Eaton Corp plc
Form 10-Q
May 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014
Commission file number 000-54863
EATON CORPORATION plc
(Exact name of registrant as specified in its charter)

Ireland	98-1059235
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
Fitzwilliam Hall, Fitzwilliam Place, Dublin 2, Ireland	-
(Address of principal executive offices)	(Zip Code)

+1 (440) 523-5000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
There were 476.7 million Ordinary Shares outstanding as of March 31, 2014.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF INCOME

	Three months ended March 31	
(In millions except for per share data)	2014	2013
Net sales	$5,492	$5,310
Cost of products sold	3,858	3,735
Selling and administrative expense	962	958
Research and development expense	162	152
Interest expense - net	62	75
Other income - net	(5)	(10)
Income before income taxes	453	400
Income tax expense	12	20
Net income	441	380
Less net income for noncontrolling interests	(2)	(2)
Net income attributable to Eaton ordinary shareholders	$439	$378
Net income per ordinary share		
Diluted	$0.92	$0.79
Basic	0.92	0.80
Weighted-average number of ordinary shares outstanding		
Diluted	478.8	475.1
Basic	475.8	471.9
Cash dividends declared per ordinary share	$0.49	$0.42

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EATON CORPORATION plc
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31	
(In millions)	2014	2013
Net income	$441	$380
Less net income for noncontrolling interests	(2)	(2)
Net income attributable to Eaton ordinary shareholders	439	378
Other comprehensive income, net of tax		
Currency translation and related hedging instruments	(47)	(281)
Pensions and other postretirement benefits	50	53
Cash flow hedges	—	(7)
Other comprehensive income (loss) attributable to Eaton ordinary shareholders	3	(235)
Total comprehensive income attributable to Eaton ordinary shareholders	$442	$143

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EATON CORPORATION plc
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	March 31, 2014	December 31, 2013
Assets		
Current assets		
Cash	$784	$915
Short-term investments	360	794
Accounts receivable - net	3,889	3,648
Inventory	2,532	2,382
Deferred income taxes	554	577
Prepaid expenses and other current assets	564	415
Total current assets	8,683	8,731
Property, plant and equipment - net	3,806	3,833
Other noncurrent assets		
Goodwill	14,450	14,495
Other intangible assets	7,078	7,186
Deferred income taxes	257	240
Other assets	988	1,006
Total assets	$35,262	$35,491
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	$8	$13
Current portion of long-term debt	316	567
Accounts payable	2,076	1,960
Accrued compensation	334	461
Other current liabilities	2,071	1,913
Total current liabilities	4,805	4,914
Noncurrent liabilities		
Long-term debt	8,991	8,969
Pension liabilities	1,228	1,465
Other postretirement benefits liabilities	666	668
Deferred income taxes	1,296	1,313
Other noncurrent liabilities	1,165	1,299
Total noncurrent liabilities	13,346	13,714
Shareholders' equity		
Eaton shareholders' equity	17,037	16,791
Noncontrolling interests	74	72
Total equity	17,111	16,863
Total liabilities and equity	$35,262	$35,491

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EATON CORPORATION plc
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31	
(In millions)	2014	2013
Operating activities		
Net income	$441	$380
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization	249	245
Deferred income taxes	(24)	104
Pension and other postretirement benefits expense	99	87
Contributions to pension plans	(272)	(208)
Excess tax benefit from equity-based compensation	(20)	(16)
Changes in working capital	(370)	(546)
Other - net	(91)	54
Net cash provided by operating activities	12	100
Investing activities		
Capital expenditures for property, plant and equipment	(110)	(122)
Sales of short-term investments - net	431	132
Proceeds from sale of business	3	761
Other - net	(20)	2
Net cash provided by investing activities	304	773
Financing activities		
Payments on borrowings	(257)	(687)
Cash dividends paid	(229)	(194)
Exercise of employee stock options	23	56
Excess tax benefit from equity-based compensation	20	16
Other - net	—	(1)
Net cash used in financing activities	(443)	(810)
Effect of currency on cash	(4)	(1)
Total (decrease) increase in cash	(131)	62
Cash at the beginning of the period	915	577
Cash at the end of the period	$784	$639

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EATON CORPORATION plc
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Amounts are in millions unless indicated otherwise (per share data assume dilution).
Note 1. BASIS OF PRESENTATION
The accompanying unaudited condensed consolidated financial statements of Eaton Corporation plc (Eaton or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are necessary for a fair presentation of the condensed consolidated financial statements for the interim periods. This Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in Eaton's 2013 Form 10-K. The interim period results are not necessarily indicative of the results to be expected for the full year. Management has evaluated subsequent events through the date this Form 10-Q was filed with the Securities Exchange Commission.
Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2. ACQUISITIONS AND SALE OF BUSINESSES
Eaton's most recently acquired businesses, and the related annual sales prior to acquisition, are summarized below:

Acquired businesses	Date of transaction	Business segment	Annual sales
Cooper Industries plc (Cooper) A diversified global manufacturer of electrical products and systems, with brands including Bussmann electrical and electronic fuses; Crouse-Hinds and CEAG explosion-proof electrical equipment; Halo and Metalux lighting fixtures; and Kyle and McGraw-Edison power systems products.	November 30, 2012	Electrical Products; Electrical Systems and Services	$5,409 for 2011
Rolec Comercial e Industrial S.A. A Chilean manufacturer of integrated power assemblies and low- and medium-voltage switchgear, and a provider of engineering services serving mining and other heavy industrial applications in Chile and Peru.	September 28, 2012	Electrical Systems and Services	$85 for the 12 months ended September 30, 2012
Jeil Hydraulics Co., Ltd. A Korean manufacturer of track drive motors, swing drive motors, main control valves and remote control valves for the construction equipment market.	July 6, 2012	Hydraulics	$189 for 2011
Polimer Kaucuk Sanayi ve Pazarlama A.S. A Turkish manufacturer of hydraulic and industrial hose for construction, mining, agriculture, oil and gas, manufacturing, food and beverage, and chemicals markets. This business sells its products under the SEL brand name.	June 1, 2012	Hydraulics	$335 for 2011
Gycom Electrical Low-Voltage Power Distribution, Control and Automation A Swedish electrical low-voltage power distribution, control and automation components business.	June 1, 2012	Electrical Systems and Services	$24 for 2011

See Note 3 for information about acquisition integration charges and transaction costs related to these acquisitions.

Sale of Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions

On January 20, 2014, Eaton announced it entered into an agreement to sell the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions businesses to Safran for $270. The sale, which was approved by Eaton's Board of Directors, is subject to regulatory approvals and other customary closing conditions. The transaction is expected to close in the second quarter of 2014.

