# EXHIBIT 19

(Part 2 of 8)

| Price Range: | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|
| High | 25 | 15¾ | 4⅞ | 2⅞ | 2 |
| Low | 12⅞ | 9¼ | 2⅞ | 1⅛ | 5/16 |

Exchange Offer: In early 1978, Co. said an offer by its Reliance Transcontinental NV subsidiary to swap its debs. for conv. debs. of two other units resulted in $18,400,000 of debs. tendered when the offer expired Feb. 1, 1978. About $16,400,000 were outstg. Reliance Transcontinental NV offered 7½% debs., due 1985, to holders of Reliance World Trade Co.'s 5% conv. debs., due 1988. Separately, it offered 6¼% debs., due 1988, in exchange for Reliance International NV's 5% conv. debs. due 1989. The new issues are guaranteed by Co., but are not convertible into com. stock of Co.

## GENERAL CASUALTY CO. OF WISCONSIN (Madison, Wis.)

(Controlled by Reliance Insurance Co.)

Incorporated in Wisconsin May 12, 1925.

On Mar. 29, 1944, took over Midwestern Casualty Co. of Des Moines and in Apr., 1944, took over Policyholders Mutual Casualty Co. of West Liberty, Iowa.

In Feb. 1956, Reliance Insurance Co. purchased all outstg. stock of company.

Types of Insurance written: see tabulation below "Net Premiums Written."

Operates in Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, New York, Ohio, South Dakota, Missouri, Wisconsin and North Dakota.

Subsidiaries and Affiliates:

| Company: | Shs. Held | Carry Val. Dec. 31,'78 |
|---|---|---|
| [I]Regent Insurance Co. Madison, Wisc. | 115,000 | $14,080,011 |
| General Casualty Co. of Ill. | 200,000 | 3,219,974 |

[I]See alphabetical index.

Officers

D.F. Fisher, President
D.L. Kohlhammer, Vice-Pres. & Sec.
R.C. Faust, Treas.

Vice-Presidents

J.A. Faulkner — R.W. Schmitz
H.L. Richter — R.M. Smith

Directors

J.A. Faulkner — S.P. Steinberg
R.C. Faust — K.R. Dickey
D.F. Fisher — D.L. Kohlhammer
J.W. Folk — R.W. Schmitz
W.A. Pollard — P.N. Snodgrass

Head Office: 121 East Wilson St., Madison, WI 53703. Tel.: (608)257-1431.

Net Premiums Written, years ended Dec. 31 ($000):

| | 1978 | 1977 |
|---|---|---|
| Fire | 1,744 | 1,635 |
| Allied lines | 570 | 569 |
| Multiple peril | 10,651 | 9,859 |
| Ocean marine | 12 | 11 |
| Inland marine | 1,010 | 998 |
| Auto liab. | 31,709 | 31,817 |
| Other liab. | 5,853 | 5,246 |
| Workmens comp. | 5,957 | 5,412 |
| Glass | 64 | 65 |
| Burglary & theft | 174 | 191 |
| Auto phys. dam. | 19,777 | 19,030 |
| Total | 77,591 | 74,833 |

Income Account, years ended Dec. 31 ($000):

| | 1978 | 1977 |
|---|---|---|
| Net prems. written | 77,591 | 74,833 |
| Unearn. prem. res. | dr819 | dr2,778 |
| Premiums earned | 76,702 | 72,055 |
| Losses incurred | 50,718 | 51,520 |
| Underwrit. exp. | 19,984 | 18,0… |
| Gain from undwr. | 6,000 | 2,… |
| Und. p. & l. items | dr10 | … |
| Combined gain | 5,990 | 2,414 |
| Net int. & rents | 8,753 | 7,864 |
| Net real inv. loss | cr357 | cr39 |
| Total income | 15,111 | 10,347 |
| Divs. to plcyhldrs. | 66 | 31 |
| Net income | 15,045 | 10,316 |
| Net gain inv. val. | 3,074 | 2,803 |
| Divs. to stockhold. | 6,900 | 4,965 |
| Balance | 12,219 | 8,159 |
| Loss ratio | 66.12% | 71.50% |
| Expense ratio | 25.76% | 24.17% |

Assets and Liabilities, as of Dec. 31 ($000):

| Assets: | 1978 | 1977 |
|---|---|---|
| Bonds: | | |
| Federal | 1,451 | 450 |
| State & munic. | 6,912 | 6,386 |
| Govt. agency | 41,282 | 39,862 |
| Corporate | 55,810 | 55,161 |
| Preferred stocks | 10,606 | 11,158 |
| Common stocks | 23,717 | 11,437 |
| Real estate | 2,061 | 2,174 |
| Cash | 1,031 | 1,609 |
| Agents balances | 10,701 | 7,251 |
| Other assets | 862 | 5,332 |
| Int. and rents due and accrued | 2,431 | 2,160 |
| Admit. assets | 138,876 | 138,833 |
| Non-admit. assets | 963 | 692 |
| Liabilities: | | |
| Losses | 56,935 | 47,216 |
| Loss adjust. exp. | 5,346 | 4,439 |
| Unearned prems. | 26,873 | 25,993 |
| Commissions, etc. | 1,400 | 525 |
| Other expenses | 1,720 | 1,183 |
| Taxes, fees, etc. | 1,469 | 830 |
| Drafts payable | 2,208 | 2,607 |
| Due to affil. | 616 | 3,490 |
| Other liabilities | 4,377 | 1,625 |
| Policyholders Surplus: | | |
| Capital stock ($100) | 1,500 | 1,500 |
| Surplus | 56,901 | 49,844 |
| Total | 58,401 | 51,344 |
| Total | 138,876 | 138,833 |

Capital Stock: Outstanding Dec. 31, 1978, 15,000 shares; par $100. All owned by Reliance Insurance Co.

## RELIANCE FINANCIAL SERVICES CORP.

(Controlled by Reliance Group, Inc.)

History: Inc. in Del. July 27, 1970 as Leasco Financial Services, Inc.; present name adopted in Dec. 1973.

On Jan. 31, 1975, acquired Commonwealth Land Title Insurance Co., Phila., Penn. in exchange for issuance of $30,000,000 of Co.'s Series A Preferred Stock with an additional $10,000,000 conditionally issuable depending on Commonwealth's future profitability.

Business: Formed by Reliance Group Inc. to become a holding Co. for insurance operations.

Properties: Maintains offices in NYC in space provided by parent at no cost. Thru a subsidiary, owns 472,000 sq. ft. office bldg. in Philadelphia, Pa. and other office bldgs. aggregating 375,230 sq. ft. in various locations.

Principal Subsidiaries

Property & Casualty:
General Casualty Co. of Ill.
General Casualty Co. of Wisc.
Pilot Insurance Co.
Planet Insurance Co.
Regent Insurance Co.
Reliance Ins. Co. (96.9%)
Reliance Ins. Co. of Ill.
United Pacific Ins. Co.
Reliance Risk Management, Inc.
Reliance Insurance Co. of N.Y.
United Pacific Insurance Co. of N.Y.
Regent International Insurance Co., Ltd.

Life & Health:
Reliance Standard Life Ins. Co.
United Pacific Life Ins. Co.

Title:
Commonwealth Land Title Ins. Co.
Commonwealth Mortgage Assurance Co.

Officers

S.P. Steinberg, Chmn.
W.A. Pollard, Pres.
J.T. Leatham, Exec. Vice-Pres.
F.A. Jackson, Senior Vice-Pres., Sec. & Corp. Counsel
L.C. Freiberg, Senior Vice-Pres. & Treas.
G.E. Bello, Senior Vice-Pres. & Contr.
R.M. Steinberg, Senior Vice-Pres.—Admin.

Directors

S.P. Steinberg — W.A. Pollard
O.R. Baker — Daniel Yankelovich
J.W. Folk — T.J. Stanton, Jr.
R.B. Hodes — J.T. Leatham
H.W. Meers — B.L. Schwartz

Auditors: Touche Ross & Co.

General Counsel: Willkie, Farr & Gallagher.

Executive Office: 919 Third Ave., New York, NY 10022. Tel.: (212)750-7500.

Consolidated Income Acct., yrs. ended Dec. 31 ($000):

| | 1978 | 1977 |
|---|---|---|
| Revenues | $1,091,541 | $1,018,531 |
| Ins. losses, etc. | 550,484 | 521,069 |
| Commissions & exp. | 346,161 | 314,179 |
| Plcyhldr. divs. | 66,938 | 87,652 |
| Interest, etc. | 9,172 | 8,172 |
| Income taxes | 43,128 | 31,780 |
| Minority interest | 7,431 | 6,818 |
| Realiz. inv. gain | 8,382 | 3,639 |
| Extraord. credit | ........ | 593 |
| Net income | 76,663 | 58,073 |

Consolidated Balance Sheet, as of Dec. 31 ($000):

| Assets: | 1978 | 1977 |
|---|---|---|
| Marketable securities: | | |
| Bonds—at amort. cost | $920,671 | $912,611 |
| Com. & pfd. stks. | 233,317 | 178,381 |
| Invested cash | 373,477 | 116,617 |
| Cash | 26,561 | 27,036 |
| Prem. rec. & agents bal. | 119,698 | 116,153 |
| Other acc. & notes rec. | 31,163 | 41,612 |
| Notes rec. from Reliance Group | 97,915 | 107,531 |
| Mortg. & pol. loans | 36,633 | 38,860 |
| Def. pol. acq. costs | 111,180 | 101,439 |
| Real estate, furn. & fix. | 47,549 | 44,285 |
| Other assets | 83,264 | 87,657 |
| Total | $2,028,323 | $1,775,942 |
| Liabilities: | | |
| Unearn. prem. | $543,933 | $516,897 |
| Unpaid claims & rel. exp. & pol. claims pend. | 799,320 | 659,510 |
| Future pol. ben. | 177,302 | 176,118 |
| Notes & mortg. pay. | 15,134 | 10,103 |
| Acc. pay. & accr. exp. | 111,425 | 96,838 |
| Fed. & foreign inc. taxes | 77,527 | 57,830 |
| Sinking fund debs. | 89,736 | 89,722 |
| Minority interests: | | |
| Pfd. stk. of a sub. | 50,396 | 50,396 |
| Other | 10,690 | 9,464 |
| Preferred stock | 30,000 | 30,000 |
| Additional paid-in cap. | 81,153 | 81,153 |
| Retained earnings | 234,595 | 190,585 |
| Net unreal. gain on invest. in com. and pref. stocks | 7,112 | 7,323 |
| Total stkhldrs. equity | 352,860 | 309,064 |
| Total | $2,028,323 | $1,775,932 |

Long Term Debt: Reliance Financial Services Corp. (Leasco Financial Services Corp.) sinking fund debenture 8⅛s, due 1992:

AUTH.—$50,000,000; outstg., Dec. 31, 1978, $50,000,000.

DATED—Oct. 15, 1972. DUE—Apr. 15, 1992.

INTEREST—A&O15, by mail to holders registered S 30 or M 31.

TRUSTEE—First National Bank of Boston, Mass.

PAYING AGENT—Bankers Trust Co., NYC.

DENOMINATION—Fully registered, $1,000 and any integral multiple thereof.

CALLABLE—As a whole or in part at any time on at least 30 days' notice to each Oct. 14, as follows:

| | | | | | |
|---|---|---|---|---|---|
| 1979 | 105.80 | 1980 | 105.35 | 1981 | 104.90 |
| 1982 | 104.45 | 1983 | 104.00 | 1984 | 103.55 |
| 1985 | 103.10 | 1986 | 102.65 | 1987 | 102.20 |
| 1988 | 101.75 | 1989 | 101.30 | 1990 | 100.85 |
| 1991 | 100.40 | | | | |

and thereafter at 100. Not callable, however, prior to Oct. 15, 1982 thru refunding at interest cost less than 8⅛%. Also callable on like notice for sinking fund (which see) at 100.

SINKING FUND—Annually, each Oct. 15, 1983-91, cash (or debs.) to redeem $5,000,000 principal amount of debs., plus similar optional payments.

