

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1998-08-11** | Period of Report: **1998-06-30**
SEC Accession No. **0000059198-98-000017**

([HTML Version](#) on secdatabase.com)

FILER

AEROQUIP-VICKERS INC

CIK: **59198** | IRS No.: **344288310** | State of Incorporation: **OH** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-00924** | Film No.: **98682672**
SIC: **3490** Miscellaneous fabricated metal products

Mailing Address
3000 STRAYER
MAUMEE OH 43537

Business Address
3000 STRAYER
MAUMEE OH 43537
4198672200

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

Commission file number 1-924

Aeroquip-Vickers, Inc.
(Exact name of registrant as specified in its charter)

Ohio
(State of Incorporation)

34-4288310
(I.R.S. Employer
Identification No.)

3000 Strayer, Maumee, OH 43537-0050
(Address of principal executive office)

Registrant's telephone number, including area code: (419) 867-2200

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

The number of Common Shares, \$5 Par Value, outstanding as of July 24, 1998, was 28,236,584.

This document, including exhibits, contains 56 pages.

The Exhibit Index is located on page 20.

SECURITIES AND EXCHANGE COMMISSION
FORM 10-Q
FOR QUARTER ENDED JUNE 30, 1998
INDEX TO INFORMATION IN REPORT
Aeroquip-Vickers, Inc.

Page Number

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Statement of Financial Position - June 30, 1998 and December 31, 1997	4
Condensed Statement of Income - Three Months and Six Months Ended June 30, 1998 and 1997	5
Condensed Statement of Cash Flows - Six Months Ended June 30, 1998 and 1997	6
Notes to Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	17
Item 5. Other Information	18
Item 6. Exhibits and Reports on Form 8-K	18

SIGNATURES	19
------------	----

EXHIBIT INDEX	20
---------------	----

EXHIBIT (10)-1 - Change-in-Control Severance Agreement for Chief Executive Officer	21
---	----

-2-

EXHIBIT (10)-2 - Change-in-Control Severance Agreement for Executive Officers	33
--	----

EXHIBIT (10)-3 -	Change-in-Control Severance Agreement for other executives	45
EXHIBIT 12 -	Statement re: Computation of Ratios	55
EXHIBIT 27 -	Financial Data Schedule	56

PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

STATEMENT OF FINANCIAL POSITION

Aeroquip-Vickers, Inc.

(Dollars in thousands, except share data)

(Unaudited)

<CAPTION>

	June 30 1998	December 31 1997
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,806	\$ 18,736
Receivables	379,584	348,822
Inventories:		
In-process and finished products	234,632	239,800
Raw materials and manufacturing supplies	70,018	54,967
	-----	-----
	304,650	294,767
Other current assets	49,892	49,323
	-----	-----
TOTAL CURRENT ASSETS	761,932	711,648
Plants and properties	1,060,986	993,002
Less accumulated depreciation	542,628	518,860
	-----	-----
	518,358	474,142
Goodwill	122,116	111,905
Other assets	83,553	78,901
	-----	-----
TOTAL ASSETS	\$1,485,959	\$1,376,596
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 128,271	\$ 84,044
Accounts payable	119,619	111,800
Income taxes	38,806	30,496
Other current liabilities	196,857	212,800
Current maturities of long-term debt	864	1,857
	-----	-----
TOTAL CURRENT LIABILITIES	484,417	440,997
Long-term debt	264,160	256,707
Postretirement benefits other than pensions	122,769	122,272
Other liabilities	45,677	46,421
SHAREHOLDERS' EQUITY		
Common stock - par value \$5 a share		
Authorized - 100,000,000 shares		
Outstanding - 28,216,414 and 28,064,981 shares, respectively(after deducting 6,064,432 and 6,215,865 shares, respectively, in treasury)	141,082	140,325
Additional paid-in capital	45,276	41,288
Retained earnings	423,076	366,676
Accumulated other comprehensive income - currency translation adjustments	(40,498)	(38,090)
	-----	-----

TOTAL SHAREHOLDERS' EQUITY	568,936	510,199
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,485,959	\$1,376,596
	=====	=====

<FN>
The Notes to Financial Statements are an integral part of this statement.

</FN>
</TABLE>

-4-

<TABLE>

CONDENSED STATEMENT OF INCOME
Aeroquip-Vickers, Inc.
(In thousands, except per share data)
(Unaudited)

<CAPTION>

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1997	1998	1997
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 574,314	\$ 556,278	\$1,121,369	\$1,094,704
Cost of products sold	422,739	409,241	825,562	815,192
	-----	-----	-----	-----
MANUFACTURING INCOME	151,575	147,037	295,807	279,512
Selling and general administrative expenses	68,042	68,027	136,193	133,974
Engineering, research and development expenses	18,469	17,432	36,780	35,262
Special charge	--	--	--	30,000
	-----	-----	-----	-----
OPERATING INCOME	65,064	61,578	122,834	80,276
Interest expense	(7,126)	(6,994)	(13,853)	(14,365)
Other income (expense) - net	(2,297)	(3,654)	(7,467)	(8,387)
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	55,641	50,930	101,514	57,524
Income taxes	17,800	17,300	32,500	18,200
	-----	-----	-----	-----
NET INCOME	\$ 37,841	\$ 33,630	\$ 69,014	\$ 39,324
	=====	=====	=====	=====
NET INCOME PER SHARE				
Basic	\$ 1.34	\$ 1.20	\$ 2.45	\$ 1.41
Diluted	1.33	1.15	2.43	1.37
	=====	=====	=====	=====
Cash dividends per share	\$.22	\$.20	\$.44	\$.40
	=====	=====	=====	=====

<FN>

The Notes to Financial Statements are an integral part of this statement.

</FN>

</TABLE>

-5-

<TABLE>

CONDENSED STATEMENT OF CASH FLOWS

Aeroquip-Vickers, Inc.

(In thousands)

(Unaudited)

<CAPTION>

	Six Months Ended June 30	
	1998	1997
	-----	-----
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	\$ 69,014	\$ 39,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	33,835	33,510
Amortization	4,290	2,911
Special charge	-	30,000
Changes in certain components of working capital other than debt	(30,394)	(21,715)
Other	(10,317)	(11,313)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	66,428	72,717
INVESTING ACTIVITIES		
Capital expenditures	(74,229)	(60,707)
Businesses acquired	(23,544)	-
Sale of businesses	-	26,785
Other	1,783	(2,044)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(95,990)	(35,966)
FINANCING ACTIVITIES		
Net increase (decrease) in short- and long-term debt	47,553	(22,653)
Cash dividends	(12,400)	(11,189)
Purchase of common stock	(248)	(12,107)
Stock issuance under stock plans	4,769	12,780
Other	(680)	(452)
	-----	-----
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	38,994	(33,621)

Effect of exchange rate changes on cash and cash equivalents	(362)	(346)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	9,070	2,784
Cash and cash equivalents at beginning of period	18,736	23,934
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 27,806	\$ 26,718
	=====	=====

<FN>

The Notes to Financial Statements are an integral part of this statement.

</FN>

</TABLE>

-6-

NOTES TO FINANCIAL STATEMENTS

Aeroquip-Vickers, Inc.

(Unaudited)

Note 1 - Basis of Presentation

The accompanying financial statements for the interim periods are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the results for the interim periods included herein have been made. Operating results for the six months ended June 30, 1998, are not necessarily indicative of the results that may be expected for the year ending December 31, 1998. It is suggested that these financial statements be read in conjunction with the audited 1997 financial statements and notes thereto included in Aeroquip-Vickers, Inc.'s most recent annual report.

Note 2 - Redemption of Debt

In December 1997, the Company called its 9.55% senior sinking fund debentures in the principal amount of \$42 million for redemption on February 3, 1998. The pretax loss from redemption of the 9.55% senior sinking fund debentures amounting to \$2.5 million was recognized in Other income (expense) - net in the 1998 first quarter. In June 1997, the Company called its 6% convertible subordinated debentures in the principal amount of \$100 million for redemption. The 6% convertible debentures, which were due to mature on October 15, 2002, were convertible into common shares of the Company at a conversion price of \$52.50 per share.

Note 3 - Accounting Pronouncements

In the 1998 first quarter, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This Statement requires that comprehensive income, which is the total of net income and other comprehensive income, be reported in the financial statements. Other comprehensive income consists of foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain security investments. Amounts that had previously been recognized in other

comprehensive income are to be reclassified to net income in the period realized. Historically, the Company's only component of other comprehensive income has been foreign currency items. On an annual basis, disclosure of comprehensive income will be incorporated into the Statement of Shareholders' Equity. Since this statement is not presented on a quarterly basis, following are details of comprehensive income for the three- and six- month periods ended June 30, 1998 and 1997:

<TABLE>

<CAPTION>

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Net income	\$ 37,841	\$ 33,630	\$ 69,014	\$ 39,324
Other comprehensive income (loss) - currency translation adjustments during the period	(3,291)	1,617	(2,281)	(9,332)
Reclassification of realized amounts to net income	--	--	(127)	2,133
	-----	-----	-----	-----
Comprehensive income	\$ 34,550	\$ 35,247	\$ 66,606	\$ 32,125
	=====	=====	=====	=====

</TABLE>

-7-

NOTES TO FINANCIAL STATEMENTS (Continued)
Aeroquip-Vickers, Inc.
(Unaudited)

The Company is currently evaluating its segment disclosures and will adopt Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," in the 1998 fourth quarter. This Statement requires that operating segment financial information be reported on a basis consistent with the Company's internal reporting that is used for evaluating segment performance and allocating resources. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will become effective for fiscal years beginning after June 15, 1999. Early application is permitted. The Company is currently evaluating the effect of the provisions of this Statement on its accounting and reporting policies, but does not presently expect that adoption of this Statement will have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 4 - Special Charge

In the 1997 first quarter, the Company announced plans to exit its automotive interior plastics business and recorded a special charge of \$30 million (\$18.5 million net, or diluted net income per share of \$.62 for the 1997 six-month period [\$.63 for the year]), comprised principally of severance, lease termination and asset disposition costs. As a result, the Company sold or closed eight facilities during 1997 that had combined 1997 sales of

approximately \$67 million (approximately \$17 million in the 1997 second quarter and \$48 million in the six-month period ended June 30, 1997).

Note 5 - Income Taxes

The effective income tax rate for the 1998 second quarter and six-month period was 32%. The income tax provision for the six-month period ended June 30, 1997, included a credit of \$11.5 million related to the special charge for costs to exit the automotive interior plastics business. The effective income tax rate for the 1997 second quarter and six-month period exclusive of this item was 33.9%.

