EATON CORP
Form 11-K
June 22, 2011

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 11-K
Annual Report Pursuant to Section 15(d) of the
Securities Exchange Act of 1934

þ **Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2010

Or

o **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:

Eaton Electrical de Puerto Rico, Inc.
Retirement 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 ELECTRICAL DE PUERTO RICO, INC.
RETIREMENT SAVINGS PLAN

Date: June 22, 2011

By: Eaton Corporation Pension Administration Committee

By: /s/ B. K. Rawot
B. K. Rawot
Senior Vice President and Controller
Eaton Corporation

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EATON ELECTRICAL DE PUERTO RICO, INC.
RETIREMENT SAVINGS PLAN
FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM
December 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Pension Administration Committee and the
Pension Investment Committee Eaton Corporation

We have audited the accompanying Statement of Net Assets Available for Benefits of the EATON ELECTRICAL DE PUERTO RICO, INC. RETIREMENT SAVINGS PLAN as of December 31, 2010 and 2009 and the related Statement of Changes in Net Assets Available for Benefits for the years then ended. 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 the standards of the Public Company Accounting Oversight Board (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. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. 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 provides 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 Eaton Electrical de Puerto Rico, Inc. Retirement Savings Plan as of December 31, 2010 and 2009, and the changes in its net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2010, is presented for the purposes of additional analysis and is not a required part of the financial statements but is supplemental information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ MEADEN & MOORE, LTD.
Certified Public Accountants
June 22, 2011
Cleveland, Ohio

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STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

	December 31	
	2010	2009
ASSETS		
Receivable Employer contributions	**$ 15,868**	$
Receivable Employee contributions	**40,242**	31,114
Total Receivables	**56,110**	31,114
Investments:		
Vanguard Retirement Savings Trust II	**21,020,758**	19,322,254
Eaton Common Shares Fund	**4,676,317**	4,022,891
Vanguard Institutional Index	**2,472,409**	2,202,553
Vanguard Balanced Index Fund	**849,840**	786,508
Vanguard Developed Markets Index	**565,654**	574,240
Total Investments	**29,584,978**	26,908,446
Net Assets Available for Benefits at Fair Value	**29,641,088**	26,939,560
Adjustment from fair value to contract value for fully benefit-responsive investment contract	**(827,758)**	(417,712)
Net Assets Available for Benefits	**$ 28,813,330**	$ 26,521,848

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

	Year Ended December 31	
	2010	2009
Additions to Net Assets Attributed to:		
Contributions:		
Employer	**$ 301,346**	$ 194,993
Employee	**1,463,353**	1,399,450
	1,764,699	1,594,443
Interest and dividend income	**791,883**	808,528
Net unrealized/realized appreciation	**2,452,802**	1,478,132
Total Additions	**5,009,384**	3,881,103
Deductions from Net Assets Attributed to:		
Benefits paid to participants	**2,717,770**	4,409,261
Administrative Expenses	**132**	152
Total Deductions	**2,717,902**	4,409,413
Net Increase/(Decrease)	**2,291,482**	(528,310)
Net Assets Available for Benefits:		
Beginning of Year	**26,521,848**	27,050,158
End of Year	**$ 28,813,330**	$ 26,521,848

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

1 Description of Plan

The following description of The Eaton Electrical de Puerto Rico, Inc. Retirement Savings Plan (the Plan) provides only general information. Participants should refer to the Plan document and summary plan description, which is available from the Human Resources Department upon request, for a complete description of the Plan s provisions.

General:

Effective February 1, 1994, Eaton Electrical de Puerto Rico, Inc. (the Company), which was formerly known as Cutler-Hammer de Puerto Rico, Inc., a wholly owned subsidiary of Eaton Corporation, established the Plan. Effective January 1, 2009, the Plan Sponsor is Cutler Hammer Electrical Company. The plan was amended and restated at the close of business December 31, 2010. As of January 1, 2011, the plan is named The Puerto Rico Retirement Savings Plan and Banco Popular is appointed the sole trustee of the plan.

Eligibility:

The Plan provides that all full-time employees not covered under a collective bargaining agreement of the Company are eligible to participate in the Plan immediately upon employment.

Effective April 1, 2011, newly hired employees will be automatically enrolled in the Plan.

Contributions:

Employee Contributions Effective January 1, 2009, employees may elect to make before-tax contributions to the Plan up to a maximum of 30% of their compensation.

Employer Contributions The Company has agreed to make a voluntarily matching contribution of 50% of the employee contributions not to exceed 3% of the total compensation of the employee. Effective with the first full pay period beginning after May 1, 2009, the matching contribution was suspended. The Company matching contribution was reinstated effective July 1, 2010.

