UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from__________ to __________

Commission File number 1-4982

PARKER-HANNIFIN CORPORATION
(Exact name of registrant as specified in its charter)

OHIO **(State or other jurisdiction of incorporation or organization)**	**34-0451060** **(IRS Employer Identification No.)**
6035 Parkland Blvd., Cleveland, Ohio **(Address of principal executive offices)**	**44124-4141** **(Zip Code)**

Registrant's telephone number, including area code: (216) 896-3000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Number of Common Shares outstanding at September 30, 2003 118,572,896

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
Net sales	$ 1,586,918	$ 1,585,904
Cost of sales	1,298,776	1,299,890
Gross profit	288,142	286,014
Selling, general and administrative expenses	180,204	176,255
Interest expense	21,780	19,694
Interest and other expense (income), net	1,545	(1,626)
Income before income taxes	84,613	91,691
Income taxes	27,922	30,716
Net income	$ 56,691	$ 60,975
Earnings per share – basic	$ .48	$ .52
Earnings per share – diluted	$ .48	$ .52
Cash dividends per common share	$ .19	$ .18

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

	September 30, 2003	June 30, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 205,409	$ 245,850
Accounts receivable, net	967,866	1,002,060
Inventories:		
Finished products	502,063	475,057
Work in process	370,731	399,574
Raw materials	118,512	122,536
	991,306	997,167
Prepaid expenses	38,876	51,949
Deferred income taxes	102,498	99,781
Total current assets	2,305,955	2,396,807
Plant and equipment	3,566,281	3,536,783
Less accumulated depreciation	1,933,718	1,879,358
	1,632,563	1,657,425
Goodwill	1,113,603	1,108,610
Intangible assets, net	57,765	59,444
Other assets	772,706	763,347
Total assets	$ 5,882,592	$ 5,985,633
LIABILITIES		
Current liabilities:		
Notes payable	$ 289,041	$ 424,235
Accounts payable, trade	415,380	437,103
Accrued liabilities	466,453	497,295
Accrued domestic and foreign taxes	85,489	65,094
Total current liabilities	1,256,363	1,423,727
Long-term debt	956,356	966,332
Pensions and other postretirement benefits	922,768	920,420
Deferred income taxes	16,975	20,780
Other liabilities	142,269	133,463
Total liabilities	3,294,731	3,464,722
SHAREHOLDERS' EQUITY		
Serial preferred stock, $.50 par value; authorized 3,000,000 shares; none issued	—	—
Common stock, $.50 par value; authorized 600,000,000 shares; issued 118,682,516 shares at September 30 and 118,285,736 shares at June 30	59,341	59,143
Additional capital	402,163	389,021
Retained earnings	2,618,828	2,584,268
Unearned compensation related to guarantee of ESOP debt	(57,662)	(63,418)
Deferred compensation related to stock options	2,347	2,347
Accumulated other comprehensive (loss)	(433,015)	(445,982)
	2,592,002	2,525,379
Less treasury shares, at cost:		
109,620 shares at September 30 and 120,637 shares at June 30	(4,141)	(4,468)
Total shareholders' equity	2,587,861	2,520,911
Total liabilities and shareholders' equity	$ 5,882,592	$ 5,985,633

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 56,691	$ 60,975
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	60,916	60,902
Amortization	2,463	3,171
Deferred income taxes	(6,285)	11,726
Foreign currency transaction (gain) loss	(216)	3,757
Loss on sale of plant and equipment	1,010	82
Changes in assets and liabilities:		
Accounts receivable	39,016	55,260
Inventories	10,511	1,373
Prepaid expenses	12,990	3,879
Other assets	(6,067)	23,554
Accounts payable, trade	(23,058)	(29,811)
Accrued payrolls and other compensation	(35,169)	(35,900)
Accrued domestic and foreign taxes	16,170	11,266
Other accrued liabilities	4,965	(7,949)
Pensions and other postretirement benefits	734	(5,978)
Other liabilities	9,361	(11,154)
Net cash provided by operating activities	144,032	145,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions (less acquired cash of $8 in 2002)		(1,987)
Capital expenditures	(36,799)	(38,614)
Proceeds from sale of plant and equipment	4,148	2,216
Other	1,074	2,717
Net cash (used in) investing activities	(31,577)	(35,668)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from common share activity	13,668	845
Payments of notes payable, net	(4,627)	(89,639)
Proceeds from long-term borrowings	167	10
Payments of long-term borrowings	(141,187)	(585)
Dividends	(22,131)	(20,842)
Net cash (used in) financing activities	(154,110)	(110,211)
Effect of exchange rate changes on cash	1,214	72
Net decrease in cash and cash equivalents	(40,441)	(654)
Cash and cash equivalents at beginning of year	245,850	46,384
Cash and cash equivalents at end of period	$ 205,409	$ 45,730

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
BUSINESS SEGMENT INFORMATION BY INDUSTRY
(Dollars in thousands)
(Unaudited)

The Company operates in two principal business segments: Industrial and Aerospace. The Industrial Segment is the largest and includes a significant portion of International operations.