-8-

NOTES TO FINANCIAL STATEMENTS (Continued)
Aeroquip-Vickers, Inc.
(Unaudited)

Note 6 - Net Income per Share

Following is a reconciliation of income and average shares for purposes of calculating basic and diluted net income per share (in thousands, except per share amounts):

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1997	1998	1997
-----	-----	-----	-----	
Basic Net Income per Share				

Net income	\$ 37,841	\$ 33,630	\$ 69,014	\$ 39,324
	=====	=====	=====	=====
Average common shares outstanding	28,199	27,948	28,158	27,966
	=====	=====	=====	=====
Basic Net Income per Share	\$ 1.34	\$ 1.20	\$ 2.45	\$ 1.41
	=====	=====	=====	=====
Diluted Net Income per Share				

Net income	\$ 37,841	\$ 33,630	\$ 69,014	\$ 39,324
After-tax equivalent of interest expense on 6% convertible debentures	--	930	--	1,860
	-----	-----	-----	-----
Income for purposes of computing diluted net income per share	\$ 37,841	\$ 34,560	\$ 69,014	\$ 41,184
	=====	=====	=====	=====
Average common shares outstanding	28,199	27,948	28,158	27,966
Dilutive stock options	255	167	240	155
Assumed conversion of 6% convertible debentures	--	1,905	--	1,905
	-----	-----	-----	-----
Average common shares for purposes of computing diluted net income per share	28,454	30,020	28,398	30,026

Diluted Net Income per Share	\$ 1.33	\$ 1.15	\$ 2.43	\$ 1.37
------------------------------	---------	---------	---------	---------

The 6% convertible debentures were redeemed in July 1997.

-9-

<TABLE>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL REVIEW AND ANALYSIS OF OPERATIONS

Analysis of Operations

Second Quarter 1998 Compared with Second Quarter 1997

The following data provide highlights for the second quarter 1998 compared with the second quarter 1997.

<CAPTION>

(dollars in thousands, except per share data) <S>	Second Quarter 1998 <C>	Second Quarter 1997 <C>	Percent Increase (Decrease) <C>
CONSOLIDATED			
Net sales	\$ 574,314	\$ 556,278	3.2%
Manufacturing income	151,575	147,037	3.1
Manufacturing margin (%)	26.4	26.4	
Operating income	65,064	61,578	5.7
Operating margin (%)	11.3	11.1	
Net income	37,841	33,630	12.5
Net income per share			
Basic	1.34	1.20	11.7
Diluted	1.33	1.15	15.7
INDUSTRIAL			
Net sales	323,296	317,455	1.8
Operating income	33,148	32,587	1.7
Operating margin (%)	10.3	10.3	
Order intake	311,019	320,747	(3.0)
Order backlog at June 30	210,530	216,138	(2.6)
AUTOMOTIVE			
Net sales	108,236	117,278	(7.7)
Operating income	11,821	13,141	(10.0)
Operating margin (%)	10.9	11.2	
AEROSPACE			
Net sales	142,782	121,545	17.5
Operating income	26,402	21,629	22.1

Operating margin (%)	18.5	17.8	
Order intake	141,937	138,360	2.6
Order backlog at June 30	395,671	366,112	8.1

<FN>

In the 1998 second quarter, the Company set a number of quarterly records, including new highs for consolidated net sales, manufacturing income, operating income and margin, net income and net income per share. In addition, second-quarter records included new highs for industrial and aerospace sales, aerospace operating income and margin, and aerospace order intake.

</FN>

</TABLE>

-10-

Analysis of Operations - Continued

Consolidated net sales for the 1998 second quarter increased \$18 million, or 3.2%, over the 1997 second quarter. Sales for the industrial and aerospace segments increased 1.8% and 17.5%, respectively. Sales for the automotive segment declined 7.7% from the 1997 second quarter, primarily due to the sale or closure of the Company's interior plastics facilities during 1997 that had second-quarter 1997 sales of \$17 million. Including sales generated by companies acquired in 1998, which were principally outside the U.S., consolidated U.S. sales increased \$18.9 million, or 5.3%, but non-U.S. sales declined \$0.9 million. Changes in currency exchange rates lowered non-U.S. sales more than \$9 million.

Second-quarter 1998 industrial segment sales were \$5.8 million, or 1.8%, higher than in the 1997 second quarter. U.S. industrial sales increased \$6.5 million, or 3%, and sales in Europe increased \$7.1 million, or 10.9%. Second-quarter 1998 sales for Brazil were flat compared with the 1997 second quarter, but sales in Asia-Pacific declined \$7.3 million, or 26.9%. The Asia-Pacific sales decline was partially the result of the economic downturn in the region, but was also, in part, due to changes in exchange rates. Industrial order intake declined \$9.7 million, or 3%, from the 1997 second quarter, principally due to lower order intake in the Asia-Pacific region. Order backlog at June 30, 1998, was \$5.6 million, or 2.6%, lower than at June 30, 1997.

Automotive segment sales declined \$9 million, or 7.7%, from the 1997 second quarter. During 1997, the Company sold or closed eight automotive interior plastics facilities that had second-quarter 1997 sales of \$17 million. After adjusting the 1997 second quarter to exclude sales originating from those facilities, second-quarter 1998 U.S. sales were \$1.3 million, or 4.3%, lower than in the prior year, but non-U.S. sales were \$9.3 million, or 13%, higher. The growth in non-U.S. automotive sales reflects continued strong demand in Europe for fluid connectors for use in automotive air conditioning and power steering applications.

Second-quarter 1998 aerospace segment sales were \$21.2 million, or 17.5%, higher than in the 1997 second quarter. Sales were up 19.1% in the U.S. and

7.8% in Europe. The 1998 second-quarter sales reflected increases over the 1997 second quarter in sales to OEM and aftermarket customers for both commercial and military applications. Second-quarter order intake was \$3.6 million, or 2.6%, higher than in the 1997 second quarter, and order backlog at June 30, 1998, was \$29.6 million, or 8.1%, higher than at June 30, 1997.

Consolidated manufacturing income increased \$4.5 million, or 3.1%, over the 1997 second quarter. Manufacturing margin was 26.4% for both periods. Manufacturing income for the industrial segment improved over the prior year, but the income growth was diminished by the adverse effects of exchange rate changes in Europe and Asia-Pacific, and start-up costs associated with a new pump manufacturing facility in the U.S. Manufacturing income for the automotive segment declined from the prior-year's second quarter as lower U.S. automotive sales volume and new facility start-up costs more than offset the positive contributions of the strong fluid connector sales in Europe. Manufacturing income for the aerospace segment increased more than 11%, principally due to higher sales volume and manufacturing efficiencies in the 1998 second quarter.

-11-

Analysis of Operations - Continued

Selling and general administrative and engineering, research and development expenses were \$1.1 million higher in the 1998 second quarter than in the comparable 1997 period, but as a percent of sales, declined from 15.4% in the 1997 second quarter to 15.1% in the 1998 second quarter. Continued development of infrastructure in the industrial segment's Asia-Pacific region and costs associated with businesses acquired contributed to the overall increase, while the 1997 disposition of the interior plastics business contributed to a reduction of overhead costs in the automotive segment.

Interest expense for the 1998 second quarter amounted to \$7.1 million, compared with \$7 million in the 1997 second quarter. Average debt levels were slightly higher in the 1998 second quarter, but the effect of the higher debt levels was offset by lower interest rates. Certain debt obligations, principally the Company's 7.95% notes in the amount of \$75 million that were repaid in 1997 and the 9.55% sinking fund debentures in the amount of \$42 million that were repaid in the 1998 first quarter, were replaced with debt bearing lower interest rates.

Net income for the 1998 second quarter amounted to \$37.8 million, or diluted net income per share of \$1.33, compared with 1997 second-quarter net income of \$33.6 million, or \$1.15 per share. The effective income tax rate for the 1998 second quarter was 32%, compared with 33.9% for the 1997 second quarter.

-12-

Analysis of Operations - Continued

<TABLE>

Six Months 1998 Compared with Six Months 1997

The following data provide highlights for the 1998 first six months compared with the first six months of 1997.

<CAPTION>

(dollars in thousands, except per share data)	June 30 1998	1997	Six Months Ended	Increase (Decrease)	Percent
<S>	<C>	<C>		<C>	
CONSOLIDATED					
Net sales	\$1,121,369	\$1,094,704			2.4%
Manufacturing income	295,807	279,512			5.8
Manufacturing margin (%)	26.4	25.5			
Operating income	122,834				
80,276	(a)	11.4 (b)			
Operating margin (%)	11.0		10.1		(b)
Net income	69,014				
39,324	(a)	19.4 (b)			
Net income per share					
Basic	2.45		1.41		(a) 18.4 (b)
Diluted	2.43		1.37		(a) 22.1 (b)
INDUSTRIAL					
Net sales	633,744	609,293			4.0
Operating income	60,227	57,193			5.3
Operating margin (%)	9.5	9.4			
Order intake	625,144	638,342			(2.1)
AUTOMOTIVE					
Net sales	209,969	245,209			(14.4)
Operating income	24,520	(
5,370) (a)	(.4) (b)				
Operating margin (%)	11.7		1		
0.0	(b)				
AEROSPACE					
Net sales	277,656	240,202			15.6
Operating income	50,425	40,260			25.2
Operating margin (%)	18.2	16.8			
Order intake	294,409	267,503			10.1

<FN>

(a) After deducting a special charge of \$30 million (\$18.5 million net, or basic and diluted net income per share of \$.66 and \$.62, respectively).

(b) Before deducting a special charge of \$30 million (\$18.5 million net, or basic and diluted net income per share of \$.66 and \$.62, respectively).

</FN>

</TABLE>

In the six-month period ended June 30, 1998, the Company set a number of six-month records, including new highs for consolidated net sales, manufacturing income, operating income, operating margin, net income and net income per share. First six-month records also included new highs for industrial and aerospace sales, aerospace operating income and margin, automotive margin and aerospace order intake.

Analysis of Operations - Continued

Consolidated net sales for the first six months of 1998 increased \$26.7 million, or 2.4%, over the comparable 1997 period. Sales for the industrial and aerospace segments increased 4% and 15.6%, respectively. Automotive sales declined 14.4% from the first six months of 1997, primarily due to the sale or closure of the Company's interior plastics facilities during 1997 that had sales during the first six months amounting to \$48 million. Including sales generated by companies acquired in 1998, which were principally outside the U.S., consolidated U.S. sales increased \$38.4 million, or 5.5%, but non-U.S. sales declined \$11.7 million, or 3%. Changes in currency exchange rates lowered non-U.S. sales more than \$20 million.

Industrial sales for the first six months of 1998 increased \$24.5 million, or 4%, over sales for the comparable 1997 period. U.S. industrial sales increased \$28.6 million, or 6.9%, and sales in Europe increased \$6.5 million, or 5%. The sales increase in Europe was after the adverse effects of changes in currency exchange rates amounting to \$4.2 million. Sales in Brazil were flat compared with the prior year, while sales in Asia-Pacific declined \$10.6 million, or 21.4%. More than half of the decline in Asia-Pacific sales for the six-month period was due to changes in exchange rates, with the remainder of the decline attributable to the economic downturn in the region.

Automotive sales declined \$35.2 million, or 14.4%, from the 1997 six-month period. Sales for the first six months of 1997 from facilities that were sold or closed in 1997 amounted to \$48 million. After adjusting sales for the first six months of 1997 to exclude sales originating from these facilities, U.S. sales for the first six months of 1998 were flat in comparison with the prior year and non-U.S. sales increased \$14 million, or 10.1%. This non-U.S. sales increase included the adverse effects of changes in currency exchange rates amounting to more than \$7 million.