Contributions are subject to limitations on annual additions and other limitations imposed by Section 1165(e) of the Puerto Rico Internal Revenue Code, as amended from time to time, as defined in the Plan agreement.

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

1 Description of Plan, Continued

Participants Accounts:

Each participant s account is credited with the participant s contributions and allocations of Company contributions, Plan earnings and transaction costs. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s account. On termination of service, a participant is eligible to receive a lump-sum amount equal to the vested value of his or her account.

Vesting:

All participants are 100% vested in their contributions plus actual earnings thereon. Vesting in the Company contribution portion of their accounts plus actual earnings thereon is based on years of continuous service. Participants are 100% vested after three years of credited service or upon the death of the participant.

Forfeitures:

Forfeited non-vested accounts totaled $21 and $11,965 as of December 31, 2010 and 2009, respectively. Future employer contributions will be reduced by these amounts.

Hardship Withdrawals:

Hardship withdrawals are permitted in accordance with Internal Revenue Service guidelines.

Investment Options:

Contributions may be invested in any of the fund options available under the Plan.

2 Summary of Significant Accounting Policies

Basis of Accounting:

The financial statements of the Plan are prepared under the accrual method of accounting.

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

2 Summary of Significant Accounting Policies, Continued

Investment Valuation and Income Recognition:

Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the Plan year. The Vanguard Retirement Savings Trust II Fund invests primarily in investment contracts issued by insurance companies, banks or other financial institutions, including investment contracts backed by high-quality fixed income securities.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Under the revised accounting standards, investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Administrative Fees:

Substantially all administrative, management fees and other expenses of the Plan are paid by the Company. Certain transaction costs are paid by the participants.

Plan Termination:

The Company may amend, modify, suspend or terminate the Plan, provided that no assets held by the Plan or income thereon received for the purposes of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of participating employees or their beneficiaries.

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

2 Summary of Significant Accounting Policies, Continued

Risks and Uncertainties:

The Plan s investment include investments in mutual funds and a collective fund holding investment contracts with varying degrees of risk, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets available for Plan benefits.

Subsequent Events:

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements.

3 Investments

Banco Popular de Puerto Rico and Fidelity Management Trust Company are the co-trustee of the Plan through the close of business on December 31, 2010. Investments which constitute more than 5% of the Plan s net assets are:

	2010	2009
Vanguard Retirement Savings Trust II	**$ 21,020,758**	$ 19,322,254
Eaton Common Shares Fund (A unitized fund of Eaton Shares and cash)	**$ 4,676,317**	$ 4,022,891
Vanguard Institutional Index	**$ 2,472,409**	$ 2,202,553

During 2010 and 2009, the Plan s investments (including investments purchased, sold as well as held during the year) appreciated (depreciated) in fair value as follows:

Eaton Common Shares Fund	**$ 2,068,261**	$ 829,992
Mutual funds	**384,541**	648,140
	$ 2,452,802	$ 1,478,132

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

4 Tax Status

The Plan has received a determination letter from the Puerto Rico Treasury Department dated August 24, 1999, stating that the Plan meets the requirements for qualification under Puerto Rico income tax laws and that the related trust is exempt from income taxes. Subsequent to this determination the Plan was amended. Once qualified, the Plan is required to operate in conformity with the income tax laws of Puerto Rico to maintain its qualification. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the income tax laws of Puerto Rico and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

5 Party-in-Interest Transactions

Party-in-interest transactions include the investment in the common stock of Eaton Corporation, 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 2010 and 2009, the Plan received $124,899 and $114,620, respectively, in common stock dividends from Eaton Corporation.

6 Benefit-Responsive Fund

The Plan holds the Vanguard Retirement Savings Trust II, a fund managed by Vanguard, that invests in benefit-responsive investment contracts. The fund is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The traditional guaranteed investment contract issuers are contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan and the synthetic contract issuers are contractually obligated to guarantee the payment of a specific interest rate to the Plan.

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

6 Benefit-Responsive Fund

As described in Note 2, because the guaranteed investment contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the guaranteed investment contract. Contract value, as reported to the Plan by Vanguard, represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

The average market yield of the Fund for 2010 and 2009 was 3.36% and 3.15%, respectively. This yield is calculated based on actual investment income from the underlying investments for the last month of the year, annualized and divided by the fair value of the investment portfolio on the report date. The average yield of the Fund with an adjustment to reflect the actual interest rate credited to participants in the Fund was 3.01% and 2.86%, respectively.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer, but it may not be less than zero percent. Such interest rates are reviewed on a quarterly basis for resetting.