SECURITY—Co. will not be permitted to create, assume, incur or permit existence of a debt secured by a pledge, lien or other encumbrance on the capital stock of any subsidiaries without providing that debt, shall be equally and ratably secured with any such secured debt, except foregoing will not apply to debt secured by liens on any shs. of stock of any corp. existing at the time such corp. becomes a subsidiary or existing at the time of acquisition of such stock or securing payment of any part of the purchase price of such stock, or liens in favor of Co. or subsidiary, or extensions, renewals or replacements of any such liens.

DIVIDEND RESTRICTIONS—Co. may not pay cash divs. on or acquire stock in excess of 75% of consolidated net income after Dec. 31, 1971 and net proceeds from sale of stock after such date.

CREATION OF ADDITIONAL DEBT—Co. may not incur or assume any indebtedness unless thereafter the indebtedness of Co. and its subsidiaries does not exceed 50% of adjusted consolidated net worth any at the time of such incurrence or assumption of indebtedness the regular quarterly cash div. of reliance times 4 aggregates at least 1.7 times the interest requirements of Co. and its subsidiaries on a consolidated basis for the ensuing 12 month period for indebtedness then outstg. and then being so incurred or assumed.

RIGHTS ON DEFAULT—Trustee, or 25% of debs. outstg., may declare principal due and payable.

INDENTURE MODIFICATION—Indenture may be modified, except as provided, with consent of 66⅔% of debs. outstg.

LISTED—On New York Stock Exchange.

PURPOSE—Proceeds to reduce bank debt.

OFFERED—($50,000,000) at 100 (proceeds to Co., 98.625) on Nov. 3, 1972 thru White, Weld & Co., Inc. and associates.

# MOODY'S

# INDUSTRIAL MANUAL

1984

VOL. 1 A-I

# EATON CORPORATION

## CAPITAL STRUCTURE

LONG TERM DEBT

| Issue | Rating | [4]Amount Outstanding | Times Charges Earned 1983 | Times Charges Earned 1982 | Interest Dates | Call Price | Price Range 1983 | Price Range 1982 |
|---|---|---|---|---|---|---|---|---|
| 1. Eaton Mfg. Co. deb. 4⅝s, 1988 | A2 | [6]$4,392,000 | | | J & J 15 | [1]100.10 | 56 - 52 | 52 - 50 |
| 2. Deb. 6s (formerly 5½s), 1992 | A2 | [6]5,087,000 | | | M& S 15 | [1]100.825 | 69½- 64 | 66 - 53⅝ |
| ~~3. Deb. 7.60s, 1996~~ | ~~A2~~ | ~~20,800,000~~ | | | ~~M& S 15~~ | ~~[1]103.04~~ | ~~67⅝- 63~~ | ~~58⅛- 58⅝~~ |
| 4. Deb. 7⅞s, 2003 | A2 | 55,500,000 | | | J & D 1 | [1]104.725 | 70 - 60 | 63 - 51 |
| 5. Deb. 8¾s, 2001 | A2 | 37,400,000 | | | J & J 15 | [1]104.80 | 78 - 70 | 63 - 63 |
| 6. Deb. 7s, 2011 | A2 | [3]98,300,000 | 3.40 | .... | A & O 1 | 100 | 79 - 55½ | 52 - 45½ |
| 7. Conv. sub. debs. 8½s, 2008 | A3 | 75,000,000 | | | J & D15 | [1]106.80 | ....... | ....... |
| 8. Other debt | .... | 58,500,000 | | | ........ | ..... | ....... | ....... |
| Subsidiary Debt: | | | | | | | | |
| 9. Cutler-Hammer, Inc. s.f. deb. 5¾s, 1992 | A2 | [6]1,538,000 | | | M&N 1 | [1]100.75 | 98⅞- 69⅞ | 74½- 54 |
| 10. Cutler-Hammer Int'l Finance, Inc. gtd. deb. 8s, 1987 | .... | [6]6,000,000 | | | June 15 | [1]100 | ....... | ....... |
| 11. Other subs. debt | .... | 71,700,000 | | | ........ | ..... | ....... | ....... |

CAPITAL STOCK

| Issue | Par Value | Amount Outstanding | Earned per Sh. 1983 | Earned per Sh. 1982 | Divs. per Sh. 1983 | Divs. per Sh. 1982 | Call Price | Price Range 1983 | Price Range 1982 |
|---|---|---|---|---|---|---|---|---|---|
| 1. $10 serial pfd. ser. B | no par | 111,666 shs. | . | | $7.50 | [7].... | Text | 209 -158 | [7]..... |
| 2. Common | $0.50 | 32,020,359 shs. | [2]$3.06 | [2]d$2.54 | 0.80 | 1.72 | ..... | 55½- 28⅝ | 35⅞- 23⅜ |

[1]Subject to change; see text. [2]Based on avg. shs. as reported by Co. on continuing oper. [3]Net of discount of $101,700,000. [4]Excluding current portion. [6]Outstanding as of Dec. 31, 1981. Current amounts outstanding are included in other subs. debt. [7]Issued Apr., 1983.

## HISTORY

Incorporated in Ohio, August 28, 1916, as The Torbensen Axle Co. to take over the business of a New Jersey corporation called The Torbensen Gear & Axle Co., formed in 1911. In May, 1923, acquired for cash from the receiver of a local corporation the business and properties of The Eaton Axle Co. which had been organized in 1920 and of Perfection Spring Co. whose business dated back to about 1906. As a result of these acquisitions, company changed its name on May 17, 1923, to The Eaton Axle & Spring Co.; changed name to Eaton Manufacturing Co. in Mar. 16, 1932; name changed to Eaton Yale & Towne Inc., Dec. 31, 1965. Present name adopted Apr. 21, 1971.

On Aug. 1, 1923, acquired for cash the patents, goodwill and trademarks of Cox Brothers Manufacturing Co., Inc.

As of Nov. 16, 1925, organized a subsidiary, Eaton Spring Corp., which acquired plant and business of The American Auto Parts Co. (a subsidiary of American Steel Foundries) and into which subsequently was merged company's spring operations, in July 1926. Eaton Spring Corp. acquired property of The Beans Spring Co. In 1931, Spring subsidiary was dissolved and its properties were transferred to the company.

In June, 1928, acquired for 20,000 shares of common stock the assets and business of The Easy-On Cap Company, manufacturers of gas tank caps and filler necks.

In February 1930, acquired all outstanding stock of Peterson Spring Co. for a consideration of 16,650 shares of common.

Also in 1930, offered to acquire not less than 200,000 shares of Class "B" stock of Wilcox-Rich Corp. on the basis of 85/100ths of one share of common for each share of Wilcox-Rich Class "B" and subsequently acquired a controlling interest.

In March, 1931, acquired the assets of The Reliance Manufacturing Co. (maker of screw and washer assemblies, hose fasteners, cold-drawn steel wire and other products) for consideration of 100,000 shares of common.

In January 1932, Erb-Joyce Foundry Co., which was 50% owned by Wilcox-Rich Corp. (a subsidiary of the company) acquired all the assets, except cash and receivables, of Holley Permanent Mold Machine, Inc., and substantially all the assets pertaining to the foundry of Holley Carburetor Co. At the same time in consideration of advances Wilcox-Rich Corp. increased its common stock holdings in Erb-Joyce Foundry Co. to 60% and the latter's name was changed to Eaton-Erb Foundry Co. On Oct. 29, 1937, company acquired all the property and business of The Eaton-Erb Foundry Co. for a consideration of 21,750 shares of company common, of which the company received back 14,250 shares as a stockholder in the subsequent dissolution of this subsidiary.

In September 1933, joined with Detroit Metal Specialty Corp. in forming Eaton-Detroit Metal Co. in which company acquired all of the preferred and 75% of the common. In 1937, acquired the business and assets of Eaton-Detroit Metal Co., for a consideration of $55,688 cash.

In July, 1935, acquired the net assets and good will of Detroit Motor Valve Co. for a consideration of $3,875 plus 15,500 shares of company stock and assumption of liabilities. Also as of October 31, 1936, company acquired all the property and assets of its subsidiary, Wilcox-Rich Corp., for a consideration of 281,281 shares of common stock of which the company received back 279,675 shares as the major stockholder when Wilcox-Rich Corp. was dissolved on November 2, 1936.

On Mar. 1, 1946, acquired all stock of Dynamatic Corp. at Kenosha, Wisc. Dissolved Dec. 31, 1953, and now operated as a division.

In 1954 acquired entire common stock of Spring Perch Co., Lakawanna, N.Y. (subsequently dissolved).

On Mar. 30, 1956, acquired Automotive Gear Works, Inc. (Ind.) in exchange for 48,102 common shares. On Dec. 31, 1956 assets transferred to parent and company liquidated.

On July 31, 1958, acquired Fuller Manufacturing Co., producer of heavy-duty truck transmissions, subsidiary Shuler Axle Co. and division Unit Drop Forge, in exchange for 458,310 common shares. Fuller Transmission, Unit Drop Forge and Shuler Axle are now operated as divisions.

On Jan. 31, 1959, acquired Cleveland Worm Gear Co., producer of worm gears and worm gear speed reducers, in exchange for 81,670 common shares (now operated as divisions).

On Nov. 11, 1959, Eaton Automotive Products Ltd. acquired William Howe Industries, Ltd. of Ontario (now dissolved).

On Sept. 30, 1960 acquired Dearborn Marine Engines, Inc., Madison Heights, Mich for approx. $1,000,000 cash. Operated as Eaton Marine Division until Feb. 1969, then sold.

In 1961 formed Eaton EJES, I.C.S.A., Argentine, a subsidiary.

On Apr. 7, 1961, acquired 70% of Eaton Livia, S.p.A. Turin, Italy. Interest increased to 100% Sept. 13, 1968.

On June 1, 1961, acquired Dill Manufacturing Co., producer of tire valves, pressure gauges and related products (pooling of interest) in exchange for 200,000 shares (now operated as a division).

In June 1961, acquired 33⅓% interest in Eaton Axles Ltd., Warrington, Eng., distributor of truck axles. An additional 33⅓% was acquired in 1962, and an additional 8⅓% was acquired in 1972.

On Feb. 28, 1963, acquired assets of Dole Valve Co. in exchange for 425,000 common shares and assumption of Dole's liabilities, (now operated as a division).

On Oct. 31, 1963 acquired Yale & Towne Manufacturing Co. and merged it into newly formed wholly-owned subsidiary, Yale & Towne, Inc. (merged into company on Jan. 1, 1966) by exchange of 1,715,030 common shares and 517,677 4¾% cumulative convertible preferred shares.

In 1967, acquired Automated Handling Systems, Inc., Wash., D.C. and Timberjack Machines Ltd., Woodstock, Ontario, producer of 4-wheeled pneumatic tired timber haulers, now operated as divisions.

On Mar. 31, 1968 merged Fawick Corp., Mich. for 1,309,181 common shares.

Also in 1968, acquired American Monorail Co.; acquired Elettrotecnia Padana S.R.L., Italy.

On Jan. 31, 1969, merged Tinnerman Products, Inc. by exchange of 774,200 new $2.30 serial preferred shares for Tinnerman common on a share-for-share basis.

On Oct. 31, 1969, acquired McQuay-Norris Manufacturing Co. in exchange for about 570,433 common shares or basis of 0.8 company common share for each McQuay-Norris share.

On Dec. 31, 1969, acquired assets of Troy Tool Products Co., Inc., Pinebrook, N.J., producer of micro-miniature connectors for electronics and communications industries.

On Dec. 31, 1970 acquired Char-Lynn Co. for 749,990 common shs. Specializes in hydraulic motors for agriculture and industrial equipment.

Also on Dec. 31, 1970 acquired Germaine Corp. for 50,300 common shares.

In May 1972 sold crane and monorail product lines.

On June 19, 1972, acquired The Holzer Group, Meersburg, West Germany.

On Nov. 29, 1972, acquired a 70% interest in Fonderies Manil, S.A., Paris, France; an additional 10% in 1973, and the remaining 20% in 1975.

