EATON CORP
Form 11-K
July 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[x] Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001

Or

[ ] Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the transition period from ______________ to ____________

Commission file number ____

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

AEROQUIP-VICKERS SAVINGS AND PROFIT SHARING PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Eaton Corporation
1111 Superior Avenue
Cleveland, Ohio 44114-2584

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

(Name of Plan)
AEROQUIP-VICKERS SAVINGS AND
PROFIT SHARING PLAN

Date: June 27, 2002

By: Eaton Corporation Pension Administration Committee

By: /s/ S. J. Cook

(Signature)
S. J. Cook
Vice President-Human Resources
Eaton Corporation

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL
SCHEDULES

Aeroquip-Vickers Savings and Profit Sharing Plan
December 31, 2001 and 2000 and Year ended December 31, 2001

Aeroquip-Vickers Savings and Profit Sharing Plan

Financial Statements and Supplemental Schedules

December 31, 2001 and 2000 and
Year ended December 31, 2001

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Report of Independent Auditors

Corporate Compensation and Organization
Committee of Eaton Corporation
Aeroquip-Vickers Savings and Profit Sharing Plan

We have audited the accompanying statements of net assets available for benefits of the Aeroquip-Vickers Savings and Profit Sharing Plan as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2001 and 2000, and the changes in its net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2001, and reportable transactions for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Cleveland, Ohio
June 13, 2002

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Aeroquip-Vickers Savings and Profit Sharing Plan

Statements of Net Assets Available for Benefits

	DECEMBER 31 2001	2000
ASSETS		
Investments:		
At fair value:		
Registered investment companies	$531,716,060	$531,867,095
Common stock	27,276,209	32,428,213
Participant loans	17,042,772	20,719,739
At contract value:		
Investment contracts	99,860,051	174,522,404
Total investments	675,895,092	759,537,451

Receivables:		
Contributions--Employer	19,704,464	19,676,014
Contributions--Participants	101,566	124,880
Fixed income fund units receivable, net	560,917	-
Stock dividend	-	5,216,122
Total receivables	20,366,947	25,017,016
Net assets available for benefits	$696,262,039	$784,554,467

See accompanying notes.

Aeroquip-Vickers Savings and Profit Sharing Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2001

ADDITIONS	
Investment income:	
Interest and dividends	$ 28,703,189
Contributions:	
Participants	14,788,248
Employer	25,321,535
	68,812,972
DEDUCTIONS	
Distributions to participants	117,582,821
Investment management fees	100,926
	117,683,747
Net depreciation in fair value of investments	39,421,653
Net decrease	(88,292,428)
Net assets available for benefits at beginning of year	784,554,467
Net assets available for benefits at end of year	$ 696,262,039

See accompanying notes.

Aeroquip-Vickers Savings and Profit Sharing Plan

Notes to Financial Statements

December 31, 2001 and 2000 and
Year ended December 31, 2001

1. DESCRIPTION OF THE PLAN

The Aeroquip-Vickers Savings and Profit Sharing Plan (the Plan) is a defined contribution plan. Eligible participants include all U. S. regular full-time salaried employees and non-bargaining hourly employees of Aeroquip-Vickers, Inc. (Company) and its subsidiaries, Aeroquip Corporation (Aeroquip) and Vickers, Incorporated (Vickers). Eaton Corporation (Eaton) is the parent of the Company and its subsidiaries. Effective January 1, 2000, covered employees are eligible for participation in the Plan after one hour of service. Bargaining unit employees are eligible to participate only if the bargaining agreement permits participation. Interns are not eligible to participate in the Plan.

Participants may contribute to the Plan on a pretax basis by salary reduction up to 15% of their annual compensation (in increments of 1%) subject to an annual limit imposed by the Internal Revenue Service. Each participant individually directs his or her contributions and the Company's contributions into the investment funds offered by the Plan (in multiples of 1%), except for 25% of the Company's profit sharing contribution.