Aerospace sales grew \$37.5 million, or 15.6%, over the comparable 1997 period. This sales increase was attributable to U.S. operations, since a modest increase in volume in Europe was offset by adverse effects of changes in currency exchange rates.

Consolidated manufacturing income increased \$16.3 million, or 5.8%, over the first six months of 1997, and manufacturing margin increased from 25.5% to 26.4%. Manufacturing income for the industrial segment increased 3.8% despite the unfavorable effects of exchange rate changes and start-up costs. Manufacturing income for the automotive segment declined primarily because of lower U.S. sales in the second quarter and new facility start-up costs. Manufacturing income for the aerospace segment increased nearly 16%, primarily the result of increased aerospace sales volume and manufacturing efficiencies.

Selling and general administrative and engineering, research and development expenses were \$3.7 million, or 2.2%, higher than in the comparable 1997 six-month period. Continued expenditures for development in the Asia-Pacific region and additional costs associated with acquisitions contributed to the higher costs, while disposition of the interior plastics business contributed

to a reduction of overhead costs in the automotive segment.

-14-

Analysis of Operations - Continued

In the 1997 first quarter, the Company announced plans to exit its automotive interior plastics business and recorded a special charge of \$30 million (\$18.5 million net, or diluted net income per share of \$.62 for the 1997 six-month period [\$.63 for the year]), comprised principally of severance, lease termination and asset disposition costs. As a result, the Company sold or closed eight facilities during 1997 that had combined 1997 sales of approximately \$67 million (\$48 million in the six-month period ended June 30, 1997).

Interest expense for the 1998 six-month period was \$.5 million lower than in 1997, primarily due to lower average interest rates in the first six months of 1998. Other income (expense) - net for the first six months of 1998 included a loss of \$2.5 million resulting from the first-quarter redemption of the Company's 9.55% sinking fund debentures.

Net income for the 1998 six-month period amounted to \$69 million, or diluted net income per share of \$2.43, which compares with income for the 1997 six-month period of \$57.8 million, or \$1.99 per share, before deducting the special charge to exit the automotive interior plastics business. Net income per share for 1998 included a charge of \$.05 per share for redemption of the 9.55% debentures. Net income for the 1997 first six months, after deducting the special charge of \$18.5 million net of tax, or \$.62 per share for the six-month period, was \$39.3 million, or diluted net income per share of \$1.37. The effective income tax rate for the 1998 six-month period was 32%, compared with 33.9% for the 1997 six-month period exclusive of the special charge.

Liquidity and Capital Resources

Cash provided by operating activities for the first six months of 1998 amounted to \$66.4 million, compared with \$72.7 million for the comparable 1997 period. Working capital requirements of \$30.4 million included \$30.2 million to finance a higher level of receivables, \$3.2 million for growth in inventories and \$8.2 million to reduce payables and accruals. These cash requirements were partially offset by the effects of increases in the liability for income taxes. Working capital requirements for 1997 of \$21.7 million included \$37.8 million to finance a higher level of receivables and \$18.5 million for growth in inventories, which were partially offset by the effects of increases in payables and income taxes.

Capital expenditures during the first six months of 1998 totaled \$74.2 million compared with \$60.7 million in 1997. The Company expects that its capital spending for the year 1998 in support of its growth initiatives and continued manufacturing process improvements will exceed 1997 capital expenditures of \$139.8 million. The Company spent \$23.5 million during the first six months of 1998 to acquire four businesses in the industrial segment and a business in the automotive segment. In the first six months of 1997, the Company received \$26.8 million from sales of certain of its automotive interior plastics facilities.

Dividend payments in the first six months of 1998 were \$.44 per share, or \$12.4 million. The dividend declared for the 1998 third quarter to be paid in

September was \$.22 per share. The debt-to-capitalization ratio (debt divided by debt plus equity) was 40.9% at June 30, 1998, compared with 40.2% at December 31, 1997.

-15-

Liquidity and Capital Resources - Continued

In the 1998 first quarter, the Company retired its 9.55% senior sinking fund debentures in the amount of \$42 million. Additional borrowings under the Company's Medium Term Note program and short-term debt were used to redeem the debentures and to meet other funding requirements. The remaining borrowing capacity at June 30, 1998, under provisions of current shelf registration statements for the Medium Term Note program, was \$200 million. The Company also maintains a revolving credit agreement with a consortium of U.S. and non-U.S. banks expiring in 2001 under which the Company may borrow up to \$175 million. The agreement is intended to support the Company's commercial paper borrowings and, to the extent not so utilized, provide domestic borrowing capacity. The remaining borrowing capacity under this agreement at June 30, 1998, was \$105.4 million. In addition to this agreement, the Company has uncommitted arrangements with various banks to provide short-term financing as necessary.

The Company expects that cash flow from operating activities and remaining available credit lines will be sufficient to meet normal operating requirements including debt obligations maturing in the near term and planned capital expenditures.

Other

The Company is currently evaluating its segment disclosures and will adopt Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," in the 1998 fourth quarter. This Statement requires that operating segment financial information be reported on a basis consistent with the Company's internal reporting that is used for evaluating segment performance and allocating resources. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will become effective for fiscal years beginning after June 15, 1999. Early application is permitted. The Company is currently evaluating the effect of the provisions of this Statement on its accounting and reporting policies, but does not presently expect that adoption of this Statement will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is continuing its efforts to assess and remediate problems caused by the inability of certain of its information systems to properly process transactions using dates in the Year 2000 and beyond, or to operate at the turn of the century. During the 1998 first quarter, the Company completed an inventory and identification of its mission critical information systems relative to Year 2000 compliance and developed specific project plans to correct Year 2000 related deficiencies. Each operating unit of the Company is now engaged in the remediation of its Year 2000 issues.

A Year 2000 steering committee has been formed composed of the Company's information technology leadership and other key executives to review and provide oversight of all Year 2000 related activities. A Year 2000 program

office has also been established as an adjunct to the steering committee to facilitate Year 2000 communications and coordinate Year 2000 efforts among the Company's operating units.

-16-

Other - Continued

The Company is now preparing detailed testing plans with the assistance of third-party service providers to test and assess its mission critical systems for Year 2000 compliance. This testing will commence in the latter part of 1998. The Company is also testing its embedded systems used in the manufacture and distribution of its products for Year 2000 compliance to avert any disruption in the supply of product to its customers.

The Company has surveyed and is now assessing Year 2000 readiness on the part of the Company's supply base, and is responding to Year 2000 inquiries from customers and financial institutions. The Company is also preparing for Year 2000 on-site assessments conducted by major OEM customers and industry groups. These assessments are expected during the latter part of 1998 and early 1999.

From a cost perspective, the Company has budgeted the necessary funds to address Year 2000 related projects. The Company believes that the incremental cost of Year 2000 compliance activities is not material due to its extensive use of packaged software which is now date compliant or can be made compliant by installing vendor-supplied updates.

Risk factors which may affect the Company's ability to meet its Year 2000 project plan and the ability of the Company's information systems to operate properly into the next century include but are not limited to, the availability and adequacy of date compliant software from vendors and the availability of necessary resources, both internal and external, to install new purchased software or reprogram existing systems and complete the necessary testing. In addition, the Company cannot predict the outcome of the Year 2000 assessment of its supply base or the ability of its customers to achieve Year 2000 compliance by the end of 1999 nor the impact of either on the future operating results of the Company.

Portions of the narrative set forth in this Financial Review and Analysis of Operations, which are not historical in nature, are forward-looking statements. The Company's actual performance may differ from that contemplated by the forward-looking statements due to a variety of factors, which include among other things, the condition of the economy, the condition of the markets that the Company serves and the success of the Company's strategic plans and contemplated capital investments.

PART II - OTHER INFORMATION

Aeroquip-Vickers, Inc.

Item 1. Legal Proceedings - On June 9, 1998, the Company became aware of an investigation at the Aeroquip automotive facility located in Fitzgerald, Georgia by the U.S Environmental Protection Agency. The EPA is investigating alleged violations of the Clean Air Act from approximately 1993 to 1995. The agency's allegations include: the release of ozone depleting substances into the environment from

refrigerant equipment; use of non-certified technicians to service and maintain such equipment; the performance of refrigerant maintenance without the proper recovery equipment; and providing false statements to the agency. No civil or criminal charges have been filed. The company is also investigating the matter.

-17-

The Fitzgerald facility, which employs approximately 50 people, manufactures custom-engineered extruded plastic products. The plant, with 1997 sales of approximately \$6 million, is located on 12 acres of land, with the building occupying approximately 80,000 square feet.

Item 5. Other Information - Shareholder proposals which are not covered by Rule 14a-8 of the Securities Exchange Act of 1934 and which are intended to be presented at the 1999 annual shareholders' meeting must be received by the Secretary of Aeroquip-Vickers, Inc. no later than January 24, 1999. Failure to submit such shareholder proposals by the specified date will result in management proxies being allowed to use their discretionary voting authority when the proposal is raised at the annual meeting, without any discussion of the matter in the proxy statement.

The deadline set forth in the Company's 1998 proxy statement for shareholder proposals which are covered by Rule 14a-8 of the Securities Exchange Act of 1934 continues to apply for shareholder proposals to be included in the proxy statement.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed hereunder as part of Part I:

Exhibit (10)-1 Change in Control Severance Agreement for Chief Executive Officer

Exhibit (10)-2 Change in Control Severance Agreement for Executive officers (the Agreements executed by the Company and various executive officers of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-2 except as to differences in the identity of the officers, the dates of execution, the identity of the employer of the executive [operating subsidiary or parent corporation], and as to other variations directly necessitated by said differences)

Exhibit (10)-3 Change in Control Severance Agreement for other executives (the Agreements executed by the Company and various other executives of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-3 except as to differences in the identity of the executives and the dates of execution, and as to other variations directly necessitated by said differences)

Exhibit (12) Statement re: Computation of Ratios

The following exhibit is filed as part of Part II:

Exhibit (27)

Financial Data Schedule

(b) There were no reports on Form 8-K filed for the quarter ended June 30, 1998.

-18-

SIGNATURES

Pursuant to the requirements 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.

Aeroquip-Vickers, Inc.

By /S/ DARRYL F. ALLEN

August 11, 1998

Darryl F. Allen
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

By /S/ DAVID M. RISLEY

August 11, 1998

David M. Risley
Vice President - Finance and
Chief Financial Officer
(Principal Financial Officer)

-19-

EXHIBIT INDEX

Exhibit No.		Page No.
(10)-1	Change-in-Control Severance Agreement for Chief Executive Officer	21
(10)-2	Change-in-Control Severance Agreement for Executive Officers (the Agreements executed by the Company and various executive officers of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-2 except as to differences in the identity of the officers, the dates of execution, the identity of the employer of the executive [operating subsidiary or parent corporation], and as to other variations directly necessitated by said differences)	33
(10)-3	Change-in-Control Severance Agreement for other executives (the Agreements executed by the Company and various other executives of the Company are identical in all respects to the form of Agreement filed as Exhibit (10)-3 except as to differences in the identity of the executives and the dates of execution, and as to other variations directly necessitated by said differences)	45
(12)	Statement re: Computation of Ratios	55
(27)	Financial Data Schedule	56

CHANGE-IN-CONTROL
SEVERANCE AGREEMENT

THIS AMENDED AND RESTATED CHANGE-IN-CONTROL SEVERANCE AGREEMENT (this "Agreement") by and between AEROQUIP-VICKERS, INC., an Ohio corporation (the "Company"), and Darryl F. Allen (the "Executive"), dated this 30th day of June, 1998.

