NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 1959

EATON MANUFACTURING COMPANY AND CONSOLIDATED SUBSIDIARIES

Note A—The number of shares of capital stock authorized to be issued by the Company was changed from 3,000,000 to 10,000,000 shares and each share with a par value of $2.00 was changed into two shares with a par value of $1.00 by adoption of amended articles of incorporation which became effective at the close of business on September 30, 1959. Dividends per share are shown after giving effect to the above change. The amount shown for dividends for 1958 includes $939,536 paid by Fuller Manufacturing Company.

Note B—Under the Company's Restricted Stock Option Plan 260,624 shares of unissued capital stock were reserved at December 31, 1959. The following information relates to shares subject to options (after giving effect to the change explained in Note A):

Options	*Number of Shares*	*Option Price*	*Total*
Outstanding at beginning of year	186,400	$21.29	$3,968,456
Granted during year	47,900	$33.02 or $36.76	1,724,152
Exercised during year	36,976	$21.29	787,219
Outstanding at end of year	197,324	$21.29 to $36.76	$4,905,389

Shares available for the granting of options aggregated 111,200 at the beginning of the year and 63,300 at the end of the year. At December 31, 1959, options for 13,536 shares were exercisable.

Note C—The increase in capital in excess of par value during 1959 is accounted for as follows:

Excess of proceeds from sale over par value of capital stock issued under Restricted Stock Option Plan	$ 750,243
Excess of quoted market value over par value of 81,670 shares of old $2.00 par value capital stock issued in connection with acquisition of net assets of The Cleveland Worm and Gear Company	4,900,200
TOTAL	$5,650,443

Note D—The estimated unfunded past service cost under the companies' pension plans amounted to approximately $17,000,000 at December 31, 1959. The annual cost of the plans, at the current rate of operations, and including amortization of past service costs will amount to approximately $3,600,000.

Note E—Net assets located in Canada have been included on a dollar-for-dollar basis at December 31, 1959.

ACCOUNTANTS' REPORT

Board of Directors
Eaton Manufacturing Company
Cleveland, Ohio

We have examined the financial statements of Eaton Manufacturing Company and consolidated subsidiaries for the year ended December 31, 1959. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of financial position and statements of income and earnings retained for use in the business present fairly the financial position of Eaton Manufacturing Company and consolidated subsidiaries at December 31, 1959, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
January 25, 1960

In re: All Asbestos Litigation Filed by Simmons Cooper, Circuit Court, Third Judicial District, Madison Cty., IL; 11/17/05.