Industrial - This segment produces a broad range of motion control and fluid systems and components used in all kinds of manufacturing, packaging, processing, transportation, mobile construction, agricultural and military machinery and equipment. Sales are made directly to major original equipment manufacturers (OEMs) and through a broad distribution network to smaller OEMs and the aftermarket.

Aerospace - This segment designs and manufactures products and provides aftermarket support for commercial, military and general aviation aircraft, missile and spacecraft markets. The Aerospace Segment provides a full range of systems and components for hydraulic, pneumatic and fuel applications.

The Company also reports a Climate & Industrial Controls Segment and an Other Segment. The Climate & Industrial Controls Segment consists of several business units which manufacture motion-control systems and components for use primarily in the refrigeration and air conditioning and transportion industries. The Other Segment consists of a business unit which designs and manufactures custom-engineered buildings and a business unit which develops and manufactures chemical car care and industrial products.

Certain prior period amounts have been reclassified to conform to the current year presentation.

Business Segment Results by Industry

	Three Months Ended September 30,	
	2003	**2002**
Net sales		
Industrial:		
North America	$ 685,341	$ 727,577
International	422,058	365,659
Aerospace	266,833	277,321
Climate & Industrial Controls	155,950	164,738
Other	56,736	50,609
Total	$ 1,586,918	$ 1,585,904
Segment operating income		
Industrial:		
North America	$ 46,607	$ 51,045
International	31,299	26,646
Aerospace	33,955	42,533
Climate & Industrial Controls	17,514	15,012
Other	5,734	3,832
Total segment operating income	135,109	139,068
Corporate general and administrative expenses	22,962	20,098
Income before interest expense and other	112,147	118,970
Interest expense	21,780	19,694
Other expense	5,754	7,585
Income before income taxes	$ 84,613	$ 91,691

PARKER-HANNIFIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except per share amounts

1. Management representation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2003, the results of operations for the three months ended September 30, 2003 and 2002 and cash flows for the three months then ended. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2003 Annual Report on Form 10-K. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year.

2. Adoption of new accounting pronouncements

Effective July 1, 2003 the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The implementation of these accounting pronouncements did not have a material effect on the Company's results of operations, financial position or cash flows.

3. Stock Incentive Plans

The Company continues to apply the intrinsic-value based method to account for stock options and makes no charges against earnings with respect to options granted. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period.

	Three Months Ended September 30,	
	2003	2002
Net income, as reported	$56,691	$ 60,975
Add: Stock-based employee compensation expense included in reported net income, net of tax	1,141	(355)
Deduct: Total stock-based employee compensation expense determined under fair value method, net of tax	5,767	4,122
Pro forma net income	$52,065	$ 56,498
Earnings per share:		
Basic – as reported	$ .48	$ .52
Basic – pro forma	$ .44	$ .48
Diluted – as reported	$ .48	$ .52
Diluted – pro forma	$ .44	$ .48

4. Product warranty

In the ordinary course of business, the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual as of September 30, 2003 and June 30, 2003 is immaterial to the financial position of the Company and the change in the accrual for the current quarter is immaterial to the Company's results of operations and cash flows.

5. Earnings per share

The following table presents a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three months ended September 30, 2003 and 2002.

	Three Months Ended September 30,	
	2003	**2002**
Numerator:		
Net income applicable to common shares	$ 56,691	$ 60,975
Denominator:		
Basic – weighted average common shares	116,903,693	116,232,630
Increase in weighted average from dilutive effect of exercise of stock options	866,050	375,105
Diluted – weighted average common shares, assuming exercise of stock options	117,769,743	116,607,735
Basic earnings per share	$ .48	$ .52
Diluted earnings per share	$ .48	$ .52

At September 30, 2003 and 2002, 1,143,510 and 4,050,054 common shares, respectively, subject to stock options were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

6. Stock repurchase program

The Board of Directors has approved a program to repurchase the Company's common stock on the open market, at prevailing prices. The repurchase is primarily funded from operating cash flows and the shares are initially held as treasury stock. The Company did not purchase any shares of its common stock during the three-month period ended September 30, 2003.