WITNESSETH THAT:

WHEREAS, the Company recognizes that today's business environment makes it difficult to attract and retain highly qualified executive and key professional personnel unless a degree of security can be offered to those individuals against organizational and personnel changes which frequently follow a change in control of a corporation; and

WHEREAS, even rumors of change-in-control transactions may cause key employees to consider major career changes in an effort to assure financial security for themselves and their families; and

WHEREAS, the Company desires to assure fair treatment of its key employees in the event of a change in control and to allow them to make critical career decisions without undue time pressure and financial uncertainty, increasing their willingness to remain with the Company notwithstanding the outcome of a possible change-in-control transaction; and

WHEREAS, the Company recognizes that many of its key management employees will be involved in evaluating or negotiating any offers, proposals, or other transactions which could result in a change in control of the Company and, recognizing the fiduciary obligations of such executives, believes that it is in the best interests of the Company and its shareholders to provide additional assurance that such key employees are in a position, free from personal economic and employment considerations, to be able as a practical matter to objectively assess and aggressively pursue the interests of the Company's shareholders in making these evaluations and carrying on such negotiations;

NOW THEREFORE, the parties agree as follows:

1. Definitions. When used herein, the following terms shall have the meanings set forth below:

A. "Average Total Compensation" shall mean the sum of the amounts determined under clauses (i) and (ii) below.

(i) The higher of the Executive's annual base salary (without giving effect to any elected deferrals to a plan under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code") or any similar qualified or nonqualified plan) in effect on (x) the day immediately prior to the day on which the Change in Control occurred, or (y) the Executive's Resignation Date or Termination Date, as the case may be.

-21-

(ii) (a) If the Executive has been employed by the Company for the last three full consecutive calendar years, the average of the two highest aggregate short-term annual incentive awards received by the Executive under the Incentive Compensation Plan attributable to services performed by the Executive during any calendar year in the last five full calendar years (without regard to when such awards were paid or accrued); or

(ii) (b) If the Executive has been employed by the Company for at least one, but less than three full consecutive calendar years, the average of the aggregate short-term annual incentive awards received by the Executive under the Incentive Compensation Plan attributable to services performed by the Executive during each full calendar year he has been employed by the Company (without regard to when such awards were paid or accrued); or

(ii) (c) If the Executive has been employed by the Company for less than one full calendar year, the greater of (x) his guaranteed annual incentive compensation or (y) the aggregate short-term annual incentive awards to which the Executive would have been entitled under the Incentive Compensation Plan of which the Executive was a participant on the Termination Date or Resignation Date, as the case may be, if he had worked for one full calendar year at the base salary determined under clause (i) above.

B. A "Beneficial Owner" of Voting Stock is any

Person who would be deemed to beneficially own such Voting Stock within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rules or regulations thereto.

C. "Benefit Period" shall mean a period of three years, commencing with the Termination Date or Resignation Date, except that if the Executive will reach age 65 within three years after the Termination Date or Resignation Date, the Benefit Period shall mean a period of years, including fractional years, commencing with the Termination Date or Resignation Date and ending on the Executive's 65th birthday.

D. "Cause" shall mean that, prior to any Termination, the Executive shall have committed:

(i) an intentional act of fraud, embezzlement or theft in connection with his duties or in the course of his employment with the Company or any Operating Company;

-22-

(ii) intentional wrongful damage to property of the Company or any Operating Company;

(iii) intentional wrongful disclosure of secret processes or confidential information of the Company or any Operating Company;
or

(iv) intentional wrongful engagement in any Competitive Activity;

and any such act shall have been materially harmful to the Company. For purposes of this Agreement, no act, or failure to act, on the part of the Executive shall be deemed "intentional" if it was due primarily to an error in judgment or negligence, but shall be deemed "intentional" only if done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding anything in this Agreement to the contrary, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been

delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the Board of Directors of the Company (the "Board") then in office at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive had committed an act set forth above in this Paragraph 1.D and specifying the particulars thereof in detail. Nothing herein shall limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

E. A "Change in Control" shall have occurred if any of the following events shall occur:

(i) The Company is merged, consolidated or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of Voting Stock immediately prior to such transaction;

(ii) The Company sells or otherwise transfers all or substantially all of its assets to another corporation or other legal person, and less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transactions are held in the aggregate by the holders of Voting Stock immediately prior to such sale;

-23-

(iii) There is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Exchange Act, disclosing that any Person has become the Beneficial Owner of 20% or more of the Voting Stock;

(iv) The Company files a report or

proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction;

(v) If during any period of two consecutive years, individuals who at the beginning of any such period constitute the Directors of the Company cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's shareholders, of each Director of the Company first elected during such period was approved by a vote of at least two-thirds of the Directors of the Company then still in office who were Directors of the Company at the beginning of any such period; or

Notwithstanding the foregoing provisions of Paragraph 1.E(iii) or 1.E(iv) hereof, a "Change in Control" shall not be deemed to have occurred for purposes of this Agreement solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting securities, or (iii) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company or any Operating Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 20% or otherwise, or because the Company reports that a change in control of the Company has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

F. "Competitive Activity" means the Executive's participation, without the written consent of an officer of the Company, in the management of any business enterprise if such enterprise engages in substantial and direct competition with the Company and such enterprise's sales of any product or service competitive with any product or service of the Company amounted to 10% of such enterprise's net sales for its most recently completed fiscal year and if the Company's consolidated net sales of said product or service amounted to 10% of the Company's consolidated net sales for

its most recently completed fiscal year. "Competitive Activity" will not include (i) the mere ownership of securities in any such enterprise and the exercise of rights appurtenant thereto or (ii) participation in the management of any such enterprise other than in connection with the competitive operations of such enterprise.

G. "Incentive Compensation Plan" shall mean the plan approved by shareholders of the Company on April 19, 1984 (or any Operating Company Incentive Plan) and any amendments thereto and restatements thereof, or any successor plan that may become effective subsequent to the date of this Agreement and prior to a Change in Control.

H. "Operating Company" shall mean any corporation of which the Company owns directly or indirectly more than 50% of the outstanding stock having by its terms ordinary voting power to elect a majority of the board of directors of such corporation, irrespective of whether at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency.

I. "Person" shall mean any "person," as the term "person" is used and defined in Section 14(d)(2) of the Exchange Act, and any "affiliate" or "associate" of any such person, as the terms "affiliate" and "associate" are defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

J. "Resignation" shall mean resignation by the Executive of his employment with the Company if any of the following has occurred:

(i) Failure to elect or reelect the Executive to the office or the position, or a substantially equivalent office or position of or with the Company and/or an Operating Company which the Executive held immediately prior to the Change in Control, or the removal of the Executive as a Director of the Company (or any successor thereto), if the Executive shall have been a Director of the Company immediately prior to the Change in Control;

(ii) A significant adverse change

in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company or any Operating Company which the Executive held immediately prior to the Change in Control, a reduction in the aggregate Total Compensation received by the Executive from the Company and any Operating Company in any calendar year following the Change in Control, or the termination of the Executive's rights to any employee benefits to which he was entitled immediately prior to the Change in Control or a reduction in scope or value thereof without the prior

-25-

written consent of the Executive, any of which is not remedied within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that as a result of the Change in Control and a change in circumstances thereafter significantly affecting his position, including without limitation, a change in the scope of the business or other activities for which he was responsible immediately prior to the Change in Control, he has been rendered substantially hindered in the performance of, or has suffered a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or a significant portion of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization or otherwise) to which all or a

significant portion of its business and/or assets have been transferred (directly or by operation of law) shall have assumed all duties and obligations of the Company under this Agreement pursuant to Paragraph 8 hereof;

(v) The Company shall relocate its principal executive offices, or requires the Executive to have his principal location of work changed to any location which is in excess of 25 miles from the location thereof immediately prior to the Change in Control or to travel away from his office in the course of discharging his responsibilities or duties hereunder significantly more (in terms of either consecutive days or aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of the Executive prior to the Change in Control without in either case, his or her prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto.

-26-

K. "Resignation Date" shall be the last day worked by an Executive who resigns his employment with the Company as provided in Paragraph 1.J of this Agreement.

L. "Savings Plans" shall mean the Aeroquip-Vickers Savings and Profit Sharing Plan and the Aeroquip-Vickers Supplemental Benefit Plan and any amendments thereto and restatements thereof, or any successor plans that may become effective subsequent to the date of this agreement and prior to a Change in Control.

M. "Termination" shall mean termination by the Company of the Executive's employment for any reason other than the following:

(i) death;

(ii) Total Disability, as defined

in the Company's long-term disability plan then in effect, and the Executive begins actually to receive disability benefits pursuant to such disability plan; or

(iii) Cause.

The Executive may also deem himself to have been terminated under this Paragraph 1.M if the aggregate cash compensation (including base salary) (without giving effect to any elected deferrals to a plan under Section 401(k) of the Code) plus awards under the Incentive Compensation Plan) received by the Executive in any calendar year following a Change in Control is an amount less than the aggregate cash compensation (including base salary (without giving effect to any elected deferrals to a plan under Section 401(k) of the Code) plus awards under the Incentive Compensation Plan) received by the Executive in the full calendar year immediately preceding the Change in Control; provided however, if the Executive was not employed by the Company during all of the full calendar year immediately preceding the Change in Control, the amount referred to above with respect to the full calendar year immediately preceding the Change in Control shall be the sum of the amounts determined pursuant to Paragraphs 1.A(i) and 1.A(ii)(c).

N. "Termination Date" shall be the last day worked by an Executive whose employment with the Company is terminated by the Company other than for the reasons set forth in Subparagraphs 1.M(i), (ii) or (iii) of this Agreement.

O. "Voting Stock" means all outstanding securities of the Company entitled to vote generally in the election of directors of the Company at the time in question.

-27-

2. Operation of Agreement. This Agreement will be effective and binding immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the occurrence of a Change in Control at any time during the Term, without further action, this Agreement shall become immediately operative.

3. Payments Upon Termination. In the event of Termination

within three years after a Change in Control or Resignation between six months and two years after a Change in Control, the Executive shall receive:

A. An amount equal to the Executive's Average Total Compensation, multiplied by the length in years, including fractional years, of the Benefit Period. This payment shall be made by the Company within thirty calendar days after the Executive's Termination Date or Resignation Date as the case may be.

