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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)

Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934 (Fee required)

For the fiscal year ended December 30, 2001

Or

Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934 (Fee required)

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:

EATON CORPORATION SHARE PURCHASE AND INVESTMENT 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)

EATON CORPORATION SHARE PURCHASE
AND INVESTMENT 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

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AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

Eaton Corporation Share Purchase and Investment Plan

December 30, 2001 and 2000 and Year ended December 30, 2001

Eaton Corporation Share Purchase and Investment Plan
Audited Financial Statements and Supplemental Schedules

December 30, 2001 and 2000 and
Year ended December 30, 2001

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Report of Independent Auditors

Corporate Compensation and Organization Committee of Eaton Corporation
Eaton Corporation Share Purchase and Investment Plan

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We have audited the accompanying statements of net assets available for benefits of the Eaton Corporation Share Purchase and Investment Plan as of December 30, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 30, 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 30, 2001 and 2000 and the changes in its net assets available for benefits for the year ended December 30, 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 30, 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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Eaton Corporation Share Purchase and Investment Plan

Statements of Net Assets Available for Benefits

DECEMBER 30
2001 2000

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ASSETS

Investments, at fair value		
Common stock	\$ 598,534,120	\$ 552,429,626
Mutual funds	361,093,690	412,295,916
U.S. Government securities	61,982,374	51,022,283
Corporate debt instruments	51,296,419	44,342,102
Participant notes receivable	29,910,808	29,751,642
Money market fund	71,468,687	40,988,452
	-----	-----
Total investments	1,174,286,098	1,130,830,021
Receivables:		
Interest and dividends	1,763,766	15,972,958
Accrued sales of investments	179,375	21,110
Stock dividend	--	89,153,788
	-----	-----
Total receivables	1,943,141	105,147,856
	-----	-----
Total assets	1,176,229,239	1,235,977,877
LIABILITIES		
Accrued purchases of investments	501,411	14,467,844
Other payables	--	26,427
	-----	-----
Total liabilities	501,411	14,494,271
	-----	-----
Net assets available for benefits	\$1,175,727,828	\$1,221,483,606
	=====	=====

See notes to financial statements.

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Eaton Corporation Share Purchase and Investment Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 30, 2001

ADDITIONS		
Investment income:		
Dividends		\$ 17,849,332
Interest		11,692,952

		29,542,284
Contributions:		
Participants		63,458,114
Employer		12,498,134
Rollover		3,289,321

		79,245,569
Net appreciation in fair value of investments		89,173,993

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	197,961,846
DEDUCTIONS	
Distributions to participants	172,462,768
Transfers out	71,254,856

Total deductions	243,717,624

Net decrease	(45,755,778)
Net assets available for benefits at beginning of year	1,221,483,606

Net assets available for benefits at end of year	\$ 1,175,727,828
	=====

See notes to financial statements.

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Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements

December 30, 2001 and 2000 and
Year ended December 30, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Eaton Corporation Share Purchase and Investment Plan (the Plan) are prepared under the accrual method of accounting.

INVESTMENT VALUATION AND INCOME RECOGNITION

Investments are stated at fair value as measured by quoted prices in active markets, except for the corporate and debt securities, which are valued at market values as determined by the Trustee, based on the mean of the most recent bid and ask price and other market information available. Participant notes receivable are valued at their outstanding balances, which approximate fair value. At December 30, 2000, the Eaton Corporation Common Shares were valued at the ex-dividend price to reflect the spin-off and stock dividend related to Axcelis Technologies Inc. (See Note 8).

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 the mutual funds and the common shares is based upon the average cost of each participant's shares sold for purposes of determining realized gains and losses.

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 financial statements and accompanying

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notes. Actual results could differ from these estimates.

2. DESCRIPTION OF PLAN

Effective December 30, 2001, the Plan year-end was changed to December 31. Effective January 1, 2002, the Plan was amended and restated. In conjunction with the amendment and restatement, the Plan was renamed The Eaton Savings Plan.