Also in 1972 acquired 50% interest in Positron Equipamentos Electromechanicos S.A., Sao Paulo, Brazil (sold).

In Jan. 1973, acquired assets of Transport Equipment Ltd., Basingstoke, England.

Also in Jan. 1973, acquired 80% interest in NovaWerke S.p.A., Milano, Italy and the remaining 20% in 1977.

In Nov. 1976 sold assets of McQuay-Norris Manufacturing Co. to SKF Industries, Inc. for undisclosed terms.

In 1976 acquired 100% interest in A.B. Fas Lasfabrik, Sweden, a manufacturer of security locks.

In 1977, increased investment in Productos Eaton Livia, S.A. from 31% to 80% and in Eaton S.A. Spain from 19.43% to 99.43%.

In Feb. 1978, Kenway Inc., Bountiful, Utah, was merged into Co. through transaction involving cash and conversion of Kenway shs. into Co. com. shs.

On Apr. 14, 1978, Co. and Samuel Moore & Co. entered into a definitive merger agreement, which stated that Samuel Moore shareholders would receive $20 cash per share. The agreement was approved by Directors of both cos. and was approved by Samuel Moore shareholders on Aug. 15, 1978, at which date merger became effective. On Apr. 17, 1978, Co. commenced an offer to purchase any and all outstanding shares of Samuel Moore at a price of $20 cash per sh. net to the seller. As a result of that offer, which expired on Apr. 27, 1978, plus previous purchases of 549,470 shs. Co. had acquired approx. 90% of the outstanding shares of Samuel Moore prior to the effective date of the merger. Total purchase price of Samuel Moore pursuant to these transactions was $68,090,000.

On July 17, 1978, Co. offered to purchase for cash any and all outstanding shares of common and preferred stock of Cutler-Hammer, Inc. at a cash price of $58 net per share. As a result of such offer, which expired on Aug. 7, 1978, Co. purchased approx. 1,970,000 shs. of common stock of Cutler-Hammer. Cutler-Hammer's Directors had unanimously recommended that Cutler-Hammer's stockholders accept such offer. Co. previously purch[illegible] approx. 32% (2,139,000 shs.) of the outsta[illegible]ing shares of Cutler-Hammer for app[illegible] $118,000,000 on June 12, 1978. In addition, [illegible]ton entered into a definitive Reorgani[illegible] Agreement with Cutler-Hammer pursuan[illegible] which a wholly-owned subsidiary of Co. [illegible] merged into Cutler-Hammer and each Cu[illegible] Hammer share not purchased by Co. pu[illegible]ant to the offer was converted into the righ[illegible] receive from Co. either $58 in cash or, at [illegible] stockholder's option, one or more 7¾% su[illegible]ordinated installment notes of Eaton in equ[illegible] principal amount, payable in maturities over a period of either 5, 8, 12 or 15 years at the stockholder's option. The merger was approved by Cutler-Hammer's stockholders on Dec. 14, 1978, and became effective Jan. 2, 1979.

Effective Dec. 31, 1978, Co. sold to Scovill Manufacturing Co. its worldwide security products business for an aggregate price of approximately $56 million in cash.

Effective Feb. 1, 1979, Co. acquired Lebow Associates, Inc. for common shares.

In Oct. 1979 sold to a wholly owned subsidiary of Faun-Werke, Nuermberg, West [illegible]many, its construction equipment busin[illegible] an aggregate price of approximately [illegible] lion.

Effective Oct. 8, 1979, Co. acquired LRC, Inc. for $8,400,000 cash.

In Dec. 1979 sold the operating assets of [illegible] Texas Car Repair Inc. subsidiary to Tune-[illegible] Masters Inc. of Texas

In Feb. 1980 acquired Compu-Lite Corp. for cash.

In Sept., 1980, sold the Cleveland div[illegible] its Industrial drives operations to a sub[illegible] of Vesper Corp. The amount was no[illegible] closed.

Also in Sept. 1980, acquired Nova Associates, Inc. in exchange for 138,708 common shares.

In Dec. 1980 acquired the remaining [illegible]5% interest in Eaton Axles, Ltd.

In Mar., 1981 acquired Lorlin Industries Inc. Other details not reported.

In April 1981 Co.'s proposal to ac[illegible] trol of Cutler-Hammer Canada Ltd., [illegible] iary of Cutler-Hammer Inc. was [illegible] the Canadian Government.

In Jan. 1982, acquired remainin[illegible] est it did not already own in Op[illegible] 289,283 common shares.

In May 1983, sold its 30% interest in Alligator Ventilfabrik G.m.b.H.

[illegible] 1983, sold Climate Control Division.
[illegible] 1983, sold Crystaloid Electronics Co.
[illegible] 1983, sold Hoisting Equipment Division and Industrial Truck Operations.
In April 1984, acquired the Bunker Ramo [illegible] Systems Division from Allied Corp.

## SUBSIDIARIES

As of Dec. 31, 1983, Co. had the following subsidiaries, wholly-owned unless otherwise indicated:

**Consolidated Subsidiaries**

Eaton-Optimetrix, Inc. (Calif.)
Cutler-Hammer World Trade, Inc. (Del.)
[1]AIL International, Incorporated (Del.)
[1]Cutler-Hammer Export Sales Corp. (Del.)
Eaton DISC Co. (Del.)
Yale Materials Handling Corp. (Del.) (59%)
Eaton Consulting Services Corp. (Ohio)
Eaton-Kenway, Inc. (Ohio)
The Yale & Towne Co. (Ohio)
Timberjack Inc. (Ohio)
[2]Kenway Handling Systems, Inc. (Utah)
Eaton I.C.S.A. (Argentina)
Eaton Pty. Ltd. (Australia)
[1]Cutler-Hammer Australia Pty. Limited (Australia)
Samuel Moore Europe S.A. (Belgium) (58.8%)
N.V. Cutler-Hammer S.A. (Belgium)
Eaton Yale Ltd. (Canada)
[3]Milner Road Enterprises, Ltd. (Canada)
[1]Cutler-Hammer Centroamericana, S.A. (Costa Rica) (97.78%)
Eaton S.A. (France)
[4]Eaton S.p.A. (Italy) (99.917%)
[5]Eaton EST S.p.A. (Italy) (99%)
[5][6]Eaton Controls S.p.A. (Italy) (99.98%)
[5][6]Eaton Automotive S.p.A. (Italy) (99.99%)
[7]Eaton Components S.p.A. (Italy)
[8]Eaton Nova S.p.A. (Italy)
[7][9]Cutler-Hammer Italiana S.p.A. (Italy) (99.95%)
Eaton Japan Co., Ltd. (Japan)
[9]Cutler-Hammer Anstalt (Liechtenstein)
[1]Condura, S.A. de C.V. (Mexico)
[1]Apacon, S.A. de C.V. (Mexico)
[1]Cutler-Hammer Mexicana, S.A. (Mexico) (66.7%)
Eaton s.a.m. (Monaco)
Eaton B.V. (Netherlands)
Eaton Finance N.V. (Netherlands Antilles)
[1]Cutler-Hammer New Zealand Limited (New Zealand)
[18]Cutler-Hammer Nigeria, Limited (Nigeria) (51%)
[1]Cutler-Hammer South Africa Limited (South Africa)
[10][11]Eaton Truck Components (Proprietary) Limited (South Africa) (99.975%)
[12]Cutler-Hammer Babelegi (Proprietary) Limited (South Africa)
[12]Cutler-Hammer Igranic Properties (Proprietary) Limited (South Africa)
[12]Kacee Ware (Empangeni) (Proprietary) Limited (South Africa)
[13][4]Eaton S.A. (Spain) (50.14%)
[14][4]Productos Eaton Livia S.A. (Spain) (49%)
[1]Cutler-Hammer Espanola, S.A. (Spain)
[1]Cutler-Hammer Svenska Aktiebolag (Sweden)
Eaton Limited (U.K.)
[10]Felsted Controls Limited (U.K.)
[10]Cutler-Hammer Europa Limited (U.K.)
[16]Eaton G.m.b.H. (W. Germany) (99.85%)
[16][17]Eaton G.m.b.H. & Co. K.G. (W. Germany) (98%)
[18]Cutler-Hammer Deutschland G.m.b.H. (W. Germany)
[15]Yale G.m.b.H. (W. Germany)
[illegible]Cutler-Hammer (Zambia) Limited (Zambia)
[illegible]C.H.I. Properties (Private) Limited (Zimbabwe) (40.75%)

**[illegible] Companies Carried on the Equity Basis**

[illegible] Electron Corp. (Colo.) (23%)
[illegible]es India Limited (India) (33%)
[illegible]salba S.p.A. (Italy) (27%)
[illegible] Fawick Co., Ltd. (Japan) (50%)
[illegible] Eaton Soko Systems Co. Limited (Japan) (40%)
[illegible]mo Eaton Hydraulics Co. Ltd. (Japan)
[illegible] Moore Company, Ltd. (Japan) (50%)
[illegible]co Cutler-Hammer Sdn. Berhad (Ma[illegible]) (40%)
[illegible] Manufacturera, S.A. de C.V. (Mexico) [illegible]
[illegible], S.A. de C.V. (Mexico) (25%)
[illegible] Cutler-Hammer, Inc. (Philippines)
[illegible]o Cutler-Hammer Pte. Ltd. (Singa[illegible]) (40%)
[illegible] S.A. (Venezuela) (49%)
[illegible]-Hammer (Private) Limited (Zimba[illegible]) (49%)

**[illegible]olidated Subsidiaries Carried on the Equi[illegible]**

[illegible] Leasing Corp. (Ohio)
[illegible] Center, Inc. (Ohio)
[illegible] Properties Corp. (Ohio)
[illegible] Utah Corp. (Ohio)
[illegible]dit Corp. (Ohio)
[illegible] Towne Leasing Co. (Penn.)
[illegible]urance Co. Ltd. (Bermuda Islands)

[illegible] Eaton subsidiaries, most of which are [illegible] not listed above. They are treat[illegible] [illegible]lidated subsidiaries and, if consid[illegible] aggregate as a single subsidiary, they would not constitute a significant subsidiary.

[1]Interest held by Cutler-Hammer World Trade, Inc.
[2]Interest held by Eaton-Kenway, Inc.
[3]Interest held by Eaton Yale Ltd.
[4]Remaining interest held by Eaton B.V.
[5]Remaining interest held by Eaton S.p.A.
[6]Remaining interest held by Eaton EST S.p.A.
[7]Interest held by Eaton S.p.A.
[8]Interest held by Eaton Components S.p.A.
[9]Interest held by Cutler-Hammer Europa Ltd.
[10]Interest held by Eaton Ltd.
[11]Remaining interest held by Cutler-Hammer South Africa Ltd.
[12]Interest held by Cutler-Hammer South Africa Ltd.
[13]Additional 49.29% held by Eaton Corp.
[14]Additional 31% held by Eaton S.A.
[15]Remaining interest held by Yale & Towne Co.
[16]Interest held by Eaton G.m.b.H.
[17]Remaining interest held by Yale G.m.b.H.
[18]Interest held by Cutler-Hammer Anstalt
[19]Interest held by Kacee-Ware (Empangeni) (prop) Ltd.
[20]Additional 39.25% held by Cutler-Hammer South Africa Ltd.
[21]Interest held by Eaton Leasing Corp.
[22]Interest held by Eaton Credit Corp.

## BUSINESS AND PRODUCTS

Company designs, engineers, manufactures and markets a broad variety of products, principally in the United States, Canada, and countries in Europe and Latin America, in the following categories: Electronic & Electrical and Vehicle Components.

**Electronic and Electrical**—Automation Systems and Equipment—semiconductor wafer fabrication and test equipment; hoisting equipment; electronic test instrumentation; electrical adjustable speed drives; automated material handling systems and electromechanical/electronic control systems.

Capital Goods Components—electromechanical and electronic control devices and assemblies; sensors and human interface devices; programmable controllers; switches, relays, counters, polymer hose, hydraulic motors, clutches, brakes and fasteners.