7. Comprehensive income

The Company's items of other comprehensive income (loss) are foreign currency translation adjustments and unrealized gains (losses) on marketable securities. Comprehensive income for the three months ended September 30, 2003 and 2002 was as follows:

	Three Months Ended September 30,	
	2003	**2002**
Net income	$56,691	$ 60,975
Foreign currency translation adjustments	12,450	(17,916)
Unrealized gain on marketable securities (net of taxes of $312 in 2003 and $85 in 2002)	517	140
Comprehensive income	$69,658	$ 43,199

8. Business realignment charges

During the first quarter of fiscal 2004, the Company recorded a $6,940 charge ($4,650 after-tax or $.04 per share) for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions will positively impact future results of operations but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to severance costs attributable to 525 employees in the Industrial Segment. The majority of the severance payments have been made with the remaining payments expected to be made by June 30, 2004. The business realignment costs are presented in the Consolidated Statement of Income for the three months ended September 30, 2003 as follows: $6,815 in Cost of sales and $125 in Selling, general and administrative expenses.

During the first quarter of fiscal 2003, the Company recorded a $2,394 charge ($1,699 after-tax or $.01 per share) for the costs of appropriately structuring its businesses to operate in their then current economic environment. The charge primarily related to severance costs attributable to 123 employees in the Industrial Segment. All severance payments have been made. The business realignment costs are presented in the Consolidated Statement of Income for the three months ended September 30, 2002 as follows: $1,539 in Cost of sales and $855 in Selling, general and administrative expenses.

9. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2003 are as follows:

	Industrial Segment	Aerospace Segment	Climate & Industrial Controls Segment	Other Segment	Total
Balance June 30, 2003	$841,296	$76,255	$95,582	$95,477	$1,108,610
Foreign currency translation	4,079	164	430	928	5,601
Goodwill adjustments	(608)				(608)
Balance September 30, 2003	$844,767	$76,419	$96,012	$96,405	$1,113,603

"Goodwill adjustments" primarily represent final adjustments to the purchase price allocation for acquisitions completed within the last twelve months.

Intangible assets are amortized on the straight-line method over their legal or estimated useful lives. The following summarizes the gross carrying value and accumulated amortization for each major category of intangible assets:

	September 30, 2003		June 30, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$26,426	$ 12,737	$26,472	$ 12,264
Trademarks	21,203	1,972	21,159	1,702
Engineering drawings and other	32,151	7,306	32,112	6,333
Total	$79,780	$ 22,015	$79,743	$ 20,299

Total intangible amortization expense for the three months ended September 30, 2003 was $1,432. The estimated amortization expense for the five years ending June 30, 2004 through 2008 is $6,738, $6,259, $5,770, $4,733 and $3,179, respectively.

PARKER-HANNIFIN CORPORATION

FORM 10-Q
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 2002

CONSOLIDATED STATEMENT OF INCOME

Net sales for the first quarter of fiscal 2004 were $1,586.9 million, a slight increase over prior-year first quarter sales of $1,585.9 million. Lower unit volume across most businesses was offset by the favorable effect of currency-rate changes.

Income from operations in the current quarter was $107.9 million, a 1.7 percent decrease over the prior-year quarter income from operations of $109.8 million. As a percent of sales, current-year operating income decreased to 6.8 percent from 6.9 percent in the prior year. Cost of sales, as a percent of sales, decreased slightly to 81.8 percent from 82.0 percent. Included in current-year and prior-year income from operations was $6.9 million and $2.4 million, respectively, in business realignment charges (see Note 8 on page 8 for further discussion). The increase in margins reflects operating efficiencies experienced in the Industrial and Climate & Industrial Controls Segments partially offset by lower volume in the Aerospace Segment. Selling, general and administrative expenses, as a percent of sales, were 11.4 percent compared to 11.1 percent in the prior year. The increase in selling, general and administrative expenses is primarily due to higher expenses related to employee health and welfare plans.

Interest expense for the current-year quarter increased 10.6 percent due primarily to higher weighted-average interest rates and expenses associated with renewing the Company's revolving credit agreement.

Interest and other expense (income), net includes gains and losses related to fixed asset disposals.

The effective tax rate decreased to 33.0 percent for the current-year quarter, compared to 33.5 percent in the prior-year quarter.

Net income for the quarter was $56.7 million compared to $61.0 million in the prior year. Net income decreased to 3.6 percent of sales compared to 3.8 percent in the prior-year. Net income in the current year quarter was adversely affected by an additional expense of approximately $6.2 million related to domestic qualified defined benefit plans, resulting primarily from a lower market value of plan assets and changes in actuarial assumptions regarding the discount rate and long-term rate of return on plan assets.