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Note 3. ACQUISITION INTEGRATION AND RESTRUCTURING CHARGES
Eaton incurs integration charges and transaction costs related to acquired businesses. A summary of these charges follows:

	Three months ended March 31	
	2014	2013
Acquisition integration charges		
Electrical Products	$29	$3
Electrical Systems and Services	26	5
Hydraulics	4	12
Total business segments	59	20
Corporate	7	6
Total acquisition integration charges	66	26
Transaction costs		
Corporate	—	5
Total transaction costs	—	5
Total acquisition integration charges and transaction costs before income taxes	$66	$31
Total after income taxes	$44	$22
Per ordinary share - diluted	$0.09	$0.05

Business segment integration charges in the first quarter of 2014 were related primarily to the integration of Cooper. Business segment integration charges in the first quarter of 2013 were related primarily to the integrations of Cooper, Polimer Kaucuk Sanayi ve Pazarlama, Jeil Hydraulics, and Rolec Comercial e Industrial S.A. These charges were included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information the charges reduced Operating profit of the related business segment.
Corporate integration charges in 2014 and 2013 were related primarily to the acquisition of Cooper. These charges were included in Selling and administrative expense. In Business Segment Information the charges were included in Other corporate expense - net.
Acquisition-related transaction costs, such as investment banking, legal, other professional fees, and costs associated with change in control agreements, are not included as a component of consideration transferred in an acquisition but are expensed as incurred. Acquisition-related transaction costs in 2013 were related to the acquisition of Cooper. These charges were included in Selling and administrative expense, Interest expense - net and Other income - net. In Business Segment Information the charges were included in Interest expense - net and Other corporate expense - net. See Note 2 for additional information about business acquisitions.
Restructuring Charges
During 2013, Eaton undertook restructuring activities related to the acquisition and integration of Cooper in an effort to gain efficiencies in selling, marketing, traditional back-office functions and manufacturing and distribution. These actions resulted in charges totaling $36 in 2013 and $41 in the first quarter of 2014, comprised primarily of severance costs. These restructuring initiatives are expected to continue through 2015.
Restructuring charges were included in Cost of products sold or Selling and administrative expense, as appropriate. In Business Segment Information, the charges reduced Operating profit of the related business segment. See Note 12 for additional information about business segments. As of March 31, 2014 and December 31, 2013, liabilities related to restructuring actions totaled $63 and $32, respectively.
During April 2014, the Company implemented certain restructuring activities in an effort to gain efficiencies in the Vehicle, Hydraulics and Aerospace business segments. These restructuring activities resulted in a charge of $40, comprised primarily of severance costs.

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Note 4. GOODWILL

A summary of goodwill follows:

	March 31, 2014	December 31, 2013
Electrical Products	$7,153	$7,189
Electrical Systems and Services	4,508	4,517
Hydraulics	1,384	1,385
Aerospace	1,048	1,048
Vehicle	357	356
Total goodwill	$14,450	$14,495

The decrease in goodwill in 2014 was due to currency translation.

Note 5. RETIREMENT BENEFITS PLANS

The components of retirement benefits expense follow:

	United States pension benefit expense		Non-United States pension benefit expense		Other postretirement benefits expense	
	Three months ended March 31					
	2014	2013	2014	2013	2014	2013
Service cost	$29	$32	$16	$15	$4	$5
Interest cost	40	37	22	20	9	9
Expected return on plan assets	(61)	(57)	(25)	(21)	(1)	(2)
Amortization	23	33	7	7	2	3
	31	45	20	21	14	15
Settlement loss	34	6	—	—	—	—
Total expense	$65	$51	$20	$21	$14	$15

Note 6. LEGAL CONTINGENCIES

Eaton is subject to a broad range of claims, administrative and legal proceedings such as lawsuits that relate to contractual allegations, tax audits, patent infringement, personal injuries (including asbestos claims), antitrust matters and employment-related matters. Although it is not possible to predict with certainty the outcome or cost of these matters, the Company believes they will not have a material adverse effect on the consolidated financial statements.

In December 2010, a Brazilian court held that a judgment obtained by a Brazilian company, Raysul, against another Brazilian company, Saturnia, which was sold by Eaton in 2006, could be enforced against Eaton Ltda. This judgment is based on an alleged violation of an agency agreement between Raysul and Saturnia. At March 31, 2014, the Company has a total accrual of 79 Brazilian Reais related to this matter ($35 based on current exchange rates), comprised of 60 Brazilian Reais recognized in the fourth quarter of 2010 ($27 based on current exchange rates) with an additional 19 Brazilian Reais recognized through March 31, 2014 ($8 based on current exchange rates). In 2010, Eaton filed motions for clarification with the Brazilian court of appeals which were denied on April 6, 2011. Eaton Holding and Eaton Ltda. filed appeals on various issues to the Superior Court of Justice in Brasilia. In April 2013, the Superior Court of Justice ruled in favor of Raysul. Additional motions for clarification have been filed with the Superior Court of Justice in Brasilia and an additional appeal is being considered. The Company expects that any sum it may be required to pay in connection with this matter will not exceed the amount of the recorded liability.

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On October 5, 2006, ZF Meritor LLC and Meritor Transmission Corporation (collectively, Meritor) filed an action against Eaton in the United States District Court for Delaware. The action sought damages, which would be trebled under United States antitrust laws, as well as injunctive relief and costs. The suit alleged that Eaton engaged in anti-competitive conduct against Meritor in the sale of heavy-duty truck transmissions in North America. Following a four week trial on liability only, on October 8, 2009, the jury returned a verdict in favor of Meritor. Eaton firmly believes that it competes fairly and honestly for business in the marketplace, and that at no time did it act in an anti-competitive manner. During an earlier stage in the case, the judge concluded that damage estimates contained in a report filed by Meritor were not based on reliable data and the report was specifically excluded from the case. On November 3, 2009, Eaton filed a motion for judgment as a matter of law and to set aside the verdict. That motion was denied on March 10, 2011. On March 14, 2011, Eaton filed a motion for entry of final judgment of liability, zero damages and no injunctive relief. That motion was denied on June 9, 2011. On August 19, 2011, the Court entered final judgment of liability but awarded zero damages to plaintiffs. The Court also entered an injunction prohibiting Eaton from offering rebates or other incentives based on purchasing targets but stayed the injunction pending appeal. Eaton appealed the liability finding and the injunction to the Third Circuit Court of Appeals. Meritor cross-appealed the finding of zero damages. On September 28, 2012, the Third Circuit Court of Appeals affirmed the District Court's denial of Eaton's motion for judgment as a matter of law, and let stand the jury verdict in favor of Meritor. The Third Circuit Court of Appeals also ruled that the plaintiffs' damages report was properly excluded, but reversed the judgment of zero damages and ordered that the District Court must allow plaintiffs a limited opportunity to amend the damages report, which may be re-considered for reliability and admissibility. Injunctive relief also was vacated. On remand to the District Court, plaintiffs submitted an amended damages report in which their expert opined that damages range between $475 and $800. On December 20, 2013, the District court ruled that the plaintiffs' damages expert could testify at trial and be subjected to cross-examination. The District Court has scheduled a jury trial for the second quarter of 2014. Eaton's damages expert opined that damages are zero. An estimate of any potential loss related to this action cannot be made at this time.