Consumer Goods Components—electromechanical and electronic applicance controls; low-voltage power distribution equipment; switches and fasteners.

Aerospace and Defense Systems—avionics and defense electronics; electronic countermeasures; air traffic/vessel traffic control systems; radar systems and aerospace power controls.

The principal markets for these products are provided by industrial and government customers. Distribution is accomplished directly by Eaton or indirectly through distributors and manufacturers' representatives.

**Vehicle Components**—Truck Components—mechanical transmissions, drive and trailer axles, brakes, locking differentials, engine valves, hydraulic valve lifters, tire valves, leaf springs, viscous fan drives, power steering pumps, thermostats, air conditioning equipment, couplings, hose and tubing for the over-the-road truck industry.

Passenger Car Components—engine valves, hydraulic valve lifters, leaf springs, emission control valves, viscous fan drives, speed controls, tire valves, thermostats, fasteners, automatic temperature controls, heaters and air conditioning equipment.

Off-Highway Vehicle Components—mechanical and hydrostatic transmissions; forgings, drive axles, brakes, engine valves, hydraulic valve lifters, hydraulic motors, couplings, hose and tubing.

The principal market for these products is that provided by the original equipment manufacturers of trucks, passenger cars and off-highway vehicles. Most of Eaton's sales of these products are made directly from Eaton's plants to such manufacturers.

**Net Sales By Line of Business** (in millions of dollars):

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| Electrical and Electronic | 1,449 | 1,343 | 1,415 |
| Vehicle Components | 1,245 | 1,129 | 1,442 |
| Intersegment Sales | (20) | (19) | (15) |
| Net Sales | 2,674 | 2,453 | 2,842 |

**Income By Line of Business** (before income taxes & extraord. credit in millions of dollars):

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| Electrical and Electronic | 51 | 32 | 89 |
| Vehicle Components | 152 | 56 | 173 |
| Total Operating Profit | 203 | 88 | 262 |
| General Corporate Expenses—Net | (13) | 7 | 1 |
| Gain on Exchg. of Com. Stk. for debs. | ...... | 16 | ...... |
| Provisions for Plant Closing | (19) | (181) | ...... |
| Write-off of inv. in Mexican Assoc. Co. | (12) | ...... | ...... |
| Interest Expense | (48) | (68) | (72) |
| Interest inc. | 15 | 15 | ...... |
| Earnings of Investments Carried at Equity | (10) | 15 | 23 |
| Income Before Income Taxes | 116 | (123) | 214 |

## PRINCIPAL PLANTS & PROPERTIES

Company operates manufacturing plants, warehouses, research facilities and offices in 140 locations in six continents.

Company's principal research and development facility is located in Southfield, suburb of Detroit, Mich. Other important research facilities are located near Cleveland, O. and in Milwaukee, Wisc. and Turin, Italy. In addition certain Co. divisions and subsidiaries conduct research in their own facilities.

## LETTER TO STOCKHOLDERS

**Following is a letter to stockholders of E.M. de Windt, Chairman of the Board and Chief Executive Officer and J.R. Stover, President and Chief Operating Officer of Eaton Corp. as it appeared in Co's. 1983 Annual Report:**

**To Our Shareholders**

For three years we have considered it our obligation to give to these letters a sober and very restrained tone. It is a great pleasure now to be able to write to you in a different vein. Precisely because we have been forthright about the bad news, we feel free to be equally candid when the news is good.

Your company's performance in 1983 has exceeded our expectations, and we view the prospects for 1984 with optimism. Eaton's shareholders have been patient and confident through a prolonged and difficult recession. Your faith in the company is now confirmed and is, we believe, in the process of being rewarded.

A year ago we announced to you a sweeping restructuring of the company, designed to maximize profits when the recovery came and to ensure the company's health, even should the recession continue. In this letter we will report to you in detail on Eaton's performance on those undertakings, as well as the more conventional measurements of the company's 1983 performance. Pleased as we are with the 1983 numbers, we nonetheless believe that the most significant accomplishment of the year lies in the implementation of the pledges made to you as its beginning.

First, the conventional measurements: fueled in part by a 9% increase in sales, our 1983 earnings performance was a dramatic turnaround. The highlights on the previous page and the chart at the left provide the details.

1983 results were affected by two unusual items, which reflect the company's continuing determination to reshape itself. First, $18.8 million was provided for the phase-out or relocation of several uncompetitive operations. Second, responding to the persistent difficulty of putting an appropriate value on our equity in our associate company in Mexico, the company decided to write off its remaining investment there of $11.5 million. These charges were offset to some extent by an unusually low rate which is unlikely to be repeated in 1984.

The improvement in Eaton's 1983 performance reflects two factors: strong markets and the benefits of the extensive restructuring of the company which took place during the year. First a discussion of our markets.

Eaton's Vehicle Components segment performed strongly in 1983. Although North American heavy-duty truck production reached only 88,000 units, just 5% above the very depressed 1982 levels, truck production in the final quarter of last year reached an annualized rate of 125,000 units, and we expect 1984 factory sales of 140,000 units. Although only two-thirds of the peak in 1979, that sales level will nonetheless permit very profitable operations in our truck components business.

U.S. retail automobile sales were also buoyant, rising 15% in 1983 to 9.2 million units. We anticipate sales in 1984 will rise another 10 to 15%. As a major supplier to U.S. manufacturers, Eaton welcomed the decision of the Administration to limit the import of Japanese vehicles in the year beginning April 1, 1984 to 1.85 million units. We continue to believe, however, that the potential for Japanese and European penetration of the U.S. market is much larger than its current 26% level, and that the restructuring of the global automobile industry is continuing, with its ultimate shape still to be determined. Whatever the ultimate structure turns out to be, Eaton, with its U.S., European, Japanese and Latin American production facilities, intends to be a significant participant.

The majority of capital goods markets served by Eaton tend to lag recovery, and most of our capital goods businesses in the Electronic and Electrical segment reflected that pattern through much of 1983. Among the exceptions was the semiconductor industry, where capital spending accelerated through out the year. As a result, Eaton's Semiconductor Equipment Operations enjoyed a 45% increase sales in 1983, and a growing backlog of orders at year's end. We expect that earnings from Eaton's capital goods businesses will improve significantly in 1984.

Throughout the year, Eaton's defense electronics business continued strong. To date, we have been awarded $1.6 billion for the defensive avionics system for the B-1B strategic bomber. We take considerable pride in the fact that work on this contract is proceeding on schedule and within original cost estimates.

Now we would like to turn to the performance of the company on the pledges made to you in connection with the costly restructuring begun in early 1983. The goals we announced at that time fell into two broad categories: first, the operational imperatives necessary to ensure the long-term health of our company and, second, the financial results we expected to flow from those actions.

Centered on these pages is a chart which identifies in parallel columns what we undertook to do, and what has been done in the course of the year.

The high cost of these actions is now behind us, and the benefits are beginning to show up in significantly lower costs and higher earnings.

Although the ultimate proof of the wisdom of those moves will be the company's performance over time, we were gratified to see that our shareholders and the investment community generally approved of these sweeping measures. Nothing is so transitory as the stock market, and 1983 was, without question, a bull market. Nonetheless, the appreciation during the year in the value of Eaton common shares was clearly more than a case of a rising tide lifting all boats.

The word "restructuring is cold and abstract and perhaps fails to convey the explosive change which has been taking place in Eaton. The reshaping of Eaton is proceeding simultaneously on two fronts:

1) The sale of those businesses which are not compatible with the company's long-term vision of itself, and the purchase of new businesses which are;

2) The concentration of our good core businesses in those facilities which can most efficiently meet the severe challenge of global competition.

1983 was an active year in both those areas, as the lists which appear on this page demonstrate.

We believe it is axiomatic that Eaton's future is dependent on the continued growth of its technological abilities. Thus, even during a difficult recession in which every expenditure was questioned—and most were cut—Eaton continued to invest significantly in research and development (chart at right). On the pages following this letter, we have attempted in both words and pictures to give you a better understanding of the scope and direction of Eaton's investment in technological superiority.

Critical to Eaton's strategy is a strong balance sheet. It has allowed us to absorb the write-offs inherent in the actions discussed above. It ensures the capital needs of our existing businesses. It provides the resources to acquire the new businesses which are such a significant part of Eaton's future. Over the course of 1983 Eaton:

...continued to emphasize better asset turnover, thus reducing working capital requirements by $250 million since the onset of recession;

...issued two and one-half million common shares with net proceeds of $105 million;

...reduced the cost and extended the maturity of debt by issuing $75 million in convertible debentures with an interest rate of 8½%, and redeemed $15 million of debentures for common shares;

...accumulated marketable securities of $355 million which, if used to reduce debt, would leave a debt-to-capital ratio of 8%.

Nothing would be more unjust and insensitive than to end this recital of accomplishment without giving credit where it is due. At this writing, there are 41,000 employees in Eaton. There is not one of them who has not contributed to the company's turnaround, and what we are describing in this letter is nothing more than the cumulative effect of those individual efforts. We are extremely proud of our colleagues.

There is also still a very strong sense of distress concerning the 22,000 Eaton employees who are no longer with the company. This loss was by far the most wrenching and painful part of the reshaping of Eaton. It was necessary, but it will be a long time before the memory of its fades.

To sum up, Eaton has emerged from the recession stronger than it entered it. Like everyone, we are concerned with the overhang of federal debt and the unpleasant specter that it places over interest rates. But we think it would be quite misleading and wrong to end this letter on an unsteady note. The surgery conducted on your company has been an unqualified success. Our operations are at an all-time peak of efficiency, our technology is healthy and being nurtured generously, our markets are good and getting better, and our financial strength has never been greater.

We have no illusions that Eaton's future will be free of problems and challenges. Indeed, we know there will be more than enough of both in this ever-changing and fiercely competitive global economy. But we view the remainder of this decade with high expectations and confidence.

E.M. de Windt
Chairman and Chief Executive Officer

J.R. Stover
President and Chief Operating Officer

February 29, 1984

**MANAGEMENT**

**Officers**

E.M. de Windt, Chmn., & Chief Exec. Off.
J.R. Stover, Pres. & Chief Oper. Off.
M.C. Arnold, Exec. Vice-Pres.
S.R. Hardis, Exec. Vice-Pres.

Group Vice-Pres.

| | |
|---|---|
| W.E. Butler | M.C. Baird, Jr. |
| A.M. Rankin, Jr. | R.W. Gillison |

Vice-Pres.

| | |
|---|---|
| F.M. Wilkerson | J.W. Hushen |
| W.B. Offutt | J.B. Reilly |
| J.D. Evans | Marshall Wright |
| Herbert Hubben | R.L. Leach |
| W.R. Kiessel | |
| J.L. Forbis | |

Brock Hattox, Vice-Pres. & Contr.
R.T. Sadler, Vice-Pres. & Sec.
G.L. Gherlein, Vice-Pres. & Gen. Counsel
J.M. Carmont, Vice-Pres. & Treas.

**Directors**

(Showing Age & principal corporate affiliations)

**E.M. de Windt**, (62), Chairman of the Board and Chief Executive Officer, Eaton Corporation Dir., Dart & Kraft, Inc., Federal Reserve Bank of Cleveland, American Information Technologies Corp., Sears, Roebuck & Co., UAL Inc., United Air Lines Inc.

**Charles A. Anderson**, (66), Director Boise Cascade Corp., Blue Goose Growers, Inc., NCR Corp., Owens-Corning Fiberglas Corp. and Saga Corp.

**Neil A. Armstrong**, (53), Chmn., Computing Technologies for Aviation, Inc.; Dir., Cincinnati Gas & Electric Co., Cincinnati Milacron, Gates Learjet Corp., Marathon Oil, Taft Broadcasting Co., UAL, Inc. & United Air Lines Inc.

**Arthur Dole III**, (58), President of Ardol, Inc. and Partner in Clements, Garvey & Dole, Inc.; Dir., Warehouse Club, Inc.