Backlog increased to $1.82 billion at September 30, 2003 compared to $1.81 billion in the prior year and $1.80 billion at June 30, 2003. The increase in backlog reflects an increase in order rates in the military-related businesses in the Aerospace and Industrial Segments.

RESULTS BY BUSINESS SEGMENT

INDUSTRIAL – Net sales of the Industrial Segment increased 1.3 percent to $1,107.4 million compared to $1,093.2 million in the first quarter of fiscal 2003. Industrial North American sales decreased 5.8 percent and Industrial International sales increased 15.4 percent. Currency rate changes accounted for approximately 80 percent of the Industrial International sales increase. The decrease in Industrial North American sales reflects lower end-user demand experienced across most of the Industrial North American markets, particularly in the semi-conductor manufacturing, agriculture, heavy-duty truck and mobile equipment markets. The increase in International Industrial sales is attributed to higher volume across most markets in Latin America and the Asia Pacific region while sales in Europe were flat.

Operating income for the Industrial Segment increased slightly to $77.9 million compared to $77.7 million in the prior year with Industrial North American operating income decreasing 8.7 percent and Industrial International operating income increasing 17.5 percent. Industrial North American operating income, as a percent of sales, declined to 6.8 percent from 7.0 percent in the prior year. Industrial International operating income, as a percent of sales, increased to 7.4 percent from 7.3 percent in the prior year. The decrease in Industrial North American margins is primarily due to the lower sales volume as well as the higher business realignment charges recorded during the current-year quarter partially offset by benefits realized from the Company's financial performance initiatives and benefits from past business realignment actions. The increase in Industrial International margins is due to the higher sales volume and benefits from past business realignment actions, including expanded production in low-cost countries.

Included in Industrial North American current-year and prior-year operating income was $3.7 million and $0.6 million, respectively, of business realignment charges and included in Industrial International current-year and prior-year operating income was $3.0 million and $1.1 million, respectively, of business realignment charges. These charges were made as a result of actions the Company took to appropriately structure the Industrial operations to operate in their current economic environment and primarily consisted of severance costs.

Industrial Segment backlog was $655.4 million at September 30, 2003, compared to $639.1 million a year ago and $638.8 million at June 30, 2003. The increase in backlog is primarily due to higher order rates in certain Industrial North American operations that provide products to the military market.

The Company is not anticipating any discernable change in the economic conditions in the markets served by the Industrial Segment for the remainder of fiscal year 2004. Sales volume is expected to be nominally higher than the same periods of fiscal 2003 and operating income is expected to improve as a result of the Company's financial performance initiatives and improvements stemming from recent business realignment actions. The Company expects to continue to take the actions necessary to structure appropriately the Industrial Segment operations to operate in their current economic environment. Such actions may include the necessity to record additional business realignment charges in fiscal 2004.

AEROSPACE – Net sales of the Aerospace Segment decreased 3.8 percent to $266.8 million compared to $277.3 million in the prior year. Operating income decreased 20.2 percent to $34.0 million compared to $42.5 million in the prior year. The decrease in sales is primarily due to a decline in both commercial original equipment manufacturer (OEM) and aftermarket volume as well as the absence of sales from a product line divested in June 2003, partially offset by an increase in military volume. The lower margins were primarily due to product mix as well as the overall lower sales volume, resulting in lower capacity utilization.

Backlog for the Aerospace Segment was $1,018.0 million at September 30, 2003 compared to $1,019.2 million a year ago and $1,005.9 million at June 30, 2003. The relatively flat backlog level is due to higher order rates in the military market being offset by lower order rates in the commercial market. For the remainder of the year, the Company expects the downward trend in commercial order rates to continue and expects order rates in the military market to remain at their current level.

CLIMATE & INDUSTRIAL CONTROLS – The Climate & Industrial Controls Segment consists of several business units which produce motion-control systems and components for use in the refrigeration and air conditioning and transportation industries. These businesses were previously included in the Other Segment. All prior year amounts have been reclassified to conform to the current year presentation.

Net sales of the Climate & Industrial Controls Segment decreased 5.3 percent to $155.9 million compared to $164.7 million in the prior year. Operating income increased 16.7 percent to $17.5 million compared to $15.0 million in the prior year. Operating income, as a percent of sales, was 11.2 percent compared to 9.1 percent a year ago. The decrease in sales is primarily due to lower end-user demand in the automotive and residential air conditioning markets. The increase in margins is primarily due to benefits realized from the Company's financial performance initiatives as well as the movement of certain manufacturing operations to low-cost countries.