Frisby Corporation, now known as Triumph Actuation Systems, LLC, and other claimants (collectively, the Frisby Parties) asserted claims alleging, among other things, unfair competition, defamation, malicious prosecution, deprivation of civil rights, and antitrust in the Hinds County Circuit Court of Mississippi in 2004 and in the Federal District Court of North Carolina in 2011. Eaton had asserted claims against the Frisby Parties regarding improper use of trade secrets and these claims were dismissed by the Hinds County Circuit Court. On September 25, 2013, the Mississippi Supreme Court issued an order that stayed all proceedings in the Hinds County Circuit Court pending further order of the Mississippi Supreme Court. On November 21, 2013, the Mississippi Supreme Court upheld the dismissal of Eaton's claims but did not lift the stay on all proceedings in the Hinds County Circuit Court. Prior to the stay, the Frisby Parties submitted various expert damage designations related to their claims to the Hinds County Circuit Court, claiming damages of at least $376. Eaton disputes liability to the Frisby Parties and Eaton's experts dispute the amount of damages claimed by the experts for the Frisby Parties. An estimate of any potential loss related to this action cannot be made at this time.

Note 7. INCOME TAXES

The effective income tax rate for the first quarter of 2014 was 3% compared to 5% for the first quarter of 2013. The lower effective tax rate in the first quarter of 2014 was primarily attributable to a more favorable geographic mix of income.

Note 8. EQUITY

The changes in Shareholders’ equity follow:

	Eaton shareholders’ equity	Noncontrolling interests	Total equity
Balance at December 31, 2013	$16,791	$72	$16,863
Net income	439	2	441

Other comprehensive income	3	—	3
Cash dividends paid and accrued	(234)	—	(234)
Issuance of shares under equity-based compensation plans - net	38	—	38
Balance at March 31, 2014	$17,037	$74	$17,111

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The changes in Accumulated other comprehensive (loss) income follow:

	Currency translation and related hedging instruments	Pensions and other postretirement benefits	Cash flow hedges	Total
Balance at December 31, 2013	$(395)	$(1,170)	$5	$(1,560)
Other comprehensive (loss) income before reclassifications	(47)	9	1	(37)
Amounts reclassified from Accumulated other comprehensive (loss) income	—	41	(1)	40
Net current-period other comprehensive (loss) income	(47)	50	—	3
Balance at March 31, 2014	$(442)	$(1,120)	$5	$(1,557)

The reclassifications out of Accumulated other comprehensive loss follow:

	Three months ended March 31, 2014	Consolidated Statements of Income classification
Amortization of defined benefit pension items		
Actuarial loss	$(66)	[1]
Tax benefit	25	
Total, net of tax	(41)	
Loss on cash flow hedges		
Currency exchange contracts	2	Cost of products sold
Tax expense	(1)	
Total, net of tax	1	
Total reclassifications for the period	$(40)	

[1] These components of Accumulated other comprehensive loss are included in the computation of net periodic pension cost. See Note 5 for additional information about defined benefit pension items.

Net Income per Ordinary Share

A summary of the calculation of net income per ordinary share attributable to shareholders follows:

	Three months ended March 31	
(Shares in millions)	2014	2013
Net income attributable to Eaton ordinary shareholders	$439	$378
Weighted-average number of ordinary shares outstanding - diluted	478.8	475.1
Less dilutive effect of equity-based compensation	3.0	3.2
Weighted-average number of ordinary shares outstanding - basic	475.8	471.9
Net income per ordinary share		
Diluted	$0.92	$0.79
Basic	0.92	0.80

For the first quarter 2014 and 2013, 0.1 million stock options were excluded from the calculation of diluted net income per ordinary share because the exercise price of the options exceeded the average market price of the ordinary shares during the period and their effect, accordingly, would have been antidilutive.

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Note 9. FAIR VALUE MEASUREMENTS

Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy is established, which categorizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A summary of financial instruments recognized at fair value, and the fair value measurements used, follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
March 31, 2014				
Cash	$784	$784	$—	$—
Short-term investments	360	360	—	—
Net derivative contracts	1	—	1	—
Long-term debt converted to floating interest rates by interest rate swaps - net	(10)	—	(10)	—
December 31, 2013				
Cash	$915	$915	$—	$—
Short-term investments	794	794	—	—
Net derivative contracts	(35)	—	(35)	—
Long-term debt converted to floating interest rates by interest rate swaps - net	(39)	—	(39)	—

Eaton values its financial instruments using an industry standard market approach, in which prices and other relevant information is generated by market transactions involving identical or comparable assets or liabilities. No financial instruments were recognized using unobservable inputs.

Other Fair Value Measurements

Long-term debt and the current portion of long-term debt had a carrying value of $9,307 and fair value of $9,683 at March 31, 2014 compared to $9,536 and $9,665, respectively, at December 31, 2013. The fair value of Eaton's debt instruments was estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and is considered a Level 2 fair value measurement.

Note 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, Eaton is exposed to certain risks related to fluctuations in interest rates, currency exchange rates and commodity prices. The Company uses various derivative and non-derivative financial instruments, primarily interest rate swaps, currency forward exchange contracts, currency swaps and, to a lesser extent, commodity contracts, to manage risks from these market fluctuations. The instruments used by Eaton are straightforward, non-leveraged instruments. The counterparties to these instruments are financial institutions with strong credit ratings. Eaton maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. Such instruments are not purchased and sold for trading purposes.