B. A payment by the Company (or, if applicable, the Company shall cause the appropriate Operating Company to make a payment) in an amount equal to three times the Company's average aggregate contribution to the Executive's accounts in the Savings Plans for the last three full years preceding the Change in Control, to be made within thirty calendar days after the Executive's Termination Date or Resignation Date, as the case may be.

C. During the Benefit Period, the benefits associated with continued participation in the employee health, life insurance, disability income and other welfare benefit plans of the Company and/or any Operating Company in which he was participating immediately prior to the Change in Control, upon provisions substantially similar to or more favorable to the Executive than those contained in the respective plans as of the Termination Date or the Resignation Date; provided, however, that if participation by the Executive in any of such plans is not permitted, due to the requirements for eligibility for participation contained therein, the Company shall (or shall cause the applicable Operating Company to) pay or provide for the payment of the benefits described in those plans to the Executive and/or his dependents, or, if applicable, to his beneficiaries or estate as if he were employed by the Company during the Benefit Period in the position held by him immediately prior to the Change in Control.

D. Reimbursement for the cost of outplacement services rendered to the Executive as part of efforts made by the Executive to obtain employment following his Termination Date or Resignation Date.

-28-

E. If the Executive is a Disqualified Individual

(as the term "Disqualified Individual" is defined in Section 280G of the Code, or any successor provision thereto) and if any payment to the Executive, whether under this Agreement or otherwise, would be an Excess Parachute Payment (as the term "Excess Parachute Payment" is defined in Section 280G of the Code or any successor provision thereto) but for the application of this sentence, then the amount of the payments otherwise payable to the Executive pursuant to this Agreement shall be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of the payments made to the Executive, as so reduced, constitutes an Excess Parachute Payment. The reduction, if any, contemplated by the immediately preceding sentence shall be effected by reducing to the extent necessary the benefits otherwise to be provided by Paragraph 2.C hereof, and then, if necessary, by reducing the benefits otherwise to be provided by Paragraph 2.B hereof, and then, if necessary, by reducing the benefits provided by Paragraph 2.A hereof.

F. The determinations under Paragraph 2.E hereof shall be made by the Company's independent accounting firm.

4. Interest. Without limiting the rights of the Executive at law or in equity, if the Company fails to make any payment or provide any benefit required to be made or provided hereunder on a timely basis, the Company will pay interest on the amount or value thereof at an annualized rate of interest equal to the so-called composite "prime rate" as quoted from time to time during the relevant period in the Midwest Edition of The Wall Street Journal. Such interest will be payable as it accrues on demand. Any change in such prime rate will be effective on and as of the date of such change.

5. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult, and may be impossible, for the Executive to find reasonably comparable employment following the Resignation Date or Termination Date, and the parties desire to avoid possible disputes with respect to mitigation and offset matters. The Company also acknowledges that, particularly in light of Paragraph 3.E hereof, its Board of Directors has, following due consideration of the matter, determined that the benefits provided by Paragraph 3 hereof are reasonable. Accordingly, the parties hereto expressly agree that the payment of the amounts specified in Paragraph 3 hereof by the Company to the Executive in accordance with the terms of this Agreement will be liquidated damages, and that the Executive shall not be required to mitigate the amounts provided for in Paragraph 3 of this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other

obligation on the part of the Executive hereunder or otherwise, except that the welfare benefits provided by Paragraph 3.C hereof shall be

-29-

reduced to the extent comparable welfare benefits are actually received by the Executive from another employer following the Executive's Resignation Date or Termination Date, as the case may be, until the expiration of the Benefit Period.

6. Arbitration and Legal Expenses. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Toledo, Ohio, in accordance with the laws of the State of Ohio by three arbitrators, one of whom shall be appointed by the Company, one by the Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Northern District of Ohio. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators, which shall be as provided in this Paragraph 6. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the Executive determines in good faith to retain legal counsel and/or incur other reasonable costs or expenses in connection with any such arbitration or to enforce any or all of the Executive's rights under this Agreement or under any arbitration award, the Company shall pay 50% of the first \$10,000 of attorneys' fees, costs and expenses incurred by the Executive in connection with the enforcement of his rights, including the enforcement of any arbitration award in court, regardless of the final outcome. The Company shall pay all such costs and expenses in excess of \$10,000 incurred by the Executive.

7. Competitive Activity. During a period ending one year following the Termination Date or Resignation Date, if the Executive shall have received or shall be receiving benefits under Section 3, the Executive shall not, without the prior written consent of the Company, which consent shall not be unreasonably withheld, engage in any Competitive Activity.

8. Withholding of Taxes. The Company may withhold from any amounts payable under this Agreement all federal, state, city or

other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling.

9. Notices. Any notices, requests, demands and other communications, provided for in or pertinent to this Agreement shall be sufficient if delivered to the other party hereto by means of a written notice, mailed by United States registered or certified mail, return receipt requested, postage prepaid to either the Executive's last known address, or to the Company's principal executive offices, as the case may be.

10. Governing Law. The provisions of this Agreement shall be construed and governed in accordance with the laws of the State of Ohio without giving effect to the principles of conflict laws of such State.

-30-

11. Amendment. This Agreement may be amended or canceled by mutual agreement of the parties in writing without the consent of any other person and, so long as the Executive lives, no person, other than the parties hereto shall have any rights under or interest in this Agreement or the subject matter hereof.

12. Successors and Binding Agreement.

A. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purposes of this Agreement), but shall not otherwise be assignable, transferable or delegable by the Company.

B. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors administrators, successors, heirs, distributees and/or legatees.

C. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Paragraph 12.A hereof. Without limiting the generality of the foregoing, the Executive's right to receive payments hereunder shall not be assignable, transferrable or delegable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by his will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Paragraph 12.C, the Company shall have no liability to pay any amount so attempted to be assigned, transferred or delegated.

13. Validity. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstances shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent (and only to the extent) necessary to make it enforceable, valid and legal.

-31-

14. Scope of Agreement. This Agreement is not a contract for employment for any period of time, does not constitute a guarantee of employment and shall not be deemed to confer any benefit on the Executive in the absence of a Change in Control.

15. Survival. Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 3, 4 and 6 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever.

16. Term. The period during which this Agreement shall be in effect (the "Term") shall commence as of the date hereof and shall expire as of the latest of (i) December 31 of the second calendar year after the calendar year in which this Agreement is executed; (ii) the expiration of the Benefit Period; and (iii) three years after the date of the first Change in Control; provided, however, in the absence of a Change in Control that (A) commencing on January 1 of the calendar year after the calendar year in which this Agreement is executed and each January 1 thereafter, the date

specified in clause (i) above shall be automatically extended for an additional year unless, not later than September 30 of the immediately preceding year, the Company or the Executive shall have given notice that it or he, as the case may be, does not wish to have the Term extended and (B) subject to Paragraph 14 hereof, if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company, whether or not the Executive then becomes or continues to be an employee of an Operating Company, thereupon the Term shall be deemed to have expired and this Agreement shall immediately terminate and be of no further effect.

17. Prior Agreement. This Agreement amends and restates the Agreement, dated as of May 23, 1991 (the "Prior Agreement"), between the Company and the Executive, which Prior Agreement shall, without further action, be superseded as of the date first above written.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its assistant secretary, all as of the day and year first above written.

/S/ DARRYL F. ALLEN
Executive

ATTEST:

AEROQUIP-VICKERS, INC.

/S/ MICHELLE L. POTTER
Assistant Secretary

By: /S/ JAMES E. KLINE
James E. Kline
Vice President & General Counsel

(Seal)

CHANGE-IN-CONTROL SEVERANCE AGREEMENT

THIS AMENDED AND RESTATED CHANGE-IN-CONTROL SEVERANCE AGREEMENT (this "Agreement") by and between AEROQUIP-VICKERS, INC., an Ohio corporation (the "Company"), and _____ (the "Executive"), dated this ___ day of June, 1998.

WITNESSETH THAT:

WHEREAS, the Company recognizes that today's business environment makes it difficult to attract and retain highly qualified executive and key professional personnel unless a degree of security can be offered to those individuals against organizational and personnel changes which frequently follow a change in control of a corporation; and

WHEREAS, even rumors of change-in-control transactions may cause key employees to consider major career changes in an effort to assure financial security for themselves and their families; and

WHEREAS, the Company desires to assure fair treatment of its key employees in the event of a change in control and to allow them to make critical career decisions without undue time pressure and financial uncertainty, increasing their willingness to remain with the Company notwithstanding the outcome of a possible change-in-control transaction; and

WHEREAS, the Company recognizes that many of its key management employees will be involved in evaluating or negotiating any offers, proposals, or other transactions which could result in a change in control of the Company and, recognizing the fiduciary obligations of such executives, believes that it is in the best interests of the Company and its shareholders to provide additional assurance that such key employees are in a position, free from personal economic and employment considerations, to be able as a practical matter to objectively assess and aggressively pursue the interests of the Company's shareholders in making these evaluations and carrying on such negotiations;

NOW THEREFORE, the parties agree as follows:

1. Definitions. When used herein, the following terms shall have the meanings set forth below:

A. "Average Total Compensation" shall mean the sum of the amounts determined under clauses (i) and (ii) below.

(i) The higher of the Executive's annual base salary (without giving effect to any elected deferrals to a plan under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code") or any similar qualified or nonqualified plan) in effect on (x) the day immediately prior to the day on which the Change in Control occurred, or (y) the Executive's Resignation Date or Termination Date, as the case may be.

-33-

(ii) (a) If the Executive has been employed by the Company for the last three full consecutive calendar years, the average of the two highest aggregate short-term annual incentive awards received by the Executive under the Incentive Compensation Plan attributable to services performed by the Executive during any calendar year in the last five full calendar years (without regard to when such awards were paid or accrued); or

(ii) (b) If the Executive has been employed by the Company for at least one, but less than three full consecutive calendar years, the average of the aggregate short-term annual incentive awards received by the Executive under the Incentive Compensation Plan attributable to services performed by the Executive during each full calendar year he has been employed by the Company (without regard to when such awards were paid or accrued); or

(ii) (c) If the Executive has been employed by the Company for less than one full calendar year, the greater of (x) his guaranteed annual incentive compensation or (y) the aggregate short-term annual incentive awards to which the Executive would have been entitled under the Incentive Compensation Plan of which the Executive was a participant on the Termination Date or Resignation Date, as the case may be, if he had worked for one full calendar year at the base salary determined under clause (i) above.

B. A "Beneficial Owner" of Voting Stock is any

Person who would be deemed to beneficially own such Voting Stock within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rules or regulations thereto.

C. "Benefit Period" shall mean a period of two years, commencing with the Termination Date or Resignation Date, except that if the Executive will reach age 65 within two years after the Termination Date or Resignation Date, the Benefit Period shall mean a period of years, including fractional years, commencing with the Termination Date or Resignation Date and ending on the Executive's 65th birthday.