The contribution receivable amount primarily consists of the profit sharing contributions for the year. Profit sharing contributions to the Plan by the Company are based on the level of return on net assets of the Company. These contributions are paid to the Plan by the Company during the first quarter of the following year.

The Company matches 50% to 100% of participant contributions not exceeding 1% to 5% of the total compensation of the participant, depending on the location and contribution level of the participant.

A participant is entitled to the distributions provided by the contributions and income thereon (including realized and unrealized gains and losses) allocated to the participant's account.

Upon termination of employment due to retirement, total and permanent disability or death, a participant or his or her spousal beneficiary will be entitled to receive a distribution of the participant's entire account without regard to the Plan's vesting rules: (i) in one lump sum amount; or (ii) in monthly installments of a fixed amount or over a specified period of time in an amount of at least $100 per month. Distribution payments to non-spousal beneficiaries will be made in a lump sum only. If the value of a participant's account is less than $5,000, the plan administrator will distribute the participant's entire interest in one lump sum payment.

1. DESCRIPTION OF THE PLAN (CONTINUED)

Profit sharing and matching contributions and their earnings may be withdrawn prior to age 59-1/2 in an amount not to exceed the value of the pretax contributions account at December 31, 1993 and only after all after-tax contributions and their earnings have been withdrawn. Withdrawals of profit sharing allocations and matching contributions during a participant's employment are not permitted prior to age 59-1/2, unless the participant can show financial hardship for which he or she has no other available resources. Such situations are limited to: (i) certain medical expenses; (ii) payment of tuition and related educational fees for post-secondary education for the next year; (iii) costs related to the purchase of a principal residence; or (iv) payments necessary to avoid eviction from, or a foreclosure on the mortgage of, the participant's principal residence.

The Eaton Common Shares Fund is invested in Eaton Corporation Common Stock. Cash dividends paid on shares held by the Trust are used to purchase additional shares for participant accounts. For each participant's 2001 profit sharing contribution made by the Company, 25% will be automatically invested in the Eaton Common Shares Fund until distribution to the participant or until the participant reaches age 55. Participants can also elect to have additional amounts over the Company's 25% profit sharing contribution invested in the Eaton Common Shares Fund.

Participants of the Plan have general purpose and home loans available. Under a general purpose or home loan, a participant may borrow up to the lesser of one-half of his or her vested account balance or the total of his or her pretax, matching and roll-in contributions to the Plan, up to a maximum of $50,000. In no event may the aggregate amount of loans exceed $50,000. All loans are repaid to the Plan in equal installments through payroll deductions or direct payment over a period not to exceed five years for general purpose and twenty years for home loans. Interest is charged at the prime rate, plus 1% at the loan origination date.

The Plan Sponsor pays certain administrative costs.

The Company reserves the right to amend, modify or terminate the Plan at any time.

Information concerning the Plan document, matching and profit sharing contributions and vesting is contained in the summary plan description (SPD) for the plan. Copies of the SPD are available from the Human Resource Services department of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounting records of the Plan are maintained on the accrual basis of accounting.

INVESTMENT VALUATION AND INCOME RECOGNITION

Investments are stated at fair value as measured by quoted prices in active markets, except for the money market funds, which are stated at fair value as determined by the trustee. The participant notes receivable are valued at their outstanding balances, which approximate fair value. At December 21, 2000, the Eaton Corporation common shares are valued at the ex-dividend price to reflect the spin-off and stock dividend related to Axcelis Technologies, Inc. (see Note 5).

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. The cost of shares sold for mutual funds and common shares is based upon the average cost of each participant's shares sold for purposes of determining realized gains and losses.

Investment contracts consist of fully benefit-responsive insurance company and bank investment contracts. These investment contracts are stated at contract value. These contracts pay a negotiated fixed or variable interest rate for a period of one to five years. At December 31, 2001 and 2000, the investment contracts had a weighted average crediting interest rate of 5.78% and 6.25%, respectively. The average yield on these contracts was 5.86% and 6.13% for the years ended December 31, 2001 and 2000, respectively. The contract value of these contracts approximates fair value.