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Derivative financial instruments are accounted for at fair value and recognized as assets or liabilities in the Condensed Consolidated Balance Sheets. Accounting for the gain or loss resulting from the change in the fair value of the derivative financial instrument depends on whether it has been designated, and is effective, as part of a hedging relationship and, if so, as to the nature of the hedging activity. Eaton formally documents all relationships between derivative financial instruments accounted for as designated hedges and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. This process includes linking derivative financial instruments to a recognized asset or liability, specific firm commitment, forecasted transaction, or net investment in a foreign operation. These financial instruments can be designated as:

- Hedges of the change in the fair value of a recognized fixed-rate asset or liability, or the firm commitment to acquire such an asset or liability (a fair value hedge); for these hedges, the gain or loss from the derivative financial instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in income during the period of change in fair value.
- Hedges of the variable cash flows of a recognized variable-rate asset or liability, or the forecasted acquisition of such an asset or liability (a cash flow hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss on the hedged item is included in income.
- Hedges of the currency exposure related to a net investment in a foreign operation (a net investment hedge); for these hedges, the effective portion of the gain or loss from the derivative financial instrument is recognized in Accumulated other comprehensive loss and reclassified to income in the same period when the gain or loss related to the net investment in the foreign operation is included in income.

The gain or loss from a derivative financial instrument designated as a hedge that is effective is classified in the same line of the Consolidated Statements of Income as the offsetting loss or gain on the hedged item. The change in fair value of a derivative financial instrument that is not effective as a hedge is immediately recognized in income.

For derivatives that are not designated as a hedge, any gain or loss is immediately recognized in income. The majority of derivatives used in this manner relate to risks resulting from assets or liabilities denominated in a foreign currency and certain commodity contracts that arise in the normal course of business. Gains and losses associated with commodity hedge contracts are classified in Cost of products sold.

Eaton uses certain of its debt denominated in foreign currency to hedge portions of its net investments in foreign operations against foreign currency exposure (net investment hedges). Foreign currency denominated debt designated as non-derivative net investment hedging instruments was $97 and $95, net of tax, at March 31, 2014 and December 31, 2013, respectively.

Derivative Financial Statement Impacts

The fair value of derivative financial instruments recognized in the Condensed Consolidated Balance Sheets follows:

	Notional amount	Other current assets	Other long-term assets	Other current liabilities	Other long-term liabilities	Type of hedge	Term
March 31, 2014							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	$3,290	$—	$39	$—	$49	Fair value	3 to 20 years
Floating-to-fixed interest rate swaps	300	—	—	—	—	Cash flow	3 months
Currency exchange contracts	495	12	—	3	—	Cash flow	12 to 36 months
Commodity contracts	1	—	—	—	—	Cash flow	1 to 12 months
Total		$12	$39	$3	$49		
Derivatives not designated as hedges							
Currency exchange contracts	$4,160	$23		$21			1 to 12 months

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	Notional amount	Other current assets	Other long-term assets	Other current liabilities	Other long-term liabilities	Type of hedge	Term
December 31, 2013							
Derivatives designated as hedges							
Fixed-to-floating interest rate swaps	$3,090	$1	$36	$—	$76	Fair value	3 months to 20 years
Floating-to-fixed interest rate swaps	300	—	—	1	—	Cash flow	6 months
Currency exchange contracts	393	12	—	3	—	Cash flow	12 to 36 months
Commodity contracts	1	—	—	—	—	Cash flow	1 to 12 months
Total		$13	$36	$4	$76		
Derivatives not designated as hedges							
Currency exchange contracts	$4,277	$22		$26			1 to 12 months

The currency exchange contracts shown in the table above as derivatives not designated as hedges are primarily contracts entered into to manage currency volatility or exposure on intercompany sales and loans. While Eaton does not elect hedge accounting treatment for these derivatives, Eaton targets managing 100% of the intercompany balance sheet exposure to minimize the effect of currency volatility related to the movement of goods and services in the normal course of its operations. This activity represents the great majority of these currency exchange contracts.

Amounts recognized in Accumulated other comprehensive income (loss) follow:

	Three months ended March 31			
	2014		2013	
	Gain (loss) recognized in Accumulated other comprehensive income (loss)	Gain (loss) reclassified from Accumulated other comprehensive income (loss)	Gain (loss) recognized in Accumulated other comprehensive income (loss)	Gain (loss) reclassified from Accumulated other comprehensive income (loss)
Derivatives designated as cash flow hedges				
Currency exchange contracts	$2	$2	$(9)	$1

Gains and losses reclassified from Accumulated other comprehensive income to the Consolidated Statements of Income were recognized in Cost of products sold.

Amounts recognized in net income follow:

	Three months ended March 31	
	2014	2013
Derivatives designated as fair value hedges		
Fixed-to-floating interest rate swaps	$29	$(8)
Related long-term debt converted to floating interest rates by interest rate swaps	(29)	8
	$—	$—

Gains and losses described above were recognized in Interest expense - net.

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Note 11. INVENTORY

The components of inventory follow:

	March 31, 2014	December 31, 2013
Raw materials	$1,103	$955
Work-in-process	323	428
Finished goods	1,226	1,115
Inventory at FIFO	2,652	2,498
Excess of FIFO over LIFO cost	(120)	(116)
Total inventory	$2,532	$2,382

Note 12. BUSINESS SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance. Eaton’s operating segments are Electrical Products, Electrical Systems and Services, Hydraulics, Aerospace and Vehicle. For additional information regarding Eaton’s business segments, see Note 14 to the Consolidated Financial Statements contained in the 2013 Form 10-K.

	Three months ended March 31	
	2014	2013
Net sales		
Electrical Products	$1,726	$1,660
Electrical Systems and Services	1,524	1,521
Hydraulics	782	756
Aerospace	464	434
Vehicle	996	939
Total net sales	$5,492	$5,310
Segment operating profit		
Electrical Products	$250	$241
Electrical Systems and Services	169	210
Hydraulics	108	78
Aerospace	62	62
Vehicle	151	132
Total segment operating profit	740	723
Corporate		
Amortization of intangible assets	(110)	(107)
Interest expense - net	(62)	(75)
Pension and other postretirement benefits expense	(51)	(38)
Inventory step-up adjustment	—	(33)
Other corporate expense - net	(64)	(70)
Income before income taxes	453	400
Income tax expense	12	20
Net income	441	380
Less net income for noncontrolling interests	(2)	(2)
Net income attributable to Eaton ordinary shareholders	$439	$378

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Note 13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

On November 20, 2012, Eaton Corporation issued senior notes (the Senior Notes) totaling $4,900 to finance part of the cash portion of the acquisition of Cooper. Eaton and certain other of Eaton's principal 100% owned subsidiaries (the Guarantors) fully and unconditionally guaranteed (subject, in the case of the Guarantors, other than Eaton, to customary release provisions as described below), on a joint and several basis, the Senior Notes. The following condensed consolidating financial statements are included so that separate financial statements of Eaton, Eaton Corporation and each of the Guarantors are not required to be filed with the Securities and Exchange Commission. The consolidating adjustments primarily relate to eliminations of investments in subsidiaries and intercompany balances and transactions. The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting.