The fair value is based on various valuation approaches dependent on the underlying investments of the contract.

Certain events limit the ability of the Plan to transact at contract value with the issuer. The Plan Administrator does not believe that the occurrence of any such value event, which would limit the Plan s ability to transact at contract value with participants is probable. The issuer may terminate the contract for cause at any time.

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

7 Fair Value Measurements

In accordance with ASC 820, the Plan categorized financial instruments, based on the degree of subjectivity inherent in the valuation technique, into a fair value hierarchy of three levels, as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

There have been no changes in the methodologies used at December 31, 2010 and 2009.

Registered investment companies (mutual funds) and separate accounts: Valued at the net asset value (NAV) of shares held by the Plan at year end.

Guaranteed Investment Contract: Valued at the net unit value of units held by the trust at year end. The unit value is determined by the Total Value of Fund Assets divided by the Total Number of Units of the Fund owned.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

7 Fair Value Measurements, Continued

The following table sets forth by level on a recurring basis, within the fair value hierarchy, the Plan s assets at fair value as of December 31, 2010:

	Level 1 Fair Value	**Level 2 Fair Value**	**Total**
Registered investment companies			
Large-cap equity funds	**$ 2,472,409**	**$**	**$ 2,472,409**
Balanced funds	**849,840**		**849,840**
International equity funds	**565,654**		**565,654**
Total	**3,887,903**		**3,887,903**
Guaranteed investment contracts			
Stable value funds		**21,020,758**	**21,020,758**
Separate accounts			
Company stock funds		**4,676,317**	**4,676,317**
Total assets at fair value	**$ 3,887,903**	**$ 25,697,075**	**$ 29,584,978**

The following table sets forth by level on a recurring basis, within the fair value hierarchy, the Plan s assets at fair value as of December 31, 2009:

	Level 1 Fair Value	Level 2 Fair Value	Total
Registered investment companies			
Large-cap equity funds	$ 2,202,553	$	$ 2,202,553
Balanced funds	786,508		786,508
International equity funds	574,240		574,240
Total	3,563,301		3,563,301
Guaranteed investment contracts			
Stable value funds		19,322,254	19,322,254
Separate accounts			
Company stock funds		4,022,891	4,022,891
Total assets at fair value	$ 3,563,301	$ 23,345,145	$ 26,908,446

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NOTES TO FINANCIAL STATEMENTS
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan

8 Recent Accounting Pronouncements

In January 2010, the FASB issued an accounting standard update titled Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements . This new guidance requires additional disclosures to be provided, including: 1) transfers in and out of Levels 1 and 2 and the reasons for the transfers, 2) additional breakout of asset and liability categories and 3) purchases, sales, issuances and settlements to be reported separately in the Level 3 roll forward. This guidance was effective for periods beginning after December 15, 2009, except for the item related to the Level 3 roll forward which is effective for periods beginning after December 15, 2010 and interim periods within those years. This guidance was effective for the Company for the year ended December 31, 2010. The adoption did not have a material impact on the Plan.

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SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES AT END OF YEAR
Form 5500, Schedule H, Part IV, Line 4i
Eaton Electrical de Puerto Rico, Inc.
Retirement Savings Plan
EIN 34-1756466
Plan Number 02
December 31, 2010

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
	Vanguard Retirement Savings Trust II - see Footnote 1	Guaranteed Investment Contract	N/A	$ 20,193,000
*	Eaton Common Shares Fund	Separate accounts	N/A	4,676,317
	Vanguard Institutional Index	Mutual Funds	N/A	2,472,409
	Vanguard Balanced Index Fund	Mutual Funds	N/A	849,840
	Vanguard Developed Markets Index	Mutual Funds	N/A	565,654
				$ 28,757,220

Footnote 1 - denotes contract value

* Party-in-interest to the Plan.

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Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-150636, Form S-8 No. 333-35697, Form S-8 No. 333-97373, Form S-8 No. 333-158822 and Form S- 8 No. 333-166330) pertaining to the Eaton Electrical de Puerto Rico, Inc Retirement Savings Plan of our report dated June 22, 2011, with respect to the financial statements of the Eaton Electrical de Puerto Rico, Inc Retirement Savings Plan included in this Annual Report (Form 11-K) for the years ended December 31, 2010 and 2009.

/s/ Meaden & Moore, Ltd

Cleveland, Ohio

June 22, 2011