Contracts are negotiated with insurance companies or financial institutions rated AA+ by Standard and Poor's or its equivalent and have a maximum average contract life of five years.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the accompanying financial statements and notes. Actual results could differ from these estimates.

3. INVESTMENTS

The Vanguard Group, Incorporated, trustee of the Plan, holds the Plan's investment assets and executes investment transactions.

The fair value of individual investments that represent 5% or more of the Plan's net assets available for benefits are as follows:

	DECEMBER 31	
	2001	2000
Vanguard 500 Index Fund	$ 109,776,213	$ 141,4
Vanguard Morgan Growth Fund	49,926,876	63,2
Vanguard STAR Fund	91,946,755	101,5
Vanguard Windsor II Fund	59,771,263	67,8
Vanguard Prime Money Market	146,443,324	73,8

During 2001, the Plan's investments (including investments purchased, sold as well as held during the year) appreciated/(depreciated) in fair value as determined by quoted market prices as follows:

Common stock	$	6,5
Registered investment companies		(45,9
	$	(39,4

The Eaton Common Shares Fund contains participant account balances that are both participant- directed and nonparticipant-directed. Because the fund contains balances that are nonparticipant-directed, the entire fund is considered nonparticipant-directed for disclosure purposes.

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Aeroquip-Vickers Savings and Profit Sharing Plan

Notes to Financial Statements (continued)

3. INVESTMENTS (CONTINUED)

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	DECEMBER 31			
		2001		2
Net assets:				
Eaton Corporation common shares	$	21,534,611	$	
Receivables:				
Contributions receivable		5,175,796		
Stock dividend receivable		-		
	$	26,710,407	$	

		YEAR DECEMB 20
Changes in net assets:		
Participant contributions	$	
Employer contributions		
Net appreciation in fair value of investments		
Interest and dividends		
Participant loan repayments		
Interfund transfers, net		(2
Distributions to participants		(

Net changes	$	(1

Aeroquip-Vickers Savings and Profit Sharing Plan

Notes to Financial Statements (continued)

4. INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated July 22, 1995, stating that the Plan is qualified under section 401(a) of the Internal Revenue Code of 1986 (the Code) and, therefore, the related trust is exempt from taxation. Subsequent to the issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Sponsor believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

5. TRANSACTIONS WITH PARTIES-IN-INTEREST

Party-in-interest transactions include the investments in the common stock of Eaton, the investment in the investment funds of the trustee and the payment of administrative expenses by the Company. Such transactions are exempt from being prohibited transactions.

During 2001, the Plan received $629,838 in common stock dividends from Eaton Corporation.

On June 30, 2000, Eaton reorganized its semiconductor equipment operations into a wholly owned subsidiary, Axcelis Technologies, Inc. (Axcelis). In July 2000, Axcelis completed an initial public offering for the sale of 20% of its common stock shares. On December 29, 2000, Eaton distributed its remaining interest in Axcelis to Eaton shareholders as a dividend (spin-off) which was tax free to Eaton and its shareholders for United States income tax purposes. Eaton shareholders (including the Plan) received 1.179023 shares of Axcelis common stock per each whole Eaton common share held as of December 6, 2000 and cash payments for fractional shares. The Axcelis common shares were received by the Plan on January 5, 2001.

The Plan has established an Axcelis Common Stock Fund to hold the shares of Axcelis common stock received as a dividend, and which shall be maintained as a fund under the Plan for a period expiring on or before December 31, 2002. Upon termination of the Axcelis Common Stock Fund, all Axcelis common stock held by the Plan shall be sold and invested in a money market fund. Distributions from the Axcelis Common Stock Fund shall be made in cash. Cash and stock dividends on the Axcelis common stock shall be invested in a money market fund and Axcelis Common Stock Fund, respectively. Axcelis common stock received by the Plan shall be credited under the Plan to the participant's account related to the Eaton common shares with respect to which the Axcelis common stock was received as a dividend. Participants are not allowed to direct contributions or transfers to the Axcelis Common Stock Fund, but are permitted to direct the transfer of amounts in the Axcelis Common Stock Fund to other funds available under the Plan.