The guarantee of a Guarantor that is not a parent of the issuer will be automatically and unconditionally released and discharged in the event of any sale of the Guarantor or of all or substantially all of its assets, or in connection with the release or termination of the Guarantor as a guarantor under all other U.S. debt securities or U.S. syndicated credit facilities, subject to limitations set forth in the indenture. The guarantee of a Guarantor that is a direct or indirect parent of the issuer will only be automatically and unconditionally released and discharged in connection with the release or termination of such Guarantor as a guarantor under all other debt securities or syndicated credit facilities (in both cases, U.S. or otherwise), subject to limitations set forth in the indenture.

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	$—	$1,667	$1,641	$3,291	$(1,107)	$5,492
Cost of products sold	—	1,342	1,218	2,392	(1,094)	3,858
Selling and administrative expense	2	361	200	399	—	962
Research and development expense	—	60	50	52	—	162
Interest expense (income) - net	—	59	7	(6)	2	62
Other expense (income) - net	—	5	3	(13)	—	(5)
Equity in (earnings) loss of subsidiaries, net of tax	(469)	(207)	(485)	(201)	1,362	—
Intercompany expense (income) - net	28	(71)	120	(77)	—	—
Income before income taxes	439	118	528	745	(1,377)	453
Income tax (benefit) expense	—	(25)	(7)	49	(5)	12
Net income	439	143	535	696	(1,372)	441
Less net income for noncontrolling interests	—	—	—	(2)	—	(2)
Net income attributable to Eaton ordinary shareholders	$439	$143	$535	$694	$(1,372)	$439
Other comprehensive income (loss)	$3	$28	$23	$(15)	$(36)	$3
Total comprehensive income attributable to Eaton ordinary shareholders	$442	$171	$558	$679	$(1,408)	$442

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CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2013

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net sales	$—	$1,588	$1,573	$3,273	$(1,124)	$5,310
Cost of products sold	—	1,239	1,195	2,425	(1,124)	3,735
Selling and administrative expense	2	341	198	417	—	958
Research and development expense	—	58	47	47	—	152
Interest expense (income) - net	—	74	7	(6)	—	75
Other (income) expense - net	—	(5)	8	(13)	—	(10)
Equity in (earnings) loss of subsidiaries, net of tax	(444)	(309)	(567)	(166)	1,486	—
Intercompany expense (income) - net	64	(102)	176	(138)	—	—
Income before income taxes	378	292	509	707	(1,486)	400
Income tax (benefit) expense	—	(2)	(37)	59	—	20
Net income	378	294	546	648	(1,486)	380
Less net income for noncontrolling interests	—	—	—	(2)	—	(2)
Net income attributable to Eaton ordinary shareholders	$378	$294	$546	$646	$(1,486)	$378
Other comprehensive loss	$(235)	$(22)	$(233)	$(391)	$646	$(235)
Total comprehensive income attributable to Eaton ordinary shareholders	$143	$272	$313	$255	$(840)	$143

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CONDENSED CONSOLIDATING BALANCE SHEETS
MARCH 31, 2014

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Assets						
Current assets						
Cash	$8	$46	$12	$718	$—	$784
Short-term investments	—	—	35	325	—	360
Accounts receivable - net	—	506	986	2,397	—	3,889
Intercompany accounts receivable	10	682	3,508	4,900	(9,100)	—
Inventory	—	368	656	1,558	(50)	2,532
Prepaid expenses and other current assets	—	473	156	476	13	1,118
Total current assets	18	2,075	5,353	10,374	(9,137)	8,683
Property, plant and equipment - net	—	966	765	2,075	—	3,806
Other noncurrent assets						
Goodwill	—	1,382	6,301	6,767	—	14,450
Other intangible assets	—	207	3,949	2,922	—	7,078
Deferred income taxes	—	826	12	153	(734)	257
Investment in subsidiaries	25,427	9,057	41,344	8,701	(84,529)	—
Intercompany loans receivable	—	7,872	2,643	19,840	(30,355)	—
Other assets	—	417	183	388	—	988
Total assets	$25,445	$22,802	$60,550	$51,220	$(124,755)	$35,262
Liabilities and shareholders' equity						
Current liabilities						
Short-term debt	$—	$—	$—	$8	$—	$8
Current portion of long-term debt	—	301	1	14	—	316
Accounts payable	—	475	391	1,210	—	2,076
Intercompany accounts payable	10	3,609	3,626	1,855	(9,100)	—
Accrued compensation	—	48	42	244	—	334
Other current liabilities	10	667	381	1,017	(4)	2,071
Total current liabilities	20	5,100	4,441	4,348	(9,104)	4,805
Noncurrent liabilities						
Long-term debt	—	7,720	1,259	17	(5)	8,991
Pension liabilities	—	375	79	774	—	1,228
Other postretirement benefits liabilities	—	402	171	93	—	666
Deferred income taxes	—	—	1,287	743	(734)	1,296

Intercompany loans payable	8,388	2,669	18,084	1,214	(30,355)	—
Other noncurrent liabilities	—	545	155	465	—	1,165
Total noncurrent liabilities	8,388	11,711	21,035	3,306	(31,094)	13,346
Shareholders’ equity						
Eaton shareholders' equity	17,037	5,991	35,074	43,499	(84,564)	17,037
Noncontrolling interests	—	—	—	67	7	74
Total equity	17,037	5,991	35,074	43,566	(84,557)	17,111
Total liabilities and equity	$25,445	$22,802	$60,550	$51,220	$(124,755)	$35,262

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CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2013