**Carl A. Gerstacker**, (67), Dir., Chemical Financial Corp.; Chemical Bank & Trust Co. of Midland, Mich., Consolidated Foods Corp., Dundee Cement Co., K mart Corp., Spence Engineering Co., Inc.

**Stephen R. Hardis**, (48), Exec. Vice-Pres., Eaton Corp. Dir. Centran Corp., Central National Bank of Cleveland, Schlegel Corp., Nordson Corp., Trustee of University Circle Inc.

**Charles E. Hugel**, (55), Pres. & Chief Oper. Off., Combustion Engineering, Inc., Dir., American Can Co., Combustion Engineering, Inc., Midland-Ross Corp., Nabisco Brands, Inc. & United Jersey Banks.

**Furman C. Moseley**, (49), Chairman of the Board of Simpson Paper Company and Pres. of Simpson Timber Co., Dir., Simpson Paper, Simpson Timber Co., Simlog Leasing Corp., Owens-Corning Fiberglass Corp.

**Hooper G. Pattillo**, (57), Chairman of the Board & Pres., Pattillo Construction Company, Inc., Dir., Georgia Power Company, John H. Harland Co., Pattillo Construction Co., Inc. Protective Co., Riegel Textile Corp., The Southern Co. & J.M. Tull Industries.

**Nicholas R. Petry**, (65), Chairman of the Petry-Vappi Construction Company, and managing partner of N.G. Petry Construction Co., Dir., Colorado National Bank, Colorado National Bank- shares, Inc., Petry-Vappi Construction Co., Pogo Producing Co., Public Service Co. of Colorado, UAL Inc., United Air Lines Inc. and Westin Hotels.

**J. Donald Rauth**, (66), Former Chmn. & Chief Exec. Off., Martin Marietta Corp., Dir., Acacia Mutual Life Insurance Co., American Security Bank, N.A., American Security Corp., Black & Decker Manufacturing Co., Brunswick Corp. & Martin Marietta Corp.

**Samuel K. Scovil**, (60), Chmn. and Chief Executive Officer of the Cleveland-Cliffs Iron Company, Dir., Cleveland-Cliffs, the Hill Acme Company, & National City Bank of Cleveland, National City Corp., Republic Steel Corp.

**James R. Stover**, (57), President and Chief Operating Officer, Eaton Corporation, Dir. National City Corp., National City Bank of Cleveland and White Consolidated Ind., Inc., Leaseway Transportation Corp., Ohio Bell Telephone Co.

**Auditors:** Ernst & Whinney.

**Shareholder Relations:** W.E. Sala, Director Investor Relations. Tel.: (216)523-4501.

**Director Meetings:** Fourth Wednesday of each month, except March, May, Aug. & Nov.

**Annual Meeting:** Fourth Wednesday in Apr.

**No. of Stockholders:** Dec. 31, 1983: Ser. B pfd., 1,020; common, 24,923.

**No. of Employees:** Dec. 31, 1983, 41,707.

**Corporate Office:** Eaton Center, Cleveland, OH 44114. Tel.: (216)523-5000.

**INCOME ACCOUNTS**

COMPARATIVE CONSOLIDATED INCOME ACCOUNT, YEARS ENDED DEC. 31
(Taken from reports filed with Securities Exchange Commission)
(In thousands of dollars)

| | 1983 | 1982 | [1]1981 | [1]1980 |
|---|---|---|---|---|
| Net sales | 2,674,125 | 2,452,573 | 2,841,577 | 2,779,345 |
| Costs and expenses: | | | | |
| Cost of products sold | 1,976,544 | 1,869,918 | 2,099,205 | 2,088,170 |
| Selling and administrative expenses | 420,407 | 408,313 | 419,136 | 393,726 |
| Research and development expenses | 103,129 | 100,219 | 90,228 | 70,490 |
| Total costs & exp. | 2,500,080 | 2,378,450 | 2,608,569 | 2,552,386 |
| Income from operations | 174,045 | 74,123 | 233,008 | 226,959 |
| Other income and deductions): | | | | |
| Interest expense | (48,461) | (67,655) | (72,046) | (88,022) |
| Earnings (losses) of finance subs. and assoc. companies | (10,372) | 14,624 | 23,236 | 13,697 |
| Interest income | 14,837 | 14,604 | 10,571 | 5,129 |
| Gain on exch. of common shares for debs. | ...... | 15,829 | ...... | ...... |
| Other income—net | 16,392 | 6,849 | 19,233 | 13,449 |
| Total oth. inc. & (deduct.) | (27,604) | (15,749) | (19,006) | (55,747) |
| Inc. from contin. oper. before unusual items and inc. taxes | 146,441 | 58,374 | 214,002 | 171,212 |
| Unusual items: | | | | |
| Provisions for plant closings | (18,766) | (181,446) | ...... | ...... |
| Excess of insur. settle. over book value | ...... | ...... | ...... | 25,360 |
| Write-off invest. in Mexican assoc. co. | (11,503) | ...... | ...... | ...... |
| Inc. (loss) from cont. oper. before inc. taxes | 116,172 | (123,072) | 214,002 | 196,572 |
| Income taxes (credits) | 22,861 | (52,114) | 86,329 | 83,202 |
| Inc. (loss) from contin. oper. | 93,311 | (70,958) | 127,673 | 113,370 |
| Loss from discontinued oper. | ...... | (118,672) | (45,305) | 2,414 |
| **Net income (loss)** | 93,311 | (189,630) | 82,368 | 115,784 |

**INCOME ACCOUNTS** (Cont'd):

| | 1983 | 1982 | [1]1981 | [1]1980 |
|---|---|---|---|---|
| Retained earnings beg. of yr. | 676,178 | 915,304 | 880,414 | 812,518 |
| Dividends | 25,473 | 49,496 | 47,478 | 46,435 |
| Other charges to retained earnings | ...... | ...... | ...... | 1,453 |
| Retained earnings, end of yr. | 744,016 | 676,178 | 915,304 | 880,414 |
| **SUPPLEMENTARY P. & L. DATA** | | | | |
| Maintenance & repairs | 69,115 | 61,473 | 71,612 | 63,710 |
| Depreciation & amts. | 91,171 | 93,788 | 86,172 | 83,161 |
| Taxes other than inc. tax | [2]...... | [2]...... | [2]...... | [2]...... |
| Rents | [2]...... | [2]...... | [2]...... | [2]...... |
| Royalties | [2]...... | [2]...... | [2]...... | [2]...... |
| Advertising costs | [2]...... | [2]...... | [2]...... | [2]...... |

[1]Reclassified to reflect discontinuation of operations.

[2]Amounts are less than 1% of net sales.

**Statement of Consolidated Changes in Financial Position** (in $000):

| | 1983 | 1982 |
|---|---|---|
| **Funds from Continuing Operations:** | | |
| Inc. (loss) frm. contg. oper. | 93,911 | (70,958) |
| Items included not affecting funds: | | |
| Deprec. & amort. | 91,171 | 93,788 |
| Lg.-tm. liabil. related to unusual item | 13,351 | 125,172 |
| Write-off of invest. in Mexican Assoc. Co. | 11,503 | ...... |
| Gain on exchg. of Com. Shrs. for debs. | ...... | (15,829) |
| Noncur. def. inc. taxes & certain oth. liabil. | 53,658 | (23,286) |
| Net earn. of fin. subs. & assoc. cos. amort. of intang. assets and other—net | 17,130 | (7,067) |
| Fds. Prov. by Cont. Oper. | 280,124 | 101,820 |
| **Funds From Other Sources, Excluding Financing Activities:** | | |
| Divs. frm. fin. subs. and assoc. cos. | 2,324 | 21,156 |
| Foreign currency transln. adjs. of prop., plant and equip.—net | 11,892 | 18,424 |
| Fds. prov. (used) by chgs. in certain current assets and liabs.: | | |
| Accts. rec. | (92,424) | 66,855 |
| Inventories | 48,619 | 87,567 |
| Def. inc. taxes | (4,919) | (57,191) |
| Oth. current assets | (12,493) | (39,659) |
| Trade pay. | 41,716 | (31,372) |
| Payrolls and oth. accr. | 8,577 | 82,843 |
| Inc. and oth. tax. | 14,558 | (14,418) |
| Other—net | 15,495 | 23,013 |
| Total Fds. Prov. Frm. Cont. Oper. Bef. Fin. Acts. | 284,353 | 213,012 |
| **Financing Activities:** | | |
| Pays. of lg.-tm. debt, net of gain on exchge. of Com. Shrs. for deb. | (46,802) | (156,066) |
| Lg.-tm. bor. | 83,612 | 27,686 |
| Dec. in sht.-tm. debt | (11,762) | (4,073) |
| Iss. of Com. Shrs. | 131,190 | 39,198 |
| Total Fds. Prov. Frm. Cont. Oper. | 440,591 | 119,757 |
| **Uses of Funds:** | | |
| Exps. for prop., plant and equip. | (88,728) | (89,744) |
| Cash divs. | (25,473) | (49,496) |
| Foreign currency transl. adj.: | | |
| Lg.-tm. debt and oth. lg.-tm. liabil. | (8,101) | (22,107) |
| Shrhldrs.' equity | (14,323) | (25,511) |
| Red. in oth. lg.-tm. liab. for plant closings & discont. oper. | (57,475) | ...... |
| Total Uses of Fds. By Cont. Oper. | 193,650 | (186,858) |
| **Discontinued Operations:** | | |
| Amts. in loss (inc.) affect. fds., net of oth. decr. (incr.) in net assets | 61,156 | 15,413 |
| Net Chg. in Cash and Sht.-Tm. Invest. | 308,097 | (51,688) |

**BALANCE SHEETS**

COMPARATIVE CONSOLIDATED BALANCE SHEET, AS OF DEC. 31
(Taken from reports filed with Securities Exchange Commission)
(In thousands of dollars)

| ASSETS | 1983 | 1982 | [8]1981 | 1980 |
|---|---|---|---|---|
| Cash | 6,099 | 9,202 | 30,057 | 13,865 |
| [1]Short-term securities | 355,028 | 43,828 | 74,661 | 7,503 |
| [2]Accounts receivables | 428,076 | 335,652 | 402,507 | 493,971 |
| Inventories | 393,949 | 442,568 | 530,135 | 718,885 |
| Deferred inc. taxes | 95,135 | 90,216 | 33,025 | ...... |
| Other current assets | 60,849 | 48,356 | 8,697 | 46,017 |
| Total current assets | 1,339,136 | 969,822 | 1,079,082 | 1,280,241 |
| Investments in & adv. to fin. subs. | 37,816 | 35,215 | 50,998 | 46,126 |
| Investments in assoc. cos. | 20,247 | 46,325 | 42,906 | 33,433 |
| Goodwill | 60,671 | 63,532 | 51,019 | 55,234 |
| Other intangible assets | 28,980 | 33,455 | 38,806 | 39,813 |
| Other assets | 46,780 | 29,343 | 31,117 | 27,079 |
| [3]Property, plant & equipt. | 1,201,028 | 1,265,204 | 1,231,044 | 1,269,822 |
| [4]Less allow. for deprec. & amtz. | 488,867 | 507,221 | 443,451 | 449,288 |
| Net property acct. | 712,161 | 757,983 | 787,593 | 820,534 |
| Net assets of discont. oper. | 33,293 | 94,449 | 200,040 | ...... |
| Total | 2,279,084 | 2,030,124 | 2,281,561 | 2,302,460 |
| **LIABILITIES** | | | | |
| Short term debt | 20,828 | 32,590 | 36,663 | 67,135 |
| Accounts payable and other accruals | 499,672 | 449,379 | 397,908 | 441,848 |
| Income & other taxes | 66,025 | 80,583 | 95,001 | 83,834 |
| Current portion of lg.-tm. debt | 9,646 | 12,398 | 15,258 | 14,583 |
| Total current liabilities | 596,171 | 574,950 | 544,830 | 607,400 |
| Long term debt | 417,238 | 380,265 | 544,775 | 516,952 |
| Deferred income taxes | 108,174 | 49,668 | 86,731 | 95,090 |
| Other liabilities | 170,160 | 222,605 | 89,701 | 77,911 |
| [7]4¾% cum. conv. pfd. stk. ($25 par) | ...... | 991 | 1,103 | 1,244 |
| [5]Serial pfd. stk. | 279 | 152 | 163 | 189 |
| [6]Common ($0.50 par) | 16,010 | 14,386 | 13,651 | 13,362 |
| Capital in excess of par value | 293,721 | 163,291 | 124,705 | 109,898 |
| Retained earnings | 744,016 | 676,178 | 915,304 | 880,414 |
| Foreign currency translation adj. | (66,685) | (52,362) | (39,402) | ...... |
| Total stockholders' equity | 987,341 | 802,636 | 1,015,524 | 1,005,107 |
| Total | 2,279,084 | 2,030,124 | 2,281,561 | 2,302,460 |
| Net current assets | 742,965 | 394,872 | 534,252 | 672,841 |
| **PROPERTY ACCT.—ANALYSIS** | | | | |
| Additions at cost | 88,278 | 89,744 | 136,713 | 141,273 |
| Retirements or sales | 73,211 | 9,156 | 11,961 | 46,297 |
| Other additions (deductions) | (79,243) | (46,428) | (68,893) | (6,856) |
| **DPREC. RESERVE—ANALYSIS** | | | | |
| Additions chgd. to income | 91,171 | 93,788 | 92,034 | 89,521 |
| Retire., renewals chgd. to reserve | 42,174 | 1,640 | 4,093 | 34,565 |
| Other additions (deductions) | (67,351) | (28,378 | (52,266) | (7,271) |

[1]At cost, which approximates market.