Aeroquip-Vickers Savings and Profit Sharing Plan

Notes to Financial Statements (continued)

6. SUBSEQUENT EVENTS

The Company changed the type of retirement benefit plan available to employees hired after January 1, 2002, from the current retirement plan to a "cash balance" retirement plan, and to make such a cash balance plan available to employees of the Company who formerly were employed by the Company or its subsidiaries, effective as of January 1, 2002 (January 1, 2003 for employees at the Memphis (Summa) location), except in all such cases for employees covered by a collective bargaining agreement.

Effective April 1, 2002, the Plan merged with, and all the assets were transferred into, the Eaton Savings Plan.

Aeroquip-Vickers Savings and Profit Sharing Plan

EIN: 34-4288310 Plan Number: 15

Schedule H, Line 4(i)--Schedule of Assets
(Held at End of Year)

December 31, 2001

IDENTITY OF ISSUE, BORROWER, LESSOR, OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL PAR OR MATURITY VALUE	COST
SHARES OF REGISTERED INVESTMENT COMPANIES		
* Vanguard 500 Index Fund	1,036,700 shares	
* Vanguard International Growth Fund	1,069,318 shares	
* Vanguard LifeStrategy Conservative Growth Fund	367,126 shares	
* Vanguard LifeStrategy Growth Fund	560,038 shares	
* Vanguard LT Corporate Fund	976,031 shares	
* Vanguard Morgan Growth Fund	3,412,637 shares	
* Vanguard STAR Fund	5,592,868 shares	
* Vanguard Treasury Money Market	34,405,950 shares	
* Vanguard Windsor II Fund	2,335,727 shares	
* Vanguard Prime Money Market Fund	146,443,324 shares	

COMMON STOCK		
* Eaton Corporation Common Stock	289,405 shares	$ 19,281,632
* Axcelis Common Stock Fund	445,430 shares	
UNALLOCATED INSURANCE CONTRACTS		
American International Life Assurance 18293	1/31/02, 6.37%	
American International Life Assurance 995	3/3102, 6.21%	
Allstate Life Insurance 6080	2/14/03 6.10%	
Allstate Life Insurance GA-6139	10/15/03, 5.64%	
CDC Financial Products 394-01	2/22/04, 4.44%	
CDC Financial Products 394-02	1/25/04, 5.66%	
CDC Financial Products 394-03	5/25/04, 5.88%	
Principal Life 4-18623-02	3/31/02, 6.85%	
Security Life of Denver 0120	2/21/02, 5.63%	
UBS Warbug 2303	3/7/02, 6.18%	
* PARTICIPANT LOANS	7-10% variable maturities	
Total investments		

* Indicates party-in-interest to the Plan.

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Aeroquip-Vickers Savings and Profit Sharing Plan

EIN: 34-4288310 Plan Number: 15

Schedule H, Line 4(j)--Schedule of Reportable Transactions

Year ended December 31, 2001

IDENTITY OF ISSUE	DESCRIPTION OF ASSET	PURCHASE PRICE	SELLING PRICE	COST OF ASSET	CURRE OF A TRAN D
CATEGORY (III)--SERIES OF TRANSACTIONS IN EXCESS OF 5% OF PLAN ASSETS					
Eaton Corporation*	Eaton Corporation	$ 19,214,242		$ 19,214,242	$ 1
	Common Stock		$ 34,060,013	31,106,950	3

*Indicates party-in-interest to the Plan.

There were no category (i), (ii) or (iv) reportable transactions during the year ended December 31, 2001.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
23	Consent of Ernst & Young LLP.