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Assets						
Current assets						
Cash	$3	$51	$10	$851	$—	$915
Short-term investments	—	—	134	660	—	794
Accounts receivable - net	—	473	922	2,253	—	3,648
Intercompany accounts receivable	5	471	3,368	4,470	(8,314)	—
Inventory	—	344	609	1,466	(37)	2,382
Prepaid expenses and other current assets	—	458	175	350	9	992
Total current assets	8	1,797	5,218	10,050	(8,342)	8,731
Property, plant and equipment - net	—	982	761	2,090	—	3,833
Other noncurrent assets						
Goodwill	—	1,382	6,350	6,763	—	14,495
Other intangible assets	—	211	3,996	2,979	—	7,186
Deferred income taxes	—	839	3	145	(747)	240
Investment in subsidiaries	24,940	8,853	40,776	8,473	(83,042)	—
Intercompany loans receivable	—	8,019	2,518	18,776	(29,313)	—
Other assets	—	450	186	370	—	1,006
Total assets	$24,948	$22,533	$59,808	$49,646	$(121,444)	$35,491
Liabilities and shareholders’ equity						
Current liabilities						
Short-term debt	$—	$—	$—	$13	$—	$13
Current portion of long-term debt	—	552	—	15	—	567
Accounts payable	—	440	380	1,140	—	1,960
Intercompany accounts payable	4	3,751	3,288	1,271	(8,314)	—
Accrued compensation	—	140	37	284	—	461
Other current liabilities	5	547	400	965	(4)	1,913
Total current liabilities	9	5,430	4,105	3,688	(8,318)	4,914
Noncurrent liabilities						
Long-term debt	—	7,693	1,266	16	(6)	8,969
Pension liabilities	—	546	131	788	—	1,465
Other postretirement benefits liabilities	—	402	171	95	—	668
Deferred income taxes	—	—	1,303	757	(747)	1,313

Intercompany loans payable	8,148	2,113	18,207	845	(29,313)	—
Other noncurrent liabilities	—	652	162	485	—	1,299
Total noncurrent liabilities	8,148	11,406	21,240	2,986	(30,066)	13,714
Shareholders’ equity						
Eaton shareholders' equity	16,791	5,697	34,463	42,906	(83,066)	16,791
Noncontrolling interests	—	—	—	66	6	72
Total equity	16,791	5,697	34,463	42,972	(83,060)	16,863
Total liabilities and equity	$24,948	$22,533	$59,808	$49,646	$(121,444)	$35,491

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net cash provided by (used in) operating activities	$17	$(463)	$182	$276	$—	$12
Investing activities						
Capital expenditures for property, plant and equipment	—	(25)	(29)	(56)	—	(110)
Sales of short-term investments - net	—	—	98	333	—	431
Loans to affiliates	—	(7)	—	(1,056)	1,063	—
Repayments of loans from affiliates	—	171	—	814	(985)	—
Proceeds from sale of business	—	—	—	3	—	3
Other - net	—	(13)	(1)	(6)	—	(20)
Net cash provided by investing activities	—	126	68	32	78	304
Financing activities						
Payments on borrowings	—	(251)	—	(6)	—	(257)
Proceeds from borrowings from affiliates	—	946	110	7	(1,063)	—
Payments on borrowings from affiliates	—	(510)	(304)	(171)	985	—
Other intercompany financing activities	217	104	(54)	(267)	—	—
Cash dividends paid	(229)	—	—	—	—	(229)
Exercise of employee stock options	—	23	—	—	—	23
Excess tax benefit from equity-based compensation	—	20	—	—	—	20
Net cash (used in) provided by financing activities	(12)	332	(248)	(437)	(78)	(443)
Effect of currency on cash	—	—	—	(4)	—	(4)
Total increase (decrease) in cash	5	(5)	2	(133)	—	(131)
Cash at the beginning of the period	3	51	10	851	—	915
Cash at the end of the period	$8	$46	$12	$718	$—	$784

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013

	Eaton Corporation plc	Eaton Corporation	Guarantors	Other subsidiaries	Consolidating adjustments	Total
Net cash provided by (used in) operating activities	$62	$(301)	$778	$(439)	$—	$100
Investing activities						
Capital expenditures for property, plant and equipment	—	(51)	(18)	(53)	—	(122)
Sales of short-term investments - net	—	25	31	76	—	132
Loans to affiliates	—	(36)	—	(438)	474	—
Repayments of loans from affiliates	—	28	82	303	(413)	—
Proceeds from sale of business	—	—	—	761	—	761
Other - net	—	4	(3)	1	—	2
Net cash (used in) provided by investing activities	—	(30)	92	650	61	773
Financing activities						
Payments on borrowings	—	(676)	(8)	(3)	—	(687)
Proceeds from borrowings from affiliates	—	437	1	36	(474)	—
Payments on borrowings from affiliates	—	(131)	(171)	(111)	413	—
Other intercompany financing activities	129	687	(692)	(124)	—	—
Cash dividends paid	(194)	—	—	—	—	(194)
Exercise of employee stock options	—	56	—	—	—	56
Excess tax benefit from equity-based compensation	—	16	—	—	—	16
Other - net	—	—	—	(1)	—	(1)
Net cash (used in) provided by financing activities	(65)	389	(870)	(203)	(61)	(810)
Effect of currency on cash	—	—	—	(1)	—	(1)
Total (decrease) increase in cash	(3)	58	—	7	—	62
Cash at the beginning of the period	7	54	14	502	—	577
Cash at the end of the period	$4	$112	$14	$509	$—	$639

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Amounts are in millions of dollars or shares unless indicated otherwise (per share data assume dilution).

COMPANY OVERVIEW

Eaton Corporation plc (Eaton or the Company) is a power management company providing energy-efficient solutions that help its customers effectively manage electrical, hydraulic and mechanical power. With 2013 net sales of $22.0 billion, the Company is a global technology leader in electrical products, systems and services for power quality, distribution and control, power transmission, lighting and wiring products; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. Eaton has approximately 101,000 employees in over 60 countries and sells products to customers in more than 175 countries.

Summary of Results of Operations

A summary of Eaton's Net sales, Net income attributable to Eaton ordinary shareholders, and Net income per ordinary share-diluted follows:

	Three months ended March 31	
	2014	2013
Net sales	$5,492	$5,310
Net income attributable to Eaton ordinary shareholders	439	378
Net income per ordinary share - diluted	$0.92	$0.79

RESULTS OF OPERATIONS

The following discussion of Consolidated Financial Results and Business Segment Results of Operations includes certain non-GAAP financial measures. These financial measures include operating earnings, operating earnings per ordinary share, and operating profit before acquisition integration charges for each business segment, as well as corporate expense, each of which excludes amounts that differ from the most directly comparable measure calculated in accordance with generally accepted accounting principles (GAAP). A reconciliation of each of these financial measures to the most directly comparable GAAP measure is included in the table below and in the discussion of the operating results of each business segment. Management believes that these financial measures are useful to investors because they exclude transactions of an unusual nature, allowing investors to more easily compare Eaton's financial performance period to period. Management uses this information in monitoring and evaluating the on-going performance of Eaton and each business segment. For additional information on acquisition integration charges, see Note 3 to the Condensed Consolidated Financial Statements.