[2]Net of allowance for uncollectible accounts 1982-83, $17,700,000; 1981, $14,900,000).

[3]1983 (in $000):

| | Book Value | Reserves |
|---|---|---|
| [illegible] | 28,247 | ...... |
| [illegible] | 286,789 | 95,948 |
| [illegible]ry & equipt. | 885,992 | 392,919 |
| Total | 1,201,028 | 488,867 |

[illegible] present no par shares: 1983, 111,666; 1982, [illegible] 1981, 326,182; 1980, 378,419.

[illegible] represents $0.50 par shs.: 1983, 32,020,359; 1982, [illegible]; 1981, 27,301,831; 1980, 26,724,738; after de-[illegible] shares in treasury, 1983, 182,544; 1982, [illegible] 1981-80, 2,017,635.

[illegible] represents $25 par shs.: 1981, 44,131; 1980, [illegible]

[illegible] to reflect discontinued operations.

### Accounting Policies

(As taken from Annual Report of Company)

**Consolidation:**

The consolidated financial statements include the accounts of the Company and all manufacturing and marketing subsidiaries. The equity method is used for all other investments where ownership is 20 percent or more. (See "Write-off of Investment in Mexican Associate Co." in the Financial Review.)

**Foreign Currency Translation:**

Financial statements for the Company's subsidiaries and associate companies outside of the United States, except those in highly inflationary economies, are translated into U.S. dollars at year-end exchange rates as to assets and liabilities and weighted average exchange rates as to revenues and expenses. The resulting translation adjustments are recorded in shareholders' equity. Financial statements for subsidiaries and associate companies operating in highly inflationary economies are translated into U.S. dollars in the same manner except for inventories and property, plant and equipment-net, and related expenses, which are translated at historical exchange rates. The resulting translation adjustments are included in net income.

**Inventories:**

Inventories are carried at the lower of cost or market. Most domestic inventories are accounted for using the last-in, first-out (LIFO) method, and all other inventories using the first-in, first-out (FIFO) method.

**Long-Term Contracts:**

Income and costs on long-term contracts are recognized on the percentage-of-completion method. Provision is made for anticipated losses on uncompleted contracts. Certain government contracts provide for incentive awards or penalties which are reflected in sales at the time the amounts can be reasonably determined.

**Depreciation and Amortization:**

Depreciation and amortization, computed by the straight-line method for financial statement purposes, are provided over the useful lives of the various classes of property, plant and equipment. Excess of cost over net assets of businesses acquired is being amortized over periods not exceeding forty years. Other intangible assets, principally patents, are being amortized over their respective lives.

**Income Taxes**

Current federal income taxes are reduced by the investment tax credit using the flow-through method. Deferred income taxes are not provided for undistributed earnings of consolidated subsidiaries when such earnings are reinvested for an indefinite period of time by the subsidiaries.

**Discontinued Materials Handling Vehicles Operations:**

On Jan. 26, 1983, the Company's Board of Directors approved the discontinuance of its Materials Handling Vehicles business segment and, accordingly, in the fourth quarter of 1982 the Company provided $143.0 million, less income tax credits of $50.2 million, for the estimated loss on disposal of these operations.

On Dec. 31, 1983, the Company tranferred its industrial truck operations in the United States and the United Kingdom to Yale Materials Handling Corporation (Yale), a newly established subsidiary. Simultaneously with this transaction, the Company sold common stock of Yale totaling 41% to outside investors for $7.8 million. In 1984, the Company intends to reduce its ownership to 19%.

In 1983, the Company sold certain portions of its industrial truck operations in West Germany and it is currently pursuing the sale of its woodland vehicles business.

The consolidated financial statements and related notes of the Company have been classified to report separately the operating results and net assets of discontinued operations. Net sales and operating results are summarized below:

**Results of Discontinued Operations**

| Year Ended Dec. 31 (Millions of Dollars) | 1983 | 1982 | 1981 |
|---|---|---|---|
| Net sales | $244.0 | $241.6 | $323.7 |
| Oper. loss before inc. tax credits | $(16.9) | $(37.0) | $(75.2) |
| Inc. tax credits | (6.5) | (11.1) | (29.9) |
| Oper. loss from discont. oper. before estimated loss of disposal | (10.4) | (25.9) | (45.3) |
| Estimated loss on disposal incl. prov. of $35.0 million for oper. losses to estimated disposal date (less inc. tax credits of $50.2 million) | -0- | (92.8) | -0- |
| Oper. losses in 1983 accrued for in 1982 as part of estimated loss on disposal | 10.4 | -0- | -0- |
| Loss from discont. oper. | $-0- | $(118.7) | $(45.3) |

Net assets of discontinued operations of $33.3 million and $94.4 million at Dec. 31, 1983 and 1982, respectively, consist of working capital, property, plant and equipment-net, other noncurrent assets and noncurrent liabilities. The amount at Dec. 31, 1983 includes 59% of the net assets of Yale due to the aforementioned sale of 41% to outside investors.

**Provisions for Plant Closing:**

A net charge of $18.8 million, before reduction for income tax credits of $14.0 million, and a charge of $181.4 million, before reduction for income tax credits of $74.4 million, were recorded in the fourth quarters of 1983 and 1982, respectively. These charges were principally for the estimated costs of closing or disposing of several manufacturing plants in the United States and Europe. The 1983 provision was attributable primarily to the Electronic and Electrical business segment while the 1982 provision primarily related to the Vehicle Components business segment. Certain portions of the 1982 provision for operations in Europe, which had no tax effect, were reallocated in 1983 to operations in the United States. The provisions include write-downs of the closed facilities to estimated realizable value, which did not effect cash flow, and the recognition of employee-related costs and other expenses, a significant portion of which represent long-term liabilities.

**Write-off of Investment in Mexican Associate Company:**

In the fourth quarter of 1983, management performed a comprehensive analysis of its Mexican associate company, Eaton Manufacturera, S.A. de C.V. (EMSA), and concluded that adverse economic conditions had impaired the carrying value of the Company's investment in EMSA. Accordingly, a nontaxable charge of $11.5 million was recorded to write off the remaining investment in EMSA, although the Company has not sold nor liquidated its 40% ownership interest in EMSA. The total impact on the Company's 1983 net income of EMSA's operating losses and the write-off of the investment amounted to $20.3 million.

**Inventories:**

Inventories of continuing operations at Dec. 31, 1983 and 1982 consist of the following (Millions of Dollars):

| December 31 | 1983 | 1982 |
|---|---|---|
| Raw materials and supplies | $89.6 | $88.0 |
| Work in process and finished goods | 304.3 | 354.6 |
| Totals | $393.9 | $442.6 |

Inventories at Dec. 31, 1983 and 1982 include costs relating to long-term contracts of $19.6 and $17.7 million, respectively, net of progress payments of $61.5 million in 1983 and $49.6 million in 1982.

The Company believes the LIFO method more fairly presents its results of operations than the FIFO method, for those operations where LIFO is appropriate, since the LIFO method reduces the effect of inflationary [illegible] increases in inventory and thus matche[illegible] rent costs with current revenues. Howev[illegible] order to enable the reader of the fin[illegible] statements to make comparisons with co[illegible] nies using the FIFO method, the total i[illegible] of LIFO on income from continuing [illegible] tions and income from continuing opera[illegible] per Common Share is shown in the follo[illegible] supplementary table. The amounts in th[illegible] plementary table assume adjustment [illegible] come taxes at the United States statutory [illegible] and no other adjustments.

**Finance Subsidiaries:**

The Company's wholly-owned uncon[illegible] dated finance subsidiaries are engaged i[illegible] financing and leasing of equipment man[illegible] tured by Eaton and others. The prin[illegible] products financed by these subsidiarie[illegible] clude, but are not limited to, lift truck[illegible] skidders, semiconductor test equipment [illegible] electronic instrumentation testing equip[illegible]. The financing is conducted by Eaton C[illegible] Corporation (ECC) and Eaton Leasing [illegible] poration in the United States, while fina[illegible] in Europe is accomplished by two other [illegible] subsidiaries. Following is a summary of condensed financial information pertaining to the finance subsidiaries.

**Condensed Balance Sheets** (Millions of Dollars)

| December 31 | 1983 | 1982 |
|---|---|---|
| **Assets** | | |
| Cash and short-term invest. | $22.9 | $7.0 |
| Secured receivables—net | 69.5 | 79.2 |
| Invest. in direct financing leases | 42.5 | 2.4 |
| Invest. in real estate—net | 15.1 | 16.4 |
| Other assets | 7.1 | 5.2 |
| | $157.1 | $110.2 |
| **Liabilities and Shareholder's Equity** | | |
| Short-term debt | $3.1 | $7.4 |
| 8½% Notes, due 1984 | 40.0 | 40.0 |
| 13.75% Note, due 1985 | 10.0 | 10.0 |
| 13% Long-term notes pay., due 1988-1995 | 19.9 | -0- |
| 12.5% Note, due 1990 | 20.5 | -0- |
| 12.0% Note, due 1997 | 12.9 | 12.9 |
| Other liabilities | 12.9 | 4.7 |
| Shareholder's Equity | 37.8 | 35.2 |
| | $157.1 | $110.2 |

**Condensed Income Statement Data** (Millions of Dollars)

| Year Ended Dec. 31 | 1983 | 1982 | 1981 |
|---|---|---|---|
| Income | $23.6 | $19.3 | [illegible] |
| Interest expense | 9.9 | 6.8 | [illegible] |
| Net income | 4.3 | 4.7 | [illegible] |

The Company is contractually obli[illegible] make available to ECC amounts suffici[illegible] so that earnings, as defined, are at least 1[illegible]% of fixed charges (principally interest expense). No such amounts were required in 1983, 1982 or 1981.

| Year Ended Dec. 31 (Millions of Dollars Except for Per Share Amounts) | 1983 Amount | 1983 Per Common Sh. | 1982 Amount | 1982 Per Common Sh. | 1981 Amount | 1981 Per Common Sh. |
|---|---|---|---|---|---|---|
| Gross LIFO effect | $(4.9) | $(.16) | $(5.9) | $(.21) | $(14.3) | $(.53) |
| Increase in income from continuing operations related to reduction of inventory quantities and costs valued using LIFO method | 4.5 | .15 | 9.2 | .33 | .3 | .01 |
| Increase (decrease) in income from continuing operations | $(.4) | $(.01) | $3.3 | $.12 | $(14.0) | $(.52) |

If the FIFO method had been used exclusively, inventories would have been $82.3 million and $83.5 million higher at Dec. 31, 1983 and 1982, respectively.