D. "Cause" shall mean that, prior to any Termination, the Executive shall have committed:

(i) an intentional act of fraud, embezzlement or theft in connection with his duties or in the course of his employment with the Company or any Operating Company;

-34-

(ii) intentional wrongful damage to property of the Company or any Operating Company;

(iii) intentional wrongful disclosure of secret processes or confidential information of the Company or any Operating Company; or

(iv) intentional wrongful engagement in any Competitive Activity;

and any such act shall have been materially harmful to the Company. For purposes of this Agreement, no act, or failure to act, on the part of the Executive shall be deemed "intentional" if it was due primarily to an error in judgment or negligence, but shall be deemed "intentional" only if done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding anything in this Agreement to the contrary, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the Board of Directors of the Company (the

"Board") then in office at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive had committed an act set forth above in this Paragraph 1.D and specifying the particulars thereof in detail. Nothing herein shall limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

E. A "Change in Control" shall have occurred if any of the following events shall occur:

(i) The Company is merged, consolidated or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of Voting Stock immediately prior to such transaction;

(ii) The Company sells or otherwise transfers all or substantially all of its assets to another corporation or other legal person and less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transactions are held in the aggregate by the holders of Voting Stock immediately prior to such sale;

-35-

(iii) There is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Exchange Act, disclosing that any Person has become the Beneficial Owner of 20% or more of the Voting Stock;

(iv) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in

control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction;

(v) If during any period of two consecutive years, individuals who at the beginning of any such period constitute the Directors of the Company cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's shareholders, of each Director of the Company first elected during such period was approved by a vote of at least two-thirds of the Directors of the Company then still in office who were Directors of the Company at the beginning of any such period; or

Notwithstanding the foregoing provisions of Paragraph 1.E(iii) or 1.E(iv) hereof, a "Change in Control" shall not be deemed to have occurred for purposes of this Agreement solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting securities, or (iii) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company or any Operating Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 20% or otherwise, or because the Company reports that a change in control of the Company has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

F. "Competitive Activity" means the Executive's participation, without the written consent of an officer of the Company, in the management of any business enterprise if such enterprise engages in substantial and direct competition with the Company and such enterprise's sales of any product or service competitive with any product or service of the Company amounted to 10% of such enterprise's net sales for its most recently completely fiscal year and if the Company's consolidated net sales of said product or service amounted to 10% of the Company's consolidated net sales for

its most recently completed fiscal year. "Competitive Activity" will not include (i) the mere ownership of securities in any such enterprise and the exercise of rights appurtenant thereto or (ii) participation in the management of any such enterprise other than in connection with the competitive operations of such enterprise.

G. "Incentive Compensation Plan" shall mean the plan approved by shareholders of the Company on April 19, 1984 (or any Operating Company Incentive Plan) and any amendments thereto and restatements thereof, or any successor plan that may become effective subsequent to the date of this Agreement and prior to a Change in Control.

H. "Operating Company" shall mean any corporation of which the Company owns directly or indirectly more than 50% of the outstanding stock having by its terms ordinary voting power to elect a majority of the board of directors of such corporation, irrespective of whether at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency.

I. "Person" shall mean any "person," as the term "person" is used and defined in Section 14(d)(2) of the Exchange Act, and any "affiliate" or "associate" of any such person, as the terms "affiliate" and "associate" are defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

J. "Resignation" shall mean resignation by the Executive of his employment with the Company if any of the following has occurred:

(i) Failure to elect or reelect the Executive to the office or the position, or a substantially equivalent office or position of or with the Company and/or an Operating Company which the Executive held immediately prior to the Change in Control, or the removal of the Executive as a Director of the Company (or any successor thereto), if the Executive shall have been a Director of the Company immediately prior to the Change in Control;

(ii) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company or any Operating Company which the Executive held immediately prior to the Change in

Control, a reduction in the aggregate Total Compensation received by the Executive from the Company and any Operating Company in any calendar year following the Change in Control, or the termination of the Executive's rights to any employee benefits to which he was entitled

-37-

immediately prior to the Change in Control or a reduction in scope or value thereof without the prior written consent of the Executive, any of which is not remedied within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that as a result of the Change in Control and a change in circumstances thereafter significantly affecting his position, including without limitation, a change in the scope of the business or other activities for which he was responsible immediately prior to the Change in Control, he has been rendered substantially hindered in the performance of, or has suffered a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or a significant portion of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization or otherwise) to which all or a significant portion of its business and/or assets have been transferred (directly or by operation of law) shall have assumed all duties and obligations of the

Company under this Agreement pursuant to Paragraph 8 hereof;

(v) The Company shall relocate its principal executive offices, or requires the Executive to have his principal location of work changed to any location which is in excess of 25 miles from the location thereof immediately prior to the Change in Control or to travel away from his office in the course of discharging his responsibilities or duties hereunder significantly more (in terms of either consecutive days or aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of the Executive prior to the Change in Control without in either case, his or her prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto.

-38-

K. "Resignation Date" shall be the last day worked by an Executive who resigns his employment with the Company as provided in Paragraph 1.J of this Agreement.

L. "Savings Plans" shall mean the Aeroquip-Vickers Savings and Profit Sharing Plan and the Aeroquip-Vickers Supplemental Benefit Plan and any amendments thereto and restatements thereof, or any successor plans that may become effective subsequent to the date of this agreement and prior to a Change in Control.

M. "Termination" shall mean termination by the Company of the Executive's employment for any reason other than the following:

(i) death;

(ii) Total Disability, as defined in the Company's long-term disability plan then in effect, and the Executive begins actually to receive disability benefits pursuant to such disability plan; or

(iii) Cause.

The Executive may also deem himself to have been terminated under this Paragraph 1.M if the aggregate cash compensation (including base salary) (without giving effect to any elected deferrals to a plan under Section 401(k) of the Code) plus awards under the Incentive Compensation Plan) received by the Executive in any calendar year following a Change in Control is an amount less than the aggregate cash compensation (including base salary (without giving effect to any elected deferrals to a plan under Section 401(k) of the Code) plus awards under the Incentive Compensation Plan) received by the Executive in the full calendar year immediately preceding the Change in Control; provided however, if the Executive was not employed by the Company during all of the full calendar year immediately preceding the Change in Control, the amount referred to above with respect to the full calendar year immediately preceding the Change in Control shall be the sum of the amounts determined pursuant to Paragraphs 1.A(i) and 1.A(ii) (c).

N. "Termination Date" shall be the last day worked by an Executive whose employment with the Company is terminated by the Company other than for the reasons set forth in Subparagraphs 1.M(i), (ii) or (iii) of this Agreement.

O. "Voting Stock" means all outstanding securities of the Company entitled to vote generally in the election of directors of the Company at the time in question.

2. Operation of Agreement. This Agreement will be effective and binding immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not

-39-

be operative unless and until a Change in Control occurs. Upon the occurrence of a Change in Control at any time during the Term, without further action, this Agreement shall become immediately operative.

3. Payments Upon Termination. In the event of Termination within three years after a Change in Control or Resignation between six months and two years after a Change in Control, the Executive shall receive:

A. An amount equal to the Executive's Average Total Compensation, multiplied by the length in years, including

fractional years, of the Benefit Period. This payment shall be made by the Company within thirty calendar days after the Executive's Termination Date or Resignation Date as the case may be.

B. A payment by the Company (or, if applicable, the Company shall cause the appropriate Operating Company to make a payment) in an amount equal to two times the Company's average aggregate contribution to the Executive's accounts in the Savings Plans for the last three full years preceding the Change in Control, to be made within thirty calendar days after the Executive's Termination Date or Resignation Date, as the case may be.

C. During the Benefit Period, the benefits associated with continued participation in the employee health, life insurance, disability income and other welfare benefit plans of the Company and/or any Operating Company in which he was participating immediately prior to the Change in Control, upon provisions substantially similar to or more favorable to the Executive than those contained in the respective plans as of the Termination Date or the Resignation Date; provided, however, that if participation by the Executive in any of such plans is not permitted, due to the requirements for eligibility for participation contained therein, the Company shall (or shall cause the applicable Operating Company to) pay or provide for the payment of the benefits described in those plans to the Executive and/or his dependents, or, if applicable, to his beneficiaries or estate as if he were employed by the Company during the Benefit Period in the position held by him immediately prior to the Change in Control.

D. Reimbursement for the cost of outplacement services rendered to the Executive as part of efforts made by the Executive to obtain employment following his Termination Date or Resignation Date.

E. If the Executive is a Disqualified Individual (as the term "Disqualified Individual" is defined in Section 280G of the Code, or any successor provision thereto) and if any payment to the Executive, whether under this Agreement or otherwise,

would be an Excess Parachute Payment (as the term "Excess Parachute Payment" is defined in Section 280G

of the Code or any successor provision thereto) but for the application of this sentence, then the amount of the payments otherwise payable to the Executive pursuant to this Agreement shall be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of the payments made to the Executive, as so reduced, constitutes an Excess Parachute Payment. The reduction, if any, contemplated by the immediately preceding sentence shall be effected by reducing to the extent necessary the benefits otherwise to be provided by Paragraph 2.C hereof, and then, if necessary, by reducing the benefits otherwise to be provided by Paragraph 2.B hereof, and then, if necessary, by reducing the benefits provided by Paragraph 2.A hereof.

F. The determinations under Paragraph 2.E hereof shall be made by the Company's independent accounting firm.

4. Interest. Without limiting the rights of the Executive at law or in equity, if the Company fails to make any payment or provide any benefit required to be made or provided hereunder on a timely basis, the Company will pay interest on the amount or value thereof at an annualized rate of interest equal to the so-called composite "prime rate" as quoted from time to time during the relevant period in the Midwest Edition of The Wall Street Journal. Such interest will be payable as it accrues on demand. Any change in such prime rate will be effective on and as of the date of such change.

5. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult, and may be impossible, for the Executive to find reasonably comparable employment following the Resignation Date or Termination Date, and the parties desire to avoid possible disputes with respect to mitigation and offset matters. The Company also acknowledges that, particularly in light of Paragraph 3.E hereof, its Board of Directors has, following due consideration of the matter, determined that the benefits provided by Paragraph 3 hereof are reasonable. Accordingly, the parties hereto expressly agree that the payment of the amounts specified in Paragraph 3 hereof by the Company to the Executive in accordance with the terms of this Agreement will be liquidated damages, and that the Executive shall not be required to mitigate the amounts provided for in Paragraph 3 of this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except that the welfare benefits provided by Paragraph 3.C hereof shall be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer following the Executive's Resignation Date or Termination Date, as the case

may be, until the expiration of the Benefit Period.

-41-

6. Arbitration and Legal Expenses. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Toledo, Ohio, in accordance with the laws of the State of Ohio by three arbitrators, one of whom shall be appointed by the Company, one by the Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Northern District of Ohio. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators, which shall be as provided in this Paragraph 6. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the Executive determines in good faith to retain legal counsel and/or incur other reasonable costs or expenses in connection with any such arbitration or to enforce any or all of the Executive's rights under this Agreement or under any arbitration award, the Company shall pay 50% of the first \$10,000 of attorneys' fees, costs and expenses incurred by the Executive in connection with the enforcement of his rights, including the enforcement of any arbitration award in court, regardless of the final outcome. The Company shall pay all such costs and expenses in excess of \$10,000 incurred by the Executive.