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Consolidated Financial Results

	Three months ended March 31		Increase
	2014	2013	
Net sales	$5,492	$5,310	3 %
Gross profit	1,634	1,575	4 %
Percent of net sales	29.8 %	29.7 %	
Income before income taxes	453	400	13 %
Net income	$441	$380	16 %
Less net income for noncontrolling interests	(2)	(2)	
Net income attributable to Eaton ordinary shareholders	439	378	16 %
Excluding acquisition integration charges and transaction costs (after-tax)	44	22	
Operating earnings	$483	$400	21 %
Net income per ordinary share - diluted	$0.92	$0.79	16 %
Excluding per share impact of acquisition integration charges and transaction costs (after-tax)	0.09	0.05	
Operating earnings per ordinary share	$1.01	$0.84	20 %

Net Sales

Net sales in the first quarter of 2014 increased $3^1/_2$% compared to the first quarter of 2013 due to an increase in core sales of $4^1/_2$%, partially offset by a decrease of 1% from the impact of currency translation. The increase in core sales in the first quarter of 2014 is primarily due to modest global economic growth in the Company's end markets for all business segments. Eaton continues to anticipate its end markets will grow 3% for all of 2014.

Gross Profit

The gross profit margin remained relatively consistent at 29.8% for the first quarter of 2014 compared to 29.7% for the first quarter of 2013. The gross profit margin in the first quarter of 2014 was positively impacted by higher core sales, as noted above, partially offset by the negative impact of severe winter weather in North America, which necessitated premium freight and overtime and caused project delays.

Income Taxes

The effective income tax rate for the first quarter of 2014 was 3% compared to 5% for the first quarter of 2013. The lower effective tax rate in the first quarter of 2014 was primarily attributable to a more favorable geographic mix of income.

Net Income

Net income attributable to Eaton ordinary shareholders of $439 in the first quarter of 2014 increased 16% compared to Net income attributable to Eaton ordinary shareholders of $378 in the first quarter of 2013. Net income per ordinary share of $0.92 in the first quarter of 2014 increased 16% compared to Net income per ordinary share of $0.79 in the first quarter of 2013. The increase in the first quarter of 2014 was primarily due to the factors impacting gross profit and a lower effective income tax rate, as described above.

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Business Segment Results of Operations

The following is a discussion of Net sales, operating profit and operating margin by business segment, which includes a discussion of operating profit and operating profit margin before acquisition integration charges. For additional information related to acquisition integration charges, see Note 3 to the Condensed Consolidated Financial Statements.

Electrical Products

	Three months ended March 31		Increase
	2014	2013	
Net sales	$1,726	$1,660	4 %
Operating profit	250	241	4 %
Operating margin	14.5 %	14.5 %	
Acquisition integration charges	$29	$3	
Before acquisition integration charges			
Operating profit	$279	$244	14 %
Operating margin	16.2 %	14.7 %	

Net sales increased 4% in the first quarter of 2014 compared to the first quarter of 2013 due to an increase in core sales. Core sales growth in the first quarter of 2014 was due to continued strength in the Americas, particularly in North American markets, and improving demand in Europe. Eaton continues to anticipate its Electrical Products markets will grow 3% for all of 2014.

The operating margin before acquisition integration charges increased from 14.7% in the first quarter of 2013 to 16.2% in the first quarter of 2014. The increase in operating margin in the first quarter of 2014 was due to higher sales volumes, as noted above, and incremental synergies related to the acquisition of Cooper Industries plc (Cooper).

Electrical Systems and Services

	Three months ended March 31		Increase (decrease)
	2014	2013	
Net sales	$1,524	$1,521	— %
Operating profit	169	210	(20)%
Operating margin	11.1 %	13.8 %	
Acquisition integration charges	$26	$5	
Before acquisition integration charges			
Operating profit	$195	$215	(9)%
Operating margin	12.8 %	14.1 %	

Net sales increased slightly to $1,524 in the first quarter of 2014 from $1,521 in the first quarter of 2013 due to an increase in core sales of 2%, offset by a decrease of 2% from the impact of currency translation. Core sales growth in the first quarter of 2014 was primarily due to continued strength in the United States, partially offset by weakness in Canada and Asia Pacific. Eaton continues to anticipate its Electrical Systems and Services markets will grow 3% for all of 2014.

The operating margin before acquisition integration charges decreased from 14.1% in the first quarter of 2013 to 12.8% in the first quarter of 2014. The decrease in operating margin in the first quarter of 2014 was primarily due to the negative impact of the severe winter weather in North America, which necessitated premium freight and overtime and caused project delays, and unfavorable mix of products.

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Hydraulics

	Three months ended March 31		Increase
	2014	2013	
Net sales	$782	$756	3 %
Operating profit	108	78	38 %
Operating margin	13.8 %	10.3 %	
Acquisition integration charges	$4	$12	
Before acquisition integration charges			
Operating profit	$112	$90	24 %
Operating margin	14.3 %	11.9 %	

Net sales increased 3% in the first quarter of 2014 compared to the first quarter of 2013 due to an increase in core sales of 6%, partially offset by a decrease of 3% from the impact of currency translation. The increase in core sales in the first quarter of 2014 was primarily due to improved global demand, particularly in the Americas and Europe. Eaton continues to anticipate its Hydraulics markets will grow 3% for all of 2014.

The operating margin before acquisition integration charges increased from 11.9% in the first quarter of 2013 to 14.3% in the first quarter of 2014. The increase in operating margin in the first quarter of 2014 was primarily due to higher sales volumes, as noted above, and a favorable change in the mix of products.

Aerospace

	Three months ended March 31		Increase (decrease)
	2014	2013	
Net sales	$464	$434	7 %
Operating profit	62	62	— %
Operating margin	13.4 %	14.3 %	

Net sales increased 7% in the first quarter of 2014 compared to the first quarter of 2013 due to an increase in core sales of 5% and an increase of 2% from the impact of currency translation. The increase in core sales in the first quarter of 2014 was primarily due to continued strength in the commercial markets. Eaton continues to anticipate its Aerospace markets will grow 3% for all of 2014.

The operating margin decreased from 14.3% in the first quarter of 2013 to 13.4% in the first quarter of 2014. The decrease in operating margin in the first quarter of 2014 was primarily due to increased spending on new programs.