**Current Liabilities:**

Eaton and its consolidated subsidiaries have short-term lines of credit aggregating $134.2 million from various banks worldwide, of which $65.0 million are shared with Eaton Credit Corporation. At Dec. 31, 1983, Eaton had $13.2 million outstanding under short-term lines of credit and had available unused short-term lines of credit at the banks' prime rates aggregating $121.0 million. These arrangements do not have termination dates, but are reviewed annually for renewal.

Payrolls and other accruals of continuing operations consist of the following (Millions of Dollars):

| Dec. 31 | 1983 | 1982 |
|---|---|---|
| Payrolls and other compensation | $65.4 | $53.7 |
| Pensions | 42.8 | 44.8 |
| Accrual for operating losses of discont. oper. | 18.1 | 35.0 |
| Other | 199.9 | 184.1 |
| Totals | $326.2 | $317.6 |

**Long-Term Debt:**

A summary of long-term debt, excluding the current portion, follows (Millions of Dollars):

| Dec. 31 | 1983 | 1982 |
|---|---|---|
| Sinking fund debentures: | | |
| 7.60%, due 1996 | $20.8 | $20.9 |
| 8¾%, due 2001 | 37.4 | 37.4 |
| 7⅞%, due 2003 | 55.5 | 55.6 |
| 7% Debs., due 2011, net of unamortized discount of $101.7 million in 1983 and $102.0 million in 1982 (effective interest rate 14.6%) | 98.3 | 98.0 |
| 13¼% Notes, due 1989 | 50.0 | 50.0 |
| 9.3% Notes, due 1994 | 7.9 | 15.7 |
| 8.95% Notes, due 1995 | 13.8 | 16.3 |
| 8½% Subord. Debs., due 2008 (convertible into Common Shares at $63.25 a share) | 75.0 | -0- |
| 5% Subord. Debs., due 1987 | -0- | 14.9 |
| Capitalized lease obligs. | 23.7 | 31.9 |
| Other | 34.8 | 39.6 |
| Totals | $417.2 | [illegible] |

Eaton and its consolidated subsi[illegible] have long-term lines of credit aggre[illegible] $515.5 million from various banks wo[illegible] of which $500.0 million are from United [illegible] banks. At Dec. 31, 1983, Eaton had [illegible] lion outstanding under the lines of cr[illegible] had available unused long-term lines [illegible] aggregating $512.6 million. Lines of [illegible] United States banks are in the form [illegible] ing credit agreements which mature [illegible] 1991. Eaton is required to pay [illegible] commitment fee for the lines of [illegible] United States banks which appro[illegible] per annum in 1983.

In Oct. 1983, the Company called for the redemption of its 5% Subordinated Debentures, due 1987. Substantially all of these debentures [illegible] converted into Common Shares at the [illegible] a share.

[illegible] April 1982, the Company exchanged [illegible] Common Shares for $39.2 million principal amount of certain of the Company's outstanding debentures generating a nontaxable [illegible] of $15.8 million.

[illegible] aggregate sinking fund requirements [illegible] annual maturities of long-term debt for the years 1985 through 1988 are $10.1 million, $9.1 million, $9.5 million and $6.8 million, respectively.

[illegible] long-term debt agreements include restrictive covenants certain of which, among other [illegible], prohibit certain aggregate amounts of [illegible] Company's dividends, redemptions and distributions on its shares from exceeding [illegible] levels. At December 31, 1983, the [illegible] levels were substantially in excess of [illegible] aggregate amount of dividends, redemptions and distributions.

[illegible] interest cost of $2.0 million in 1983, $2.2 million in 1982 and $8.8 million in 1981 was capitalized as part of the cost of acquisition or construction of major assets.

**Shareholders' Equity:**

In Oct. 1983, the Company called for the redemption of its outstanding 4¾% Cumulative Convertible Preferred Shares ($25 par value) and its $2.30 Serial Preferred Shares, Series A ($.50 stated value). Substantially all of these outstanding preferred shares were converted into Common Shares at the rate of one preferred share for one and one-half Common Shares.

In April 1983, pursuant to the Company's offer, shareholders exchanged 597,979 Common Shares for 119,406 $10 Serial Preferred Shares, Series B ($2.50 stated value). Each outstanding $10 Serial Preferred Share bears an annual dividend of $10 per share on a cumulative basis, is convertible into four Common Shares, is redeemable in whole or in part at the Company's option beginning May 1, 1988 at $170 per share, has a liquidation value of $125 per share, and generally has the same voting rights as a Common Share. Also, in April 1983, the shareholders approved amended Articles of Incorporation which increased the number of authorized Serial Preferred Shares to 15 million from 5 million.

There are authorized 70 million Common Shares with a par value of $.50. In May 1983, the Company contributed 500,000 Common Shares valued at $21.5 million, in lieu of cash, to its pension fund. In July 1983, 2 million Common Shares were issued in a public offering resulting in net proceeds to the Company of $83.5 million. Common Shares held in treasury at Dec. 31 were 1,827,544 in 1983, 1,874,871 in 1982 and 2,017,635 in 1981. At Dec. 31, 1983, there were 3,724,895 Common Shares reserved for conversion of outstanding preferred shares and convertible debentures, and exercise of stock options. At Jan. 31, 1984, there were 24,653 holders of record of the Company's Common Shares.

Undistributed earnings of unconsolidated subsidiaries and associate companies included [illegible] retained earnings were $30.0 million and [illegible] million, respectively, at Dec. 31, 1983.

**Options for Common Shares:**

Options have been granted to certain employees, under various plans, to purchase the Company's Common Shares at prices equal to the fair market value as of the date of grant. These options expire ten years from date of grant. Certain plans allow the granting of stock appreciation rights with all or part of any option granted thereunder. Upon exercise of a stock appreciation right, the holder surrenders the option and receives the excess of the then fair market value of the Common Shares over the option price in Common Shares or cash. The Company may settle up to half of such excess in cash.

A summary of stock option activity follows:

| | Shares | Average Price Per Sh. |
|---|---|---|
| Outstg. Jan. 1, 1981 .. | 1,259,562 | $24.31 |
| Granted ........ | 218,900 | 29.30 |
| Exercised .......... | (219,453) | 22.73 |
| Canceled .......... | (84,532) | 24.53 |
| Outstg. Dec. 31, 1981 . | 1,174,477 | 25.52 |
| Granted .......... | 342,927 | 30.69 |
| Exercised .......... | (76,744) | 21.23 |
| Canceled .......... | (89,160) | 28.31 |
| Outstg. Dec. 31, 1982 . | 1,351,500 | 26.89 |
| Granted .......... | 348,725 | 44.27 |
| Exercised .......... | (274,411) | 24.48 |
| Canceled .......... | (94,605) | 28.18 |
| Outstg. Dec. 31, 1983 . | 1,331,209 | 31.85 |

At Dec. 31, 1983, there were 761,251 shares available for granting of options (1,013,960 at Dec. 31, 1982) and options for 565,510 shares were exercisable (651,256 at Dec. 31, 1982). There were 390,363 stock appreciation rights outstanding at Dec. 31, 1983 (374,240 at Dec. 31, 1982) at an average price of $29.65 per share ($27.10 at Dec. 31, 1982).

**Net Income (Loss) per Common Share:**

Primary net income (loss) per Common Share is based on the monthly average number of shares outstanding during each year after deducting from net income (or increasing net loss) preferred dividends of $1.6 million in 1983, $.8 million in 1982 and $.9 million in 1981. Fully diluted net income per Common Share for 1983 and 1981 assumes conversion of convertible debentures and preferred shares and exercise of dilutive stock options outstanding.

**Lease Commitments:**

At Dec. 31, 1983, the Company is liable under terms of noncancelable leases related in continuing operations, which expire at various dates and in most cases contain renewal options for the following lease commitments.

| (Millions of Dollars) | Capital Leases | Operating Leases |
|---|---|---|
| Future minimum lease commitments for the year ending Dec. 31: | | |
| 1984 .............. | $7.4 | $18.7 |
| 1985 .............. | 6.3 | 11.5 |
| 1986 .............. | 5.2 | 7.6 |
| 1987 .............. | 5.0 | 4.4 |
| 1988 .............. | 4.2 | 2.4 |
| Thereafter ........ | 17.4 | 32.1 |
| Total future minimum lease commitments .... | 45.5 | $76.7 |
| Less amount representing interest to reduce the future minimum lease commitments to present value .... | 18.5 | |
| Obligations under capital leases at Dec. 31, 1983, including $3.3 million currently payable ......... | $27.0 | |

Rental expense for continuing operations amounted to $44.0 million in 1983, $42.2 million in 1982 and $42.9 million in 1981.

**Pensions:**

The Company and its subsidiaries have pensions plans covering the majority of their employees. Pension expense for continuing operations for 1983 and 1982, exclusive of pension costs accrued as part of the "Provisions for Plant Closings," was $44.7 million and $49.1 million, respectively, compared to $55.6 million for 1981. Pension expense includes current service costs and amortization of prior service costs over principally 30 years. The decrease in 1983 pension expense and the actuarial present value of nonvested accumulated plan benefits from 1982 was due to the plant closings announced at the end of 1982. The decrease in pension expense for 1982 from 1981 was the result of an increase in the assumed rate of return partially offset by the effect of amendments to several plans. It is the policy of the Company to fund substantially all of the pension costs accrued for operating locations.

A comparison of accumulated plan benefits and plan net assets for defined benefit plans of the Company's continuing operations in the United States and Canada is presented below (Millions of Dollars):

| Dec. 31 | 1983 | 1982 |
|---|---|---|
| Actuarial present value of accumulated plan benefits: | | |
| Vested ........... | $632 | $593 |
| Nonvested ........ | 62 | 87 |
| | 694 | 680 |
| Net assets available for benefits ...... | 767 | 686 |
| Net assets available for benefits over actuarial present value of accumulated plan benefits ......... | $73 | $6 |

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 7.5% in 1983 and 1982.

**Income Taxes:**

The Company's income (loss) from continuing operations before income taxes is summarized below (Millions of Dollars):

| Year Ended Dec. 31 | 1983 | 1982 | 1981 |
|---|---|---|---|
| United States ..... | $77.2 | $(122.9) | $168.2 |
| Outside the United States ......... | 39.0 | (.2) | 45.8 |
| Totals ........ | $116.2 | $(123.1) | $214.0 |

Income taxes (credits) for continuing operations are summarized as follows (Millions of Dollars):

| Year Ended Dec. 31 | 1983 | 1982 | 1981 |
|---|---|---|---|
| Current: | | | |
| United States: | | | |
| Federal ....... | ($14.1) | $(6.6) | $47.9 |
| State and local | (.1) | (2.0) | 3.6 |
| Outside the United States .. | 18.5 | 11.6 | 27.9 |
| Tot. curr. | 4.3 | 3.0 | 79.4 |
| Deferred: | | | |
| United States ... | 22.5 | (51.1) | 12.8 |
| Outside the United States .. | (3.9) | (4.0) | (5.9) |
| Tot. def. | 18.6 | (55.1) | 6.9 |
| Totals ........ | $22.9 | $(52.1) | $86.3 |

Major components of deferred income taxes (credits) for continuing operations are as follows (Millions of Dollars):

| Year Ended Dec. 31 | 1983 | 1982 | 1981 |
|---|---|---|---|
| Prov. for plant closings ....... | $(2.4) | $(74.4) | $0 |
| Excess of tax over book deprec. ... | 17.2 | 11.3 | 9.3 |
| Long-term contracts ...... | 19.1 | 7.7 | 3.0 |
| Equity inc. (losses) of Mexican assoc. co. ...... | (4.1) | 1.7 | 1.2 |
| Other—net ....... | (11.2) | (1.4) | (6.6) |
| Totals ........ | $18.6 | $(55.1) | $6.9 |

