation that exceed 120% of a specified rate of interest for long-term debt instruments established by the Internal Revenue Service. Column (i), All Other Compensation, consists of compensation that does not fit within any of the foregoing definitions of compensation. This compensation includes personal benefits, our contributions to defined contribution plans, the value of insurance premiums paid by us and the value of any dividends paid on restricted shares because they are not factored into the grant date fair values reported in column (e).

and pal Position)	Year (b)	Salary (c)	Bonus (d)	Stock Awards(1) (e)	Option Awards(1) (f)	Non-Equity Incentive Plan Compensation(2) (g)	Changes In Pension Value and Nonqualified Deferred Compensation Earnings(3) (h)	All Other Compensation(4) (i)	Tota Compens (j)
Cutler	2010	$ 1,175,100	$ 0	$ 3,595,263	$ 0	$ 6,665,063	$ 1,226,019	$ 137,151	$ 12,798
nan, Chief tive	2009	$ 973,248	$ 0	$ 5,099,874	$ 0	$ 575,000	$ 1,732,144	$ 155,741	$ 8,536
r and ent	2008	$ 1,132,500	$ 0	$ 1,413,210	$ 1,973,981	$ 3,987,500	$ 1,333,347	$ 237,298	$ 10,077
Fearon	2010	$ 635,160	$ 0	$ 1,340,674	$ 0	$ 2,047,162	$ 419,822	$ 100,394	$ 4,543
Chairman and	2009	$ 574,782	$ 0	$ 2,310,737	$ 0	$ 165,000	$ 413,169	$ 115,435	$ 3,579
cial and ng Officer	2008	$ 596,730	$ 0	$ 1,205,385	$ 562,094	$ 1,193,860	$ 298,183	$ 110,631	$ 3,966

nold	2010	$	637,290	$	0	$	1,207,934	$	0	$	2,324,075	$	394,000	$	89,234	$	4,652
Chairman and	2009	$	574,890	$	0	$	2,535,071	$	0	$	168,906	$	270,385	$	95,060	$	3,644
rial Sector	2008	$	559,530	$	0	$	1,105,629	$	523,845	$	1,002,587	$	175,421	$	84,297	$	3,451
Gross	2010	$	612,000	$	0	$	1,207,934	$	0	$	2,172,966	$	570,481	$	83,956	$	4,647
Chairman and Electrical	2009	$	541,362	$	0	$	2,535,071	$	0	$	109,609	$	299,836	$	419,589	$	3,905
Palchak	2010	$	496,950	$	0	$	714,805	$	0	$	1,276,864	$	532,468	$	41,735	$	3,062
ent Vehicle	2009	$	431,609	$	0	$	1,442,321	$	0	$	83,672	$	376,255	$	109,359	$	2,443

(1) These two columns show the grant date fair value of equity awards granted to the Named Executive Officers. The value of stock options is based on the Black-Scholes option pricing model. The assumptions used in connection with this valuation are further described in the Notes to Consolidated Financial Statements on page 31 of our 2010 Annual Report. The actual amounts

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realized by individual Named Executive Officers likely will vary based on a number of factors, including the market performance of our shares and timing of option exercises.

(2) Non-Equity Incentive Plan Compensation reported in Column (g) includes payments for the 2010 Senior EIC Plan, or EIC Plan in the case of Mr. Palchak, the 2007-2010 ESIP award period and the 2009-2010 Extension Grant. Actual awards earned by each Named Executive Officer are noted below. The material features of these incentive plan are described in the Compensation Discussion and Analysis.

	2010 Short-Term Incentive Award	2007-2010 Long-Term Award	2009-2010 ESIP Extension Grant Award
A. M. Cutler	$ 3,750,000	$ 562,500	$ 2,352,563
R. H. Fearon	$ 1,191,658	$ 165,000	$ 690,504
C. Arnold	$ 1,325,592	$ 192,266	$ 806,217
T. S. Gross	$ 1,272,960	$ 173,469	$ 726,537
J. P. Palchak	$ 796,815	$ 92,204	$ 387,845

(3) Column (h) includes the aggregate change in the actuarial present value of the accumulated benefit under all of our defined benefit pension plans, both qualified and non-qualified, and above-market earnings on non-qualified deferred compensation. Under the disclosure rules, earnings on deferred compensation are considered to be above-market if they exceed a rate of interest established by the Internal Revenue Service on the date the interest rate or formula used to calculate the interest rate is established under the plan pursuant to which the receipt of compensation is deferred. In 2010, Mr. Cutler was the only Named Executive Officer who received above-market earnings on his nonqualified deferred compensation (in the amount of $6,547). The aggregate change in the actuarial present value of the accumulated benefit under all defined benefit pension plans for each Named Executive Officer is noted below:

	Qualified	Non-qualified	Total
A. M. Cutler	$ 115,155	$ 1,104,317	$ 1,219,472
R. H. Fearon	$ 31,382	$ 388,440	$ 419,822
C. Arnold	$ 48,570	$ 345,430	$ 394,000
T. S. Gross	$ 29,132	$ 541,349	$ 570,481
J. P. Palchak	$ 26,107	$ 506,361	$ 532,468

(4) All Other Compensation in column (i) includes the aggregate incremental cost incurred by us for certain executive personal benefits. The amounts of these benefits in excess of disclosure levels for each Named Executive Officer are set forth in the table on page 45. The calculation of incremental cost for personal use of our aircraft includes only those variable costs incurred as a result of personal flight activity and excludes non-variable costs which would have been incurred regardless of whether there was any personal use of our aircraft. We do not reimburse Named Executive Officers for tax costs related to personal use of our aircraft.

We also provide certain executives, including the Named Executive Officers, with the opportunity to acquire individual whole-life insurance. The annual premium paid by us during 2010 for each of the Named Executive Officers is set forth below. Each executive officer is responsible for paying individual income taxes due with respect to our insurance program.

Column (i) also includes the amount of our matching contributions to the Named Executive Officers accounts under the 401(k) Eaton Savings Plan (the ESP). We suspended matching contributions to the ESP in April 2009 and restored them in July 2010. The ESP permits an employee to contribute a portion of his or her salary to the ESP, subject to limits imposed under the Internal Revenue Code. All of the Named Executive Officers except Mr. Palchak reached the Code limit prior to the restoration of the match.

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Column (i) also includes dividends paid in 2010 on restricted share awards. The amounts of the executive benefits reported in column (i) are:

	Vehicle Allowance	Financial, Estate and Tax Planning	Personal Use of Company Aircraft	Company Paid Life Insurance	ESP Matching Contribution	Dividends on Restricted Share Awards	Total All Other Compensation
A. M. Cutler	$ 18,000	$ 24,700	$ 69,000	$ 14,701	$ 0	$ 10,750	$ 137,151
R. H. Fearon	$ 18,000	$ 3,900	$ 4,700	$ 6,507	$ 0	$ 67,287	$ 100,394
C. Arnold	$ 18,000	$ 10,050	$ 0	$ 5,144	$ 0	$ 56,040	$ 89,234
T. S. Gross	$ 18,000	$ 2,500	$ 12,500	$ 7,780	$ 0	$ 43,176	$ 83,956
J. P. Palchak	$ 18,000	$ 4,975	$ 2,000	$ 4,780	$ 8	$ 11,972	$ 41,735

GRANTS OF PLAN-BASED AWARDS

The following table summarizes the potential awards payable to Named Executive Officers with respect to the short-term and long-term incentive award opportunities granted in 2010. The number of shares, share units and share prices shown below have been adjusted to reflect the two-for-one stock split in the form of a stock dividend distributed on February 28, 2011 to shareholders of record as of the close of business on February 7, 2011.

			Estimated Future Payout under Non-Equity Incentive Plan Awards							
me)	Grant Date (b)	Share Units Granted at Target (#) (c)	Threshold ($) (d)	Target ($) (e)	Maximum ($) (f)	All Other Stock Awards: Number of Shares of Stock or Units (#) (g)	All Other Option Awards: Number of Securities Underlying Options (#) (h)	Exercise or Base Price of Option Awards ($/Share) (i)	Closing Market Price on Grant Date (j)	Grant Dat Fair Valu of Stock & Option Awards (k)
M. ler	2/23/2010(1)		$ 0.00	$ 1,500,000	$ 6,919,192					
	2/23/2010(2)	98,800	$ 0.00	$ 3,250,000	$ 6,500,000					
	2/23/2010(3)					108,340			$ 33.185	$ 3,595,2
H. ron	2/23/2010(1)		$ 0.00	$ 518,112	$ 2,601,200					

2/23/2010(2)	22,800	$ 0.00	$ 750,000	$ 1,500,000					
2/23/2010(3)					40,400		$ 33.185	$ 1,340,6

Arnold