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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 31, 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 401(K) SAVINGS 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 401(k) SAVINGS 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 Corporatio

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AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL
SCHEDULES

Eaton Corporation 401(k) Savings Plan and Trust

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

Eaton Corporation 401(k) Savings Plan and Trust
Audited 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
Eaton Corporation 401(k) Savings Plan and Trust

We have audited the accompanying statements of net assets available for benefits of the Eaton Corporation 401(k) Savings Plan and Trust as of December 31, 2001

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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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Eaton Corporation 401(k) Savings Plan and Trust
Statements of Net Assets Available for Benefits

	DECEMBER 31	
	2001	2000

ASSETS		
Investments at fair value:		
Mutual funds	\$22,817,349	\$23,514,386
Common/collective trust fund	12,761,074	11,637,810
Money market fund	2,883,743	2,336,134
Common stock	8,769,507	6,597,270
Participant notes receivable	1,735,437	1,531,043

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Total investments	48,967,110	45,616,643
RECEIVABLES:		
Contributions-Participants	41,664	61,344
Interest	8,144	518,185
Stock dividend	-	1,066,568
Total receivables	49,808	1,646,097
Net assets available for benefits	\$49,016,918	\$47,262,740

See notes to financial statements.

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Eaton Corporation 401(k) Savings Plan and Trust
Statement of Changes in Net Assets Available for Benefits
Year ended December 31, 2001

ADDITIONS

Investment income:	
Interest and dividends	\$ 1,137,693
Contributions:	
Participants	5,048,980
Employer	433,106

	5,482,086

	6,619,779
Deductions	
Distributions to participants	5,016,889

	1,602,890
Net appreciation in fair value of investments	151,288

Net increase	1,754,178
Net assets available for benefits at beginning of year	47,262,740

Net assets available for benefits at end of year	\$49,016,918
	=====

See notes to financial statements.

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Eaton Corporation 401(k) Savings Plan and Trust

Notes to Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Eaton Corporation 401(k) Savings Plan and Trust (the Plan) have been prepared under 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 Prism Reserve Fund which is 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 31, 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, Eaton Common Shares Fund, and Axcelis Technologies Shares Fund 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 notes. Actual results could differ from these estimates.

2. DESCRIPTION OF THE PLAN

Effective July 1, 1996, Eaton Corporation (the Company or Plan Sponsor) established the Plan. On May 1, 1998, the Company amended the Plan and restated certain articles therein to qualify the Plan as a profit-sharing plan under Section 401(a) of the Internal Revenue Code (the Code), and include a cash or deferred arrangement that is intended to qualify under Section 401(k) of the Code.

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Eaton Corporation 401(k) Savings Plan and Trust

Notes to Financial Statements (continued)

2. DESCRIPTION OF THE PLAN (CONTINUED)

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The Plan provides that all union employees that belong to IAM Local 78 and IAM Local 1061, Milwaukee, Wisconsin; USWA Local 7509, Shelbyville, Tennessee; UAW Local 164, Auburn, Indiana; Metal Processors Union IUAP and NW AFL-CIO Local 16, Rochelle, Illinois; UAW Local 220, Marshall, Michigan; IAM and Aerospace Workers, Local 77, Eden Prairie, Minnesota; Beaver Salaried Employees Association and IBEW, AFL-CIO, Local 201, Beaver, Pennsylvania; and IBEW, AFL-CIO, Local 1833, Horseheads, New York; IAMAW Local 1165, Lincoln, Illinois; UAW Local 1609, Winamac, Indiana; IAMAW Local 725, Los Angeles, California; IAM Local 70, Hutchinson, Kansas; and UPIU Local 7967, Cleveland, Ohio; UAW Local 1966, Jackson, Michigan, will be eligible for membership in the Plan on the date at which the employee has completed the specified probationary period as stated in the applicable collective bargaining agreement.

Eligible employees may elect to make before-tax or after-tax contributions from 1% to 17% of their compensation. Contributions are allocated by the employee among the investment funds offered by the Plan.

Each participant's account is credited with the participant's contributions, employer matching contributions, if applicable, and allocations of the Plan's earnings and is charged with an allocation of administrative expenses. Allocations are based on participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Participants are immediately vested in their contributions and actual earnings thereon. On termination of service, a participant is eligible to receive a lump-sum amount equal to the value of his account.

Participants may borrow from their fund accounts up 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. Loan terms range from 1-5 years except for loans used for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate based on the prime interest rates as determined daily by the Trustee. Principal and interest are paid ratably through monthly payroll deductions.

For certain locations, eligible employees receive an employer match of 50% up to 6% of their compensation. Eligible employees are 100% vested provided the participants are employees on the last day of the plan year in which the matching contributions are made.