7. Competitive Activity. During a period ending one year following the Termination Date or Resignation Date, if the Executive shall have received or shall be receiving benefits under Section 3, the Executive shall not, without the prior written consent of the Company, which consent shall not be unreasonably withheld, engage in any Competitive Activity.

8. Withholding of Taxes. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling.

9. Notices. Any notices, requests, demands and other communications, provided for in or pertinent to this Agreement shall be sufficient if delivered to the other party hereto by means of a written notice, mailed by United States registered or certified mail, return receipt requested, postage prepaid to either the Executive's last known address, or to the Company's

principal executive offices, as the case may be.

10. Governing Law. The provisions of this Agreement shall be construed and governed in accordance with the laws of the State of Ohio without giving effect to the principles of conflict laws of such State.

11. Amendment. This Agreement may be amended or canceled by mutual agreement of the parties in writing without the consent of any other person and, so long as the Executive lives, no person, other than the parties hereto shall have any rights under or interest in this Agreement or the subject matter hereof.

-42-

12. Successors and Binding Agreement.

A. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purposes of this Agreement), but shall not otherwise be assignable, transferable or delegable by the Company.

B. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors administrators, successors, heirs, distributees and/or legatees.

C. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Paragraph 12.A hereof. Without limiting the generality of the foregoing, the Executive's right to receive payments hereunder shall not be assignable, transferrable or delegable, whether by pledge, creation of a security

interest or otherwise, other than by a transfer by his will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Paragraph 12.C, the Company shall have no liability to pay any amount so attempted to be assigned, transferred or delegated.

13. Validity. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstances shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent (and only to the extent) necessary to make it enforceable, valid and legal.

14. Scope of Agreement. This Agreement is not a contract for employment for any period of time, does not constitute a guarantee of employment and shall not be deemed to confer any benefit on the Executive in the absence of a Change in Control.

-43-

15. Survival. Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 3, 4 and 6 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever.

16. Term. The period during which this Agreement shall be in effect (the "Term") shall commence as of the date hereof and shall expire as of the latest of (i) December 31 of the second calendar year after the calendar year in which this Agreement is executed; (ii) the expiration of the Benefit Period; and (iii) three years after the date of the first Change in Control; provided, however, in the absence of a Change in Control that (A) commencing on January 1 of the calendar year after the calendar year in which this Agreement is executed and each January 1 thereafter, the date specified in clause (i) above shall be automatically extended for an additional year unless, not later than September 30 of the immediately preceding year, the Company or the Executive shall have given notice that it or he, as the case may be, does not wish to have the Term extended and (B) subject to Paragraph 14 hereof, if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company, whether or not the Executive then becomes or continues to be an employee of an Operating Company, thereupon the Term shall be deemed to have

expired and this Agreement shall immediately terminate and be of no further effect.

17. Prior Agreement. This Agreement amends and restates the Agreement, dated as of _____, ____ (the "Prior Agreement"), between the Company and the Executive, which Prior Agreement shall, without further action, be superseded as of the date first above written.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its assistant secretary, all as of the day and year first above written.

Executive

ATTEST:

AEROQUIP-VICKERS, INC.

Assistant Secretary

By: _____
Darryl F. Allen
Chairman, President &
Chief Executive Officer

(Seal)

CHANGE-IN-CONTROL SEVERANCE AGREEMENT

THIS AMENDED AND RESTATED CHANGE-IN-CONTROL SEVERANCE AGREEMENT (this "Agreement") by and between AEROQUIP-VICKERS, INC., an Ohio corporation (the "Company"), and _____ (the "Executive"), dated this _____ day of June, 1998.

WITNESSETH THAT:

WHEREAS, the Company recognizes that today's business environment makes it difficult to attract and retain highly qualified executive and key professional personnel unless a degree of security can be offered to those individuals against organizational and personnel changes which frequently follow a change in control of a corporation; and

WHEREAS, even rumors of change-in-control transactions may cause key employees to consider major career changes in an effort to assure financial security for themselves and their families; and

WHEREAS, the Company desires to assure fair treatment of its key employees in the event of a change in control and to allow them to make critical career decisions without undue time pressure and financial uncertainty, increasing their willingness to remain with the Company notwithstanding the outcome of a possible change-in-control transaction; and

WHEREAS, the Company recognizes that many of its key management employees will be involved in evaluating or negotiating any offers, proposals, or other transactions which could result in a change in control of the Company and, recognizing the fiduciary obligations of such executives, believes that it is in the best interests of the Company and its shareholders to provide additional assurance that such key employees are in a position, free from personal economic and employment considerations, to be able as a practical matter to objectively assess and aggressively pursue the interests of the Company's shareholders in making these evaluations and carrying on such negotiations;

NOW THEREFORE, the parties agree as follows:

1. Definitions. When used herein, the following terms shall have the meanings set forth below:

A. "Average Total Compensation" shall mean the sum of the amounts determined under clauses (i) and (ii) below.

(i) The higher of the Executive's annual base salary (without giving effect to any elected deferrals to a plan under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code") or any

-45-

similar qualified or nonqualified plan) in effect on (x) the day immediately prior to the day on which the Change in Control occurred, or (y) the Executive's Termination Date.

(ii) (a) If the Executive has been employed by the Company for the last three full consecutive calendar years, the average of the two highest aggregate short-term annual incentive awards received by the Executive under the Incentive Compensation Plan attributable to services performed by the Executive during any calendar year in the last five full calendar years (without regard to when such awards were paid or accrued); or

(ii) (b) If the Executive has been employed by the Company for at least one, but less than three full consecutive calendar years, the average of the aggregate short-term annual incentive awards received by the Executive under the Incentive Compensation Plan attributable to services performed by the Executive during each full calendar year he has been employed by the Company (without regard to when such awards were paid or accrued); or

(ii) (c) If the Executive has been employed by the Company for less than one full calendar year, the greater of (x) his guaranteed annual incentive compensation or (y) the aggregate short-term annual incentive awards to which the Executive would have been entitled under the Incentive Compensation Plan of which the Executive was a participant on the Termination Date, if he had worked for one full calendar year at the base

salary determined under clause (i) above.

B. A "Beneficial Owner" of Voting Stock is any Person who would be deemed to beneficially own such Voting Stock within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rules or regulations thereto.

C. "Benefit Period" shall mean a period of one year, commencing with the Termination Date, except that if the Executive will reach age 65 within one year after the Termination Date, the Benefit Period shall mean a period of a fractional year, commencing with the Termination Date and ending on the Executive's 65th birthday.

D. "Cause" shall mean that, prior to any Termination, the Executive shall have committed:

(i) an intentional act of fraud, embezzlement or theft in connection with his duties or in the course of his employment with the Company or any Operating Company;

-46-

(ii) intentional wrongful damage to property of the Company or any Operating Company;

(iii) intentional wrongful disclosure of secret processes or confidential information of the Company or any Operating Company; or

(iv) intentional wrongful engagement in any Competitive Activity;

and any such act shall have been materially harmful to the Company. For purposes of this Agreement, no act, or failure to act, on the part of the Executive shall be deemed "intentional" if it was due primarily to an error in judgment or negligence, but shall be deemed "intentional" only if done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding anything in this Agreement to the contrary, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly

adopted by the affirmative vote of not less than three-quarters of the Board of Directors of the Company (the "Board") then in office at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive had committed an act set forth above in this Paragraph 1.D and specifying the particulars thereof in detail. Nothing herein shall limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

E. A "Change in Control" shall have occurred if there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor, schedule, form or report), each as promulgated pursuant to the Exchange Act, disclosing that any Person has become the Beneficial Owner of 20% or more of the Voting Stock; provided, however, that in the event that prior to Termination Date, such Person files a report on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report) disclosing that it is no longer a Beneficial Owner of 20% or more of the Voting Stock, then a "Change in Control" shall not be deemed to have occurred for the purposes of this Agreement.

Notwithstanding the foregoing provisions of Paragraph 1.E, a "Change in Control" shall not be deemed to have occurred for purposes of this Agreement solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting securities, or (iii) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company or any

-47-

Operating Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 20% or otherwise, or because the Company reports that a change in control of the Company has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

F. "Competitive Activity" means the Executive's

participation, without the written consent of an officer of the Company, in the management of any business enterprise if such enterprise engages in substantial and direct competition with the Company and such enterprise's sales of any product or service competitive with any product or service of the Company amounted to 10% of such enterprise's net sales for its most recently completely fiscal year and if the Company's consolidated net sales of said product or service amounted to 10% of the Company's consolidated net sales for its most recently completed fiscal year. "Competitive Activity" will not include (i) the mere ownership of securities in any such enterprise and the exercise of rights appurtenant thereto or (ii) participation in the management of any such enterprise other than in connection with the competitive operations of such enterprise.

G. "Incentive Compensation Plan" shall mean the plan approved by shareholders of the Company on April 19, 1984 (or any Operating Company Incentive Plan) and any amendments thereto and restatements thereof, or any successor plan that may become effective subsequent to the date of this Agreement and prior to a Change in Control.

H. "Operating Company" shall mean any corporation of which the Company owns directly or indirectly more than 50% of the outstanding stock having by its terms ordinary voting power to elect a majority of the board of directors of such corporation, irrespective of whether at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency.

I. "Person" shall mean any "person," as the term "person" is used and defined in Section 14(d)(2) of the Exchange Act, and any "affiliate" or "associate" of any such person, as the terms "affiliate" and "associate" are defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

-48-

J. "Savings Plans" shall mean the Aeroquip-Vickers Savings and Profit Sharing Plan and the Aeroquip-Vickers Supplemental Benefit Plan and any amendments thereto and restatements thereof, or any successor plans that may become effective subsequent to the date of this agreement and prior to a Change in Control.

K. "Termination" shall mean termination by the Company of the Executive's employment for any reason other than the following:

(i) death;

(ii) Total Disability, as defined in the Company's long-term disability plan then in effect, and the Executive begins actually to receive disability benefits pursuant to such disability plan; or

(iii) Cause.

The Executive may also deem himself to have been terminated under this Paragraph 1.K if the aggregate cash compensation (including base salary) (without giving effect to any elected deferrals to a plan under Section 401(k) of the Code) plus awards under the Incentive Compensation Plan) received by the Executive in any calendar year following a Change in Control is an amount less than the aggregate cash compensation (including base salary (without giving effect to any elected deferrals to a plan under Section 401(k) of the Code) plus awards under the Incentive Compensation Plan) received by the Executive in the full calendar year immediately preceding the Change in Control; provided however, if the Executive was not employed by the Company during all of the full calendar year immediately preceding the Change in Control, the amount referred to above with respect to the full calendar year immediately preceding the Change in Control shall be the sum of the amounts determined pursuant to Paragraphs 1.A(i) and 1.A(ii) (c).

L. "Termination Date" shall be the last day worked by an Executive whose employment with the Company is terminated by the Company other than for the reasons set forth in Subparagraphs 1.K(i), (ii) or (iii) of this Agreement.