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Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

2. DESCRIPTION OF PLAN (CONTINUED)

The Plan generally provides that an Eaton employee who is in the regular service of a class in a division or group to which Eaton Corporation (Eaton, the Company, or the Plan Sponsor) has extended eligibility for membership in the Plan (other than a temporary employee who is hired for a specific, limited period of time or for the performance of a specific, limited assignment or employees covered by a collective bargaining agreement that does not specify coverage under the Plan) will be eligible to participate on any date established in accordance with administrative procedures which follows the date an employee first incurs an hour of service.

Employees may make a combination of before-tax and after-tax contributions ranging from 1% to 17% of base pay. Employee contributions up to 6% of eligible compensation are eligible for employer match. Participants may change their contributions monthly and accounts are valued daily. Eaton matches regular employee contributions as determined under a formula. This formula compares Eaton's earnings per share for the most recently reported calendar quarter with the average of Eaton's per share earnings for the previous two calendar years. If the most recently reported calendar quarter's earnings per share are identical to the two calendar year average, the Company's matching contribution will be 50% for each dollar contributed by employees. Company matching contributions will increase or decrease depending on whether the most recently reported calendar quarter's earnings per share are greater than or less than the two calendar year average, respectively. For each 2% that the most recently reported calendar quarter's earnings per share is greater than or less than the two calendar year average, 1% will be added or subtracted respectively from the standard Company matching contribution of 50%. Company matching contributions will not be less than \$.25, or more than \$1.00 for each dollar of regular employee contributions, except under special circumstances as defined in the Plan document. There will be an additional \$.10 match per dollar of before-tax and after-tax contributions, up to 17% of eligible compensation, to match contributions initially invested in the Eaton Common Shares Fund. This match is reduced to \$.05 for certain highly compensated employees.

Each participant's account is credited with an allocation of the Plan's earnings based on participant account balances, as defined.

Eligible employees may borrow from their accounts a minimum of \$1,000, up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance reduced by their highest outstanding loan balance during the preceding 12 months. The loans are secured by the balance in the participant's account and bear interest at a published rate, as defined. Principal and interest is paid ratably through payroll deductions.

Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

2. DESCRIPTION OF PLAN (CONTINUED)

Company contributions are provisionally allocated during the year and become non-forfeitable on the last day of each Plan year or upon other events as indicated in the Plan document.

All Company matching contributions are invested in the Eaton Common Shares Fund. Employee contributions may be invested in any of the fund options available under the Plan. Participants may reallocate their accumulated contributions daily among the various funds consistent with the ratios specified in the Plan.

All costs and expenses incurred in administering the Plan are paid by the Plan unless otherwise determined by Eaton.

Eaton may amend, modify, suspend or terminate the Plan. No amendment, modification, suspension or termination of the Plan shall have the effect of providing that any amounts then held under the Plan may be used or diverted to any purpose other than for the exclusive benefit of members or their beneficiaries.

Information about the Plan is contained in the Plan document, which is available from the Company's Human Resources Department upon request.

3. CONTRIBUTIONS

Company matching contributions during 2001 were made at \$.25 per dollar of regular employee contribution.

4. INVESTMENTS

Key Trust Company of Ohio, N.A., the Trustee of the Plan, holds the Plan's investment assets and executes investment transactions.

Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

4. INVESTMENTS (CONTINUED)

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

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Fidelity Contra Fund	\$	92,222,784	\$	1
Vanguard Windsor Fund		117,948,948		1
Vanguard Institutional Index Fund		82,299,090		1
Eaton Common Shares*		510,562,890		5
Axcelis Common Shares		87,971,230		
Key Trust EB Money Market Fund*		71,468,687		

* Includes nonparticipant-directed contributions

During 2001, the Plan's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in fair value as follows:

Common stock	\$	1
Mutual funds		(
U.S. Government securities		
Corporate debt instruments		
	\$	=====

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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Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