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Eaton Corporation 401(k) Savings Plan and Trust

Notes to Financial Statements (continued)

2. DESCRIPTION OF THE PLAN (CONTINUED)

All administrative and transaction costs, management fees and expenses of the Plan are paid by the trustee from the trust unless such costs, fees and expenses are paid by the Company. The Company elected to pay certain administrative costs during 2001 on behalf of the Plan.

The Company may amend, modify, suspend or terminate the Plan at any time. 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.

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

Effective January 1, 2002, the Plan was amended and restated. In conjunction with the amendment and restatement, the Plan was renamed to the Eaton Personal Investment Plan.

3. INVESTMENTS

Key Trust Company of Ohio, N.A., 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
Key Bank Prism Reserve Fund	\$ 12,761,074	\$ 11,000,000
Employee Benefits Money Market Fund*	2,883,743	3,000,000
American Balanced Fund	4,922,148	3,000,000
Vanguard Windsor Fund	3,680,976	4,000,000
Fidelity Contra Fund	3,638,860	4,000,000
Vanguard Institutional Index Fund	9,279,577	11,000,000
Eaton Corporation Common Shares*	7,518,610	6,000,000

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* Includes nonparticipant-directed contributions

Eaton Corporation 401(k) Savings Plan and Trust

Notes to Financial Statements (continued)

3. INVESTMENTS (CONTINUED)

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

Common/collective trust fund	\$ 866,865
Shares of registered investment companies	(2,234,155)
Common stock	1,518,578
	\$ 151,288
	\$ 151,288

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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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	2000
Net assets:		
Eaton Corporation Common Shares	\$ 7,518,610	\$ 6,597,270
Key Trust EB Money Market Fund	270,096	222,879
Receivables:		
Employee contribution	6,129	9,901
Interest	419	1,295
Stock dividend	-	1,066,568
	\$ 7,795,254	\$ 7,897,913
	\$ 7,795,254	\$ 7,897,913

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Eaton Corporation 401(k) Savings Plan and Trust

Notes to Financial Statements (continued)

3. INVESTMENTS (CONTINUED)

	YEAR ENDED DECEMBER 31, 2001
Changes in net assets:	
Contributions	\$ 1,102,312
Net appreciation in fair value of investments	185,407
Interest and dividends	943,890
Net transfers to participant directed funds	(537,772)
Distributions to participants	(1,796,496)
	\$ (102,659)
Net decrease	\$ (102,659)

4. INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated November 14, 1997, stating that the Plan is qualified under Section 401(a) of 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 administrator 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.

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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 \$185,407 in common stock dividends from the Company.

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Eaton Corporation 401(k) Savings Plan and Trust

Notes to Financial Statements (continued)

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

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. As a result of the Axcelis spin-off, the Plan had a stock dividend receivable from Eaton Corporation of \$1,066,568 in Axcelis common stock at December 31, 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 401(k) Savings Plan and Trust

EIN: 34-0196300 Plan Number: 162

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

December 31, 2001

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

MUTUAL FUNDS		
American Balanced Fund	310,546 shares	
Vanguard Windsor Fund	235,357 shares	
Vanguard Institutional Index Fund	88,470 shares	
Fidelity Contra Fund	85,080 shares	
Templeton Foreign Fund	140,085 shares	
COMMON/COLLECTIVE TRUST FUND		
* Key Bank Prism Reserve Fund	68,055 shares	
MONEY MARKET FUND		
* Key Bank Employee Benefits Money Market Fund	2,883,743 units	\$ 2,883
COMMON STOCK FUNDS		
* Eaton Corporation Common Shares	101,043 shares	6,721
Axcelis Technologies, Inc. Common Shares	97,044 shares	
* PARTICIPANT NOTES	6.5% - 10.5%; variable maturities	

* Indicates a party-in-interest to the Plan.

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Eaton Corporation 401(k) Savings Plan and Trust

EIN: 34-0196300 Plan Number: 162

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

Year ended December 31, 2001

Description of Asset	Purchase Price	Selling Price	Cost of Asset	Curren Value

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CATEGORY (iii)-SERIES OF TRANSACTIONS IN EXCESS OF 5% OF PLAN ASSETS

*	Eaton Corporation Common Shares	\$ 4,925,341	\$ 5,004,746	\$ 4,925,341	\$ 4,925,341
				4,566,719	5,004,746
*	Key Bank Employee Benefits Money Market Fund	8,074,170	7,964,489	8,074,170	8,074,170
				7,964,489	7,964,489

* Indicates a party-in-interest to the Plan.

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

EXHIBIT INDEX

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