M. "Voting Stock" means all outstanding securities of the Company entitled to vote generally in the election of directors of the Company at the time in question.

2. Operation of Agreement. This Agreement will be effective and binding immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the occurrence of a Change in Control at any time during the Term, without further action, this Agreement shall become immediately operative.

3. Payments Upon Termination. In the event of Termination within three years after the Change in Control, the Executive shall receive:

A. An amount equal to the Executive's Average Total Compensation, multiplied by the length, by a year or a fractional year, of the Benefit Period. This payment shall be made by the Company within thirty calendar days after the Executive's Termination Date.

B. A payment by the Company (or, if applicable, the Company shall cause the appropriate Operating Company to make a payment) in an amount equal to one times the Company's average aggregate contribution to the Executive's accounts in the Savings Plans for the last three full years preceding the Change in Control, to be made within thirty calendar days after the Executive's Termination Date.

C. During the Benefit Period, the benefits associated with continued participation in the employee health, life insurance, disability income and other welfare benefit plans of the Company and/or any Operating Company in which he was participating immediately prior to the Change in Control, upon provisions substantially similar to one or more favorable to the Executive than those contained in the respective plans as of the Termination Date; provided, however, that if participation by the Executive in any of such plans is not permitted, due to the requirements for eligibility for participation contained therein, the Company shall (or shall cause the applicable Operating Company to) pay or provide for the payment of the benefits described in those plans to the Executive and/or his dependents, or if applicable, to his beneficiaries or estate as if he were employed by the Company during the Benefit Period in the position held by him immediately prior to the Change in Control.

D. Reimbursement for the cost of outplacement services rendered to the Executive as part of efforts made by the Executive to obtain employment following his Termination Date.

E. If the Executive is a Disqualified Individual (as the term "Disqualified Individual" is defined in Section

280G of the Code, or any successor provision thereto) and if any payment to the Executive, whether under this Agreement or otherwise, would be an Excess Parachute Payment (as the term "Excess Parachute Payment" is defined in Section 280G of the Code or any successor provision thereto) but for the application of this sentence, then the amount of the payments otherwise payable to the Executive pursuant to this Agreement shall be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of the payments made to the Executive, as so reduced, constitutes an Excess Parachute Payment. The reduction, if any, contemplated by the immediately preceding sentence shall be effected by

-50-

reducing to the extent necessary the benefits otherwise to be provided by Paragraph 2.C hereof, and then, if necessary, by reducing the benefits otherwise to be provided by Paragraph 2.B hereof, and then, if necessary, by reducing the benefits provided by Paragraph 2.A hereof.

F. The determinations under Paragraph 2.E hereof shall be made by the Company's independent accounting firm.

4. Interest. Without limiting the rights of the Executive at law or in equity, if the Company fails to make any payment or provide any benefit required to be made or provided hereunder on a timely basis, the Company will pay interest on the amount or value thereof at an annualized rate of interest equal to the so-called composite "prime rate" as quoted from time to time during the relevant period in the Midwest Edition of The Wall Street Journal. Such interest will be payable as it accrues on demand. Any change in such prime rate will be effective on and as of the date of such change.

5. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult, and may be impossible, for the Executive to find reasonably comparable employment following the Termination Date, and the parties desire to avoid possible disputes with respect to mitigation and offset matters. The Company also acknowledges that, particularly in light of Paragraph 3.E hereof, its Board of Directors has, following due consideration of the matter, determined that the benefits provided by Paragraph 3 hereof are reasonable. Accordingly, the parties hereto expressly agree that the payment of the amounts specified in Paragraph 3 hereof by the Company to the Executive in accordance with the terms of this Agreement will be liquidated

damages, and that the Executive shall not be required to mitigate the amounts provided for in Paragraph 3 of this Agreement by seeking other employment or otherwise, nor shall nay profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except that the welfare benefits provided by Paragraph 3.C hereof shall be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer following the Executive's Termination Date until the expiration of the Benefit Period.

6. Arbitration and Legal Expenses. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Toledo, Ohio, in accordance with the laws of the State of Ohio by three arbitrators, one of whom shall be appointed by the Company, one by the Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Northern District of Ohio. The

-51-

arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators, which shall be as provided in this Paragraph 6. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the Executive determines in good faith to retain legal counsel and/or incur other reasonable costs or expenses in connection with any such arbitration or to enforce any or all of the Executive's rights under this Agreement or under any arbitration award, the Company shall pay 50% of the first \$10,000 of attorneys' fees, costs and expenses incurred by the Executive in connection with the enforcement of his rights, including the enforcement of any arbitration award in court, regardless of the final outcome. The Company shall pay all such costs and expenses in excess of \$10,000 incurred by the Executive.

7. Competitive Activity. During a period ending one year following the Termination Date, if the Executive shall have received or shall be receiving benefits under Section 3, the Executive shall not, without the prior written consent of the Company, which consent shall not be unreasonably withheld, engage in any Competitive Activity.

8. Withholding of Taxes. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling.

9. Notices. Any notices, requests, demands and other communications, provided for in or pertinent to this Agreement shall be sufficient if delivered to the other party hereto by means of a written notice, mailed by United States registered or certified mail, return receipt requested, postage prepaid to either the Executive's last known address, or to the Company's principal executive offices, as the case may be.

10. Governing Law. The provisions of this Agreement shall be construed and governed in accordance with the laws of the State of Ohio without giving effect to the principles of conflict laws of such State.

11. Amendment. This Agreement may be amended or canceled by mutual agreement of the parties in writing without the consent of any other person and, so long as the Executive lives, no person, other than the parties hereto shall have any rights under or interest in this Agreement or the subject matter hereof.

12. Successors and Binding Agreement.

A. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform

-52-

if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purposes of this Agreement), but shall not otherwise be assignable, transferable or delegable by the Company.

B. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors administrators, successors, heirs, distributees and/or legatees.

C. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Paragraph 12.A hereof. Without limiting the generality of the foregoing, the Executive's right to receive payments hereunder shall not be assignable, transferrable or delegable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by his will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Paragraph 12.C, the Company shall have no liability to pay any amount so attempted to be assigned, transferred or delegated.

13. Validity. If any provision of this Agreement or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstances shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent (and only to the extent) necessary to make it enforceable, valid and legal.

14. Scope of Agreement. This Agreement is not a contract for employment for any period of time, does not constitute a guarantee of employment and shall not be deemed to confer any benefit on the Executive in the absence of a Change in Control.

15. Survival. Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 3, 4 and 6 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever.

16. Term. The period during which this Agreement shall be in effect (the "Term") shall commence as of the date hereof and shall expire as of the latest of (i) December 31 of the second calendar year after the calendar year in which this Agreement is executed; (ii) the expiration of the Benefit Period; and (iii) three years after

the date of the first Change in Control; provided, however, in the absence of a Change in Control that (A) commencing on January 1 of the calendar year after the calendar year in which this Agreement is executed and each January 1 thereafter, the date specified in clause (i) above shall be automatically extended for an additional year unless, not later than September 30 of the immediately preceding year, the Company or the Executive shall have given notice that it or he, as the case may be, does not wish to have the Term extended and (B) subject to Paragraph 14 hereof, if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company, whether or not the Executive then becomes or continues to be an employee of an Operating Company, thereupon the Term shall be deemed to have expired and this Agreement shall immediately terminate and be of no further effect.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its assistant secretary, all as of the day and year first above written.

Executive

ATTEST:

AEROQUIP-VICKERS, INC.

Secretary

By: _____
Darryl F. Allen
Chairman, President &
Chief Executive Officer

(Seal)

EXHIBIT 12

<TABLE>

STATEMENT RE: COMPUTATION OF RATIOS

Aeroquip-Vickers, Inc.

(Dollars in thousands)

<CAPTION>

	Six Months Ended June 30 1998	Year Ended December 31				
	1997	1996	1995	1994	1993	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
RATIO OF EARNINGS TO FIXED CHARGES						
Income before income taxes and cumulative effect of accounting change	\$101,514	\$148,153	\$153,421	\$128,196	\$101,255	\$ 17,111
Dividends received, net of equity in earnings (loss) of unconsolidated affiliates	563	1,605	9,961	(3,704)	1,213	1
Fixed charges	25,485	46,034	41,712	31,762	30,249	33,370
	-----	-----	-----	-----	-----	-----
Income before cumulative effect of accounting change for computation purposes	\$127,562	\$195,792	\$205,094	\$156,254	\$132,717	\$ 50,482
	=====	=====	=====	=====	=====	=====
FIXED CHARGES						
Interest expense, including interest related to corporate owned life insurance	\$ 19,337	\$ 37,971	\$ 34,963	\$ 24,477	\$ 22,582	\$ 25,516
Portion of rent expense representing interest	3,545	6,819	6,288	6,903	7,303	7,490
Amortization of debt expense and debt discount	2,603	1,244	461	382	364	364
	-----	-----	-----	-----	-----	-----
Total fixed charges	\$ 25,485	\$ 46,034	\$ 41,712	\$ 31,762	\$ 30,249	\$ 33,370
	=====	=====	=====	=====	=====	=====
Ratio of Earnings to Fixed Charges	5.0x	4.3x	4.9x	4.9x	4.4x	1.5x
	=====	=====	=====	=====	=====	=====

<FN>

For the purpose of computing the ratio of earnings to fixed charges,
"earnings" consist of income before income taxes and cumulative effect of

accounting change, plus fixed charges and dividends received, net of equity in earnings (loss) of unconsolidated affiliates. Fixed charges consists of interest expense, the portion of rent expense representing interest and amortization of debt discount.

</FN>
</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF FINANCIAL POSITION AND THE CONDENSED STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>

<C>

<PERIOD-TYPE>

9-MOS

<FISCAL-YEAR-END>

DEC-31-1997

<PERIOD-END>

SEP-30-1997

<CASH>

31,112

<SECURITIES>

0

<RECEIVABLES>

370,415

<ALLOWANCES>

(14,171)

<INVENTORY>

284,739

<CURRENT-ASSETS>

728,788

<PP&E>

984,786

<DEPRECIATION>

536,728

<TOTAL-ASSETS>

1,365,291

<CURRENT-LIABILITIES>

451,225

<BONDS>

257,628

<COMMON>

141,150

<PREFERRED-MANDATORY>

0

<PREFERRED>

0

<OTHER-SE>

350,160

<TOTAL-LIABILITY-AND-EQUITY>

1,365,291

<SALES>

1,589,481

<TOTAL-REVENUES>

1,589,481

<CGS>

1,175,563

<TOTAL-COSTS>

1,175,563

<OTHER-EXPENSES>

30,000

<LOSS-PROVISION>

0

<INTEREST-EXPENSE>

20,610

<INCOME-PRETAX>

101,228

<INCOME-TAX>

31,800

<INCOME-CONTINUING>

69,428

<DISCONTINUED>

0

<EXTRAORDINARY>

0

<CHANGES>

0

<NET-INCOME>

69,428

<EPS-PRIMARY>

2.41

<EPS-DILUTED>

2.41

</TABLE>