A reconciliation of income taxes (credits) for continuing operations at the United States statutory rate (expressed in millions of dollars and as a percentage of pretax income) to the effective tax rate follows:

| Year Ended Dec. 31 | 1983 Dollars | 1983 Rate | 1982 Rate | 1981 Rate |
|---|---|---|---|---|
| Income taxes (credits) computed at the United States statutory rate .......... | $53.4 | 46.0% | (46.0%) | 46.0% |
| Increase (decrease) in taxes resulting from: | | | | |
| Investment tax credit .......... | (7.5) | (6.5) | (5.3) | (3.3) |
| Research and experimentation credit .......... | (3.4) | (2.9) | (2.2) | (.2) |
| Adjustment of estimated U.S. federal and foreign tax liabilities .......... | (4.9) | (4.2) | (3.1) | (3.2) |
| Tax benefit from recognition of net operating loss carryforwards .......... | (4.0) | (3.4) | 0 | 0 |
| Nontaxable write-off of investment in Mexican associate company .......... | 5.3 | 4.5 | 0 | 0 |
| Nontaxable gain on exchange of Common Shares for debentures .......... | 0 | 0 | (5.9) | 0 |
| Consolidated subsidiaries outside the United States: | | | | |
| Losses with no tax benefit .......... | 2.2 | 1.9 | 22.9 | 8.1 |
| Effective tax rate differential on earnings .......... | (10.9) | (9.5) | (12.2) | (5.1) |
| Other—net .......... | (7.3) | (6.2) | 9.5 | (2.0) |
| Totals .......... | $22.9 | 19.7% | (42.3%) | 40.3% |

Undistributed earnings of consolidated subsidiaries at Dec. 31, 1983, aggregated approximately $246 million, all of which have been reinvested by the subsidiaries. Substantial foreign tax credits could be available to offset taxes on future remittances of approximately $190 million of such undistributed earnings. The balance principally represents the undistributed ear[illegible] of the domestic international sales corporations for which no taxes have been provided.

At Dec. 31, 1983, certain subsidiaries outside the United States have unused tax loss carryforwards, aggregating approximately $94 million, available for offset against future taxable income of such subsidiaries. Carryforwards of approximately $68 million have no expiration dates and the balance expires at various dates through 1991. For financial statement purposes unused loss carryforwards aggregate approximately $88 million of which, if utilized, approximately $72 million would be used to reduce future financial statement income tax expense, and the remainder would be used to reinstate deferred tax liability accounts.

**Quarterly Data** (Unaudited)

| Quarter Ended (In Millions Except for Per Share Amounts) | 1983 Mar. 31 | 1983 June 30 | 1983 Sept. 30 | 1983 Dec. 31 | 1983 Total | 1982 Mar. 31 | 1982 June 30 | 1982 Sept. 30 | 1982 Dec. 31 | 1982 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales ... | $612.6 | $660.3 | $657.1 | $744.1 | $2,674.1 | $668.1 | $649.3 | $565.4 | $569.8 | $2,452.6 |
| Gross margin ... | 145.0 | 164.6 | 168.5 | 219.5 | 697.6 | 167.6 | 162.1 | 131.0 | 122.0 | 582.7 |
| Inc. (loss) from contin. opers. ...... | 8.3 | 21.3 | 22.4 | 41.3 | 93.3 | 20.7 | 35.2 | .2 | (127.1) | (71.0) |
| Net income (loss) ...... | 8.3 | 21.3 | 22.4 | 41.3 | 93.3 | 13.9 | 28.8 | (4.9) | (227.4) | (189.6) |
| **Per Common Share:** | | | | | | | | | | |
| Inc. (loss): | | | | | | | | | | |
| Primary: | | | | | | | | | | |
| Cont. opers. .... | .28 | .73 | .72 | 1.30 | 3.06 | .75 | 1.24 | 0 | (4.44) | (2.54) |
| Net inc. (loss) ...... | .28 | .73 | .72 | 1.30 | 3.06 | .50 | 1.01 | (.18) | (7.94) | (6.74) |
| Fully diluted: | | | | | | | | | | |
| Cont. opers. .... | .28 | .70 | .70 | 1.25 | 2.95 | .73 | 1.20 | 0 | (4.44) | (2.54) |
| Net inc. (loss) .... | .28 | .70 | .70 | 1.25 | 2.95 | .49 | .98 | (.18) | (7.94) | (6.74) |
| Cash divs. .. | .20 | .20 | .20 | .20 | .80 | .43 | .43 | .43 | .43 | 1.72 |
| Market price: | | | | | | | | | | |
| High ..... | 37 | 45¾ | 47⅝ | 55½ | 55½ | 32⅜ | 31⅛ | 31⅞ | 35⅞ | 35⅞ |
| Low ..... | 28⅝ | 33¼ | 39 | 44½ | 28⅝ | 27 | 26 | 22¾ | 28 | 22¾ |

Income (loss) from continuing operations for the fourth quarters include provisions for plant closings of $18.8 million in 1983, before reduction for income tax credits of $14.0 million, and $181.4 million in 1982, before reduction for income tax credits of $74.4 million.

Income from continuing operations for the fourth quarter of 1983 includes a nontaxable charge of $11.5 million for the write-off of the investment in a Mexican associate company.

The gross effect of using the LIFO method to account for certain inventories was to decrease cost of products sold for the fourth quarters of 1983 and 1982 by $4.5 million and $3.0 million, respectively. Additionally, liquidations of LIFO inventories decreased cost of products sold for the fourth quarters of 1983 and 1982 by $2.9 million and $6.8 million, respectively. The net aftertax effect of using LIFO was to increase income from continuing operations for the fourth quarter of 1983 by $4.0 million ($.13 per Common Share) and decrease the net loss for the fourth quarter of 1982 by $5.3 million ($.18 per Common Share).

Net loss for the fourth quarter of 1982 includes a provision for estimated loss on disposal of discontinued operations of $143.0 million, less income tax credits of $50.2 million.

Income from continuing operations and net income for the second quarter of 1982 includes a nontaxable gain of $15.8 million resulting from the exchange of 900,000 Common Shares for $39.2 million principal amount of certain of the Company's outstanding debentures.

**Business Segment Information:**

The Company's continuing operations are classified between two business segments: Electronic and Electrical and Vehicle Components. The major classes of products included in each segment and other information follows:

Electronic and Electrical:

Automation Systems and Equipment—semiconductor wafer fabrication and test equipment; hoisting equipment; electronic test instrumentation; electrical adjustable speed drives; automated materials handling systems and electromechanical/electronic control systems.

Capital Goods Components—electromechanical and electronic control devices and assemblies; sensors and human interface devices; programmable controllers; switches, relays, counters, polymer hose, hydraulic motors, clutches, brakes and fasteners.

Consumer Goods Components—electromechanical and electronic appliance controls; low-voltage power distribution equipment; switches and fasteners.

Aerospace and Defense Systems—avionics and defense electronics; electronic countermeasures; air traffic/vessel traffic control systems; radar systems and aerospace power controls.

The principal amrkets for these products are provided by industrial and government customers. Distribution is accomplished directly by Eaton or indirectly through distributors and manufacturers' representatives.

Vehicle Components:

Truck Components—mechanical transmissions, drive and trailer axles, brakes, locking differentials, engine valves, hydraulic valve lifters, tire valves, leaf springs, viscous fan drives, power steering pumps, thermostats, air conditioning equipment, couplings, hose and tubing for the over-the-road truck industry.

Passenger Car Components—engine valves, hydraulic valve lifters, leaf springs, emission control valves, viscous fan drives, speed controls, tire valves, thermostats, fasteners, automatic temperature controls, heaters and air conditioning equipment.

Off-Highway Vehicle Components—mechanical and hydrostatic transmissions, forgings, drive axles, brakes, engine valves, hydraulic valve lifters, hydraulic motors, couplings, hose and tubing.

The principal market for these products is that provided by the original equipment manufacturers of trucks, passenger cars and off-highway vehicles. Most of Eaton's sales of these products are made directly from Eaton's plants to such manufacturers.

**Other Information:**

Operating profit represents net sales less operating expenses for each segment and excludes interest expense and income, earnings (losses) of investments carried at equity (finance subsidiaries and associate companies), general corporate expenses—net, unusual items (provisions for plant closings, write-off of investment in Mexican associate company and the excess of insurance settlement over book value) and, in 1982, the gain on exchange of Common Shares for debentures.

Identifiable assets for each segment and geographic region represent those assets used in the Company's operations and exclude general corporate assets (consisting principally of short-term investments, deferred taxes, other assets and property) and investments carried at equity.

Net sales to the U.S. government from the Electronic and Electrical business segment amounted to $296 million in 1983, or 11% of net sales. Net sales to the divisions and subsidiaries of another customer from the Vehicle Components business segment amounted to $275 million in 1983, or 10% of net sales. Net sales to any single customer in 1982 and 1981 were less than 10% of total net sales.

**Business Segment Information** (Millions of Dollars)

| | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|---|---|---|---|---|
| **Net Sales:** | | | | | |
| Electronic and Electrical | $1,449 | $1,343 | $1,415 | $1,366 | $1,247 |
| Vehicle Components | 1,245 | 1,129 | 1,442 | 1,426 | 1,680 |
| Intersegment Sales | (20) | (19) | (15) | (13) | (16) |
| Net Sales | $2,674 | $2,453 | $2,842 | $2,779 | $2,911 |
| **Operating Profit:** | | | | | |
| Electronic and Electrical | $51 | $32 | $89 | $102 | $114 |
| Vehicle Components | 152 | 56 | 173 | 155 | 245 |
| Total Operating Profit | 203 | 88 | 262 | 257 | 359 |
| Provisions for Plant Closings | (19) | (181) | 0 | 0 | 0 |
| Write-off of Investment in Mexican Associate Company | (12) | 0 | 0 | 0 | 0 |
| Gain on Exchange of Common Shares for Debentures | 0 | 16 | 0 | 0 | 0 |
| Excess of Insurance Settlement Over Book Value | 0 | 0 | 0 | 25 | 0 |
| Interest Expense | (48) | (68) | (72) | (88) | (87) |
| Interest Income | 15 | 15 | 11 | 5 | 8 |
| Earnings (Losses) of Finance Subsidiaries and Associate Companies | (10) | 15 | 23 | 13 | 11 |
| General Corporate Expenses—Net | (13) | (8) | (10) | (15) | (28) |
| Income (Loss) From Cont. Oper. Before Inc. Taxes | $116 | $(123) | $214 | $197 | $263 |
| **Identifiable Assets:** | | | | | |
| Electronic and Electrical | $867 | $895 | $952 | $966 | $939 |
| Vehicle Components | 800 | 827 | 909 | 962 | 1,010 |
| Intersegment Assets | (45) | (73) | (54) | (69) | (34) |
| Total Identifiable Assets | 1,622 | 1,649 | 1,807 | 1,859 | 1,915 |
| General Corporate Assets | 566 | 205 | 181 | 79 | 97 |
| Investments Carried at Equity | 58 | 82 | 94 | 78 | 65 |
| Net Assets of Discontinued Operations | 33 | 94 | 200 | 227 | 221 |
| Total Assets At Dec. 31 | $2,279 | $2,030 | $2,282 | $2,243 | $2,298 |
| **Net Sales by Classes of Similar Products:** | | | | | |
| Electronic and Electrical | | | | | |
| Automation Systems and Equipment | $352 | $365 | $411 | $378 | $316 |
| Capital Goods Components | 457 | 490 | 607 | 590 | 559 |
| Consumer Goods Components | 220 | 188 | 196 | 201 | 198 |
| Aerospace and Defense Systems | 420 | 300 | 201 | 197 | 174 |
| Vehicle Components | | | | | |
| Truck Components | 827 | 742 | 993 | 1,005 | 1,186 |
| Passenger Car Components | 314 | 277 | 283 | 263 | 321 |
| Off-Highway Vehicle Components | 104 | 110 | 166 | 158 | 173 |
| Intersegment Sales | (20) | (19) | (15) | (13) | (16) |
| Net Sales | $2,674 | $2,453 | $2,842 | $2,779 | $2,911 |