4. 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 30	
	2001	2000
Net assets:		
Eaton Corporation common shares	\$ 510,562,890	\$ 552,890
Key Trust EB Money Market Fund	7,039,337	
Accrued sales of investments	106,385	
Interest and dividends receivable	11,359	
Stock dividend receivable	-	89,000
	\$ 517,719,971	\$ 641,890

	YEAR END DECEMBER 2000
=====	
Changes in net assets:	
Participant contributions	\$ 32,72
Employer contributions	12,49
Interest and dividends	10,97
Net appreciation in fair value of investments	75,28
Distributions to participants	(65,14)
Transfer to another plan	(33,41)
Net transfers to participant directed funds	(156,81)

	\$ (123,88)
	=====

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Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

5. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	DECEMBER 30	
	2001	2000

Net assets available for benefits per the financial statements	\$ 1,175,727,828	\$ 1,221,48
Amounts allocated to withdrawing participants	(1,945,706)	(82

Net assets available for benefits per Form 5500	\$ 1,173,782,122	\$ 1,220,66
	=====	

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

YEAR END
DECEMBER
2001

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Benefits paid to participants per the financial statements	\$	172,
Add: Amounts allocated to withdrawing participants at December 30, 2001		1,
Deduct: Amounts allocated to withdrawing participants at December 30, 2000		(

Benefits paid to participants per Form 5500	\$	173,
=====		

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to the end of the Plan year but not yet paid.

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Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

6. INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated April 2, 1996, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (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 has indicated that it will take necessary steps, if any, to maintain the Plan's qualified status.

7. TRANSFERS TO/FROM OTHER PLANS

During 2001, net assets totaling \$63,531,151, representing Plan assets associated with participants who were employed with Eaton Corporation's Semi-Conductor Division, were transferred from the Plan in conjunction with the spin-off of Axcelis Technologies, Inc. (See Note 8). Also during 2001, net assets totaling \$7,675,310, representing Plan assets associated with participants who were employed with Eaton Corporation's Vehicle Switch/Electronic Division, were transferred in conjunction with the sale of the division to Delphi Automotive Corporation. An additional \$48,395 in net assets was transferred from the Plan during 2001 in conjunction with the sales of various other divisions.

8. TRANSACTIONS WITH PARTIES-IN-INTEREST

Party-in-interest transactions included 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 \$12,754,675 in cash dividends on common stock of the Company.

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

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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.

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Eaton Corporation Share Purchase and Investment Plan

Notes to Financial Statements (continued)

8. TRANSACTIONS WITH PARTIES-IN-INTEREST (CONTINUED)

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. As a result of the Axcelis spin-off, the Plan had a stock dividend receivable from Eaton Corporation of \$89,153,788 in Axcelis common stock at December 30, 2000.

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 or stable value 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 stable value 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.

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Eaton Corporation Share Purchase and Investment Plan

EIN: 34-0196300 Plan Number: 055

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

December 30, 2001

IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL, PAR OR MATURITY VALUE	COST
Corporate Debt Instruments:		
AT&T Corp.	6.50% due 9/15/02	
Allstate Corp.	7.875% due 5/01/05	
Allstate Corp.	5.375% due 12/01/06	
Associates Corp.	6.00% due 12/01/02	