Vehicle

	Three months ended March 31		Increase
	2014	2013	
Net sales	$996	$939	6 %
Operating profit	151	132	14 %
Operating margin	15.2 %	14.1 %	

Net sales increased 6% in the first quarter of 2014 compared to the first quarter of 2013 due to an increase in core sales of 9%, partially offset by a decrease of 3% from the impact of currency translation. The increase in core sales in the first quarter of 2014 was primarily due to improved global demand, particularly in the North American markets, partially offset by weakness in South American markets. Eaton now anticipates its Vehicle markets will grow 5% for all of 2014.

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The operating margin increased from 14.1% in the first quarter of 2013 to 15.2% in the first quarter of 2014. The increase in operating margin in the first quarter of 2014 was primarily due to higher sales volumes, as noted above.

Corporate Expense

	Three months ended March 31		Increase (decrease)	
	2014	2013		
Amortization of intangible assets	$110	$107	3	%
Interest expense - net	62	75	(17	)%
Pension and other postretirement benefits expense	51	38	34	%
Inventory step-up adjustment	—	33	NM	
Other corporate expense - net	64	70	(9	)%
Total corporate expense	$287	$323	(11	)%

Total Corporate expense decreased 11% from $323 in the first quarter of 2013 to $287 in the first quarter of 2014 primarily due to the absence in 2014 of the inventory step-up adjustment related to purchase price accounting adjustments associated with the acquisition of Cooper and a decrease of 17% in Interest expense - net related to lower debt levels. These decreases were partially offset by a 34% increase in Pension and other postretirement benefits expense primarily due to increased settlement expense related to the expiry of restrictions on lump sum settlements. For additional information on business acquisitions, see Note 2 to the Condensed Consolidated Financial Statements.

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

Financial Condition and Liquidity

Eaton's objective is to finance its business through operating cash flow and an appropriate mix of equity and long-term and short-term debt. By diversifying its debt maturity structure, Eaton reduces liquidity risk. The Company maintains access to the commercial paper markets through a commercial paper program, which is supported by credit facilities in the aggregate principal amount of $2,000. There were no borrowings outstanding under these revolving credit facilities at March 31, 2014. Over the course of a year, cash, short-term investments and short-term debt may fluctuate in order to manage global liquidity. Eaton believes it has the operating flexibility, cash flow, cash and short-term investment balances, and access to capital markets in excess of the liquidity necessary to meet future operating needs of the business as well as scheduled payments of long-term debt.

Eaton was in compliance with each of its debt covenants for all periods presented.

Sources and Uses of Cash Flow

Operating Cash Flow

Net cash provided by operating activities was $12 in the first three months of 2014, a decrease of $88 compared to $100 in the first three months of 2013. Lower operating cash flow in the first three months of 2014 compared to the first three months of 2013 was primarily due to higher contributions to defined benefits plans.

Investing Cash Flow

Net cash provided by investing activities was $304 in the first three months of 2014, a decrease of $469 compared to $773 in the first three months of 2013. Investing cash flows in 2014 were primarily impacted by a decrease in proceeds from the sale of businesses from $761 in the first three months of 2013 to $3 in the first three months in 2014, primarily related to the sale of Apex Tool Group, LLC in the first three months of 2013, partially offset by increased sales of short-term investments.

Financing Cash Flow

Net cash used in financing activities was $443 in the first three months of 2014, a decrease of $367 compared to $810 in the first three months of 2013. The decrease was primarily due to lower payments on debt borrowings, primarily related to financing the acquisition of Cooper, partially offset by higher cash dividends. For additional information on business acquisitions, see Note 2 to the Condensed Consolidated Financial Statements.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q Report contains forward-looking statements. These statements may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “possible,” “potential,” “predict,” “project” words, phrases or expressions. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside Eaton’s control. The following factors could cause actual results to differ materially from those in the forward-looking statements: unanticipated changes in the markets for the Company’s business segments; unanticipated downturns in business relationships with customers or their purchases from us; the availability of credit to customers and suppliers; competitive pressures on sales and pricing; increases in the cost of material and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; strikes or other labor unrest; the impact of acquisitions and divestitures; unanticipated difficulties integrating acquisitions; new laws and governmental regulations; interest rate changes; tax rate changes or exposure to additional income tax liability; stock market and currency fluctuations; and unanticipated deterioration of economic and financial conditions in the United States and around the world. Eaton does not assume any obligation to update these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in exposures to market risk since December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES.

Pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), an evaluation was performed, under the supervision and with the participation of Eaton’s management, including Alexander M. Cutler, Principal Executive Officer, and Richard H. Fearon, Principal Financial Officer, of the effectiveness of the design and operation of Eaton’s disclosure controls and procedures. Based on that evaluation, management concluded that Eaton’s disclosure controls and procedures were effective as of March 31, 2014.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Eaton’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Eaton’s reports filed under the Exchange Act is accumulated and communicated to management, including Eaton’s Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in Eaton’s internal control over financial reporting that materially affected, or is reasonably likely to materially affect, Eaton’s internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information regarding the Company's current legal proceedings is presented in Note 6 of the Notes to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.

“Item 1A. Risk Factors” in Eaton's 2013 Form 10-K includes a discussion of the Company's risk factors. There have been no material changes from the risk factors described in the 2013 Form 10-K.

ITEM 6. EXHIBITS.

Exhibits — See Exhibit Index attached.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EATON CORPORATION plc
Registrant

Date: May 5, 2014

By: /s/ Richard H. Fearon
Richard H. Fearon
Principal Financial Officer
(On behalf of the registrant and as Principal Financial Officer)

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3 (i)	Certificate of Incorporation - Incorporated by reference to the Form S-8 filed November 30, 2012
3 (ii)	Amended and restated Memorandum and Articles of Incorporation - Incorporated by reference to the Form 10-Q Report for the three months ended September 30, 2012
4 (a)	Pursuant to Regulation S-K Item 601(b)(4), Eaton agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt
10.1	Form of Restricted Share Unit Agreement — Filed in conjunction with this Form 10-Q Report *
12	Ratio of Earnings to Fixed Charges — Filed in conjunction with this Form 10-Q Report *
31.1	Certification of Principal Executive Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report *
31.2	Certification of Principal Financial Officer (Pursuant to Rule 13a-14(a)) — Filed in conjunction with this Form 10-Q Report *
32.1	Certification of Principal Executive Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report *
32.2	Certification of Principal Financial Officer (Pursuant to Rule 13a-14(b) as adopted pursuant to Section 906 of the Sarbanes-Oxley Act) — Filed in conjunction with this Form 10-Q Report *
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Label Definition Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

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* Submitted electronically herewith.
Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Income for the three months ended March 31, 2014 and 2013, (ii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013, (iii) Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013 and (v) Notes to Condensed Consolidated Financial Statements for the three months ended March 31, 2014.
In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under

the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.