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Bank One Corp.	6.5% due 2/01/06
Bell Telephone Co. PA	6.625% due 9/15/02
Bristol-Myers Squibb Co.	4.750% due 10/01/06
CIT Equipment Collateral	4.840% due 9/20/12
Caterpillar Financial Asset	4.850% due 04/25/07
Citibank Credit Card Master	5.500% due 02/15/06
DVI Receivables Corp.	5.137% due 11/11/04
DVI Receivables Corp.	4.613% due 11/11/09
John Deere B V	5.875% due 04/06/06
E.I. Dupont	6.5% due 09/01/02
Electronic Data Systems	6.850% due 10/15/04
General Electric	6.520% due 10/08/02
General Electric	7.25% due 02/01/05
Honda Auto Receivables Owner TR	5.560% due 06/19/06
Household Fin Corp.	6.70% due 6/15/02
Household Fin Corp.	6.50% due 1/24/06
IBM Corp.	4.875% due 10/10/06
Lehman Bros Holdings Inc.	6.625% due 4/01/04
Merrill Lynch & Co. Inc.	5.35% due 6/15/04
Morgan Stanley Dean Witter	6.10% due 4/15/06
National Rural Utils Coop Fin	5.25% due 7/15/04
Norwest Financial Inc.	6.625% due 7/15/04
TCI Communications Inc.	6.375% due 5/01/03
Telefonica Europe BV	7.35% due 9/15/05
Unilever Capital Corp.	6.75% due 11/01/03
Wells Fargo Co.	7.25% due 8/24/05
Wells Fargo Financial Inc.	7.00% due 11/01/05
Wisconsin Energy Corp.	5.875% due 4/01/06

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Eaton Corporation Share Purchase and Investment Plan

EIN: 34-0196300 Plan Number: 055

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

IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL, PAR OR MATURITY VALUE	COST

U.S. Government Securities:		
U.S. Treasury Notes	6.00% due 7/31/02	
U.S. Treasury Notes	5.75% due 4/30/03	
U.S. Treasury Notes	5.25% due 8/15/03	
U.S. Treasury Notes	4.625% due 5/15/06	
Federal Home Loan Banks	6.75% due 2/15/02	
Federal Home Loan Banks	4.75% due 6/28/04	
Federal Home Loan Banks	2.50% due 11/14/03	

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Federal Home Loan Banks	3.625% due 10/15/04
Fannie Mae	5.125% due 2/13/04
Fannie Mae	6.50% due 8/15/04
Fannie Mae	5.75% due 3/27/06
Fannie Mae	5.50% due 5/02/06
Fannie Mae	3.375% due 11/22/04
Freddie MAC	5.70% due 7/26/06
Freddie MAC	4.15% due 9/04/03
Freddie MAC	2.50% due 12/27/02
Freddie MAC	5.25% due 1/15/06
Freddie MAC	4.50% due 8/15/04

Interest in Registered Investment Companies:

Vanguard Windsor Fund	7,484,070 shares
Vanguard Wellesley Fund	2,168,052 shares
Fidelity Contra Fund	2,145,215 shares
Templeton Foreign Fund	2,771,119 shares
Vanguard Institutional Index Fund	775,894 shares

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Eaton Corporation Share Purchase and Investment Plan

EIN: 34-0196300 Plan Number: 055

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

IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL, PAR OR MATURITY VALUE	COST
Key Trust Company of Ohio, N.A. Employee Benefits Money Market Fund*	71,468,687 shares	71,468,687
Common Stock: Eaton Corporation*	6,808,413 shares	328,654,947
Axcelis Stock	6,715,361 shares	
Participant notes receivable*	6-11%; variable maturities	
Total investments		

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*Indicates party-in-interest to the Plan.

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Eaton Corporation Share Purchase and Investment Plan

EIN: 34-0196300 Plan Number: 055

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

Year ended December 30, 2001

IDENTITY OF PARTY INVOLVED	DESCRIPTION OF ASSETS	PURCHASE PRICE	SELLING PRICE	COST OF ASSET
CATEGORY (iii)-SERIES OF TRANSACTIONS IN EXCESS OF 5% OF PLAN ASSETS				
Key Trust Company of Ohio, N.A.*	Employee Benefits Money Market Fund	\$122,977,897	\$115,967,720	\$122,977, 115,967,
Eaton Corporation*	Eaton Corporation Common Stock	61,216,275	126,408,426	61,216, 82,558,

* Indicates party-in-interest to the Plan.

There were no category (i), (ii) or (iv) reportable transactions during the year ended December 30, 2001.

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EXHIBIT INDEX

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