Backlog for the Climate & Industrial Controls Segment was $104.8 million at September 30, 2003 compared to $114.2 million a year ago and $117.3 million at June 30, 2003. The lower backlog reflects the decrease in order rates in both the automotive and residential air conditioning markets. For the remainder of fiscal 2004, business conditions in the Climate & Industrial Controls Segment are expected to be the same as those experienced in the first quarter of fiscal 2004.

OTHER – The Other Segment consists of a business unit which designs and manufactures custom-engineered buildings and a business unit which develops and manufactures chemical car care and industrial products.

Net sales of the Other Segment for the current-year quarter were $56.7 million compared to $50.6 million in the prior year. Operating income was $5.7 million in the current-year quarter compared to $3.8 million in the prior year. Operating income, as a percent of sales, was 10.1 percent in the current-year quarter compared to 7.6 percent in the prior year. Currency rate changes accounted for all of the sales increase. The increased margins resulted from the benefit of business realignment actions taken in prior periods. Backlog for the Other Segment was $40.9 million at September 30, 2003 compared to $37.7 million a year ago and $41.0 million at June 30, 2003.

Corporate general and administrative expenses increased to $23.0 million for fiscal 2003 compared to $20.1 million in the prior year. As a percent of sales, corporate general and administrative expenses for the current-year quarter increased slightly to 1.4 percent compared to 1.3 percent in the prior year.

Included in Other expense (in the Business Segment Results by Industry) in fiscal 2004 are currency transaction losses of $1.5 million compared to $4.7 million in fiscal 2003.

BALANCE SHEET

Working capital increased to $1,049.6 million at September 30, 2003 from $973.1 million at June 30, 2003, with the ratio of current assets to current liabilities increasing to 1.84:1 from 1.68:1. The working capital increase was primarily due to a decrease in Notes payable and Accrued liabilities, partially offset by a decrease in Cash and cash equivalents and Accounts receivable.

Accounts receivable decreased to $967.9 million at September 30, 2003 from $1,002.1 million at June 30, 2003, primarily due to lower sales throughout all Segments during the current-year quarter. Days sales outstanding increased slightly during the quarter. Inventories decreased $5.9 million since June 30, 2003, with days supply increasing to 84 days from 82 days at June 30, 2003.

Plant and equipment, net of accumulated depreciation, decreased $24.9 million since June 30, 2003 primarily as a result of depreciation exceeding capital expenditures.

Goodwill increased $5.0 million since June 30, 2003 primarily as a result of the effect of foreign currency rate changes.

Accounts payable, trade decreased to $415.4 million at September 30, 2003 from $437.1 million at June 30, 2003, with the reduction occurring consistently throughout all Segments.

Accrued liabilities decreased $30.8 million since June 30, 2003 primarily as a result of lower incentive compensation accruals.

Due to the weakening of the dollar, foreign currency translation adjustments resulted in an increase in net assets of $12.5 million during the first quarter of fiscal 2004. The translation adjustments primarily affected Accounts receivable, Inventories, Plant and equipment, Goodwill, Long-term debt and Accrued domestic and foreign taxes.

STATEMENT OF CASH FLOWS

Cash and cash equivalents decreased $40.4 million for the first three months of fiscal 2004 after decreasing $0.7 million during the same period of fiscal 2003.

Net cash provided by operating activities was $144.0 million for the three months ended September 30, 2003 compared to $145.2 million for the same three months of 2002. The change in net cash provided by operating activities in fiscal 2004 is primarily due to an increase in working capital, mostly offset by a decrease in deferred income taxes.

Net cash used in investing activities was $31.6 million for the first three months of fiscal 2004 compared to $35.7 million for fiscal 2003. The decrease in the amount of cash used in investing activities in fiscal 2004 is attributable to a reduction in acquisition activity and capital expenditures.

Net cash used in financing activities was $154.1 million in fiscal 2004 compared to $110.2 million in fiscal 2003. In fiscal 2004 the Company decreased its outstanding borrowings by a net total of $145.6 million compared to a decrease of $90.2 million in fiscal 2003.

The Company’s goal is to maintain no less than an “A” rating on senior debt to ensure availability and reasonable cost of external funds. As a means of achieving this objective, the Company has established a financial goal of maintaining a ratio of debt to debt-equity of 34 to 37 percent. The debt to debt-equity ratio at September 30, 2003 decreased to 32.5 percent compared to 35.6 percent as of June 30, 2003.

FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this Report on Form 10-Q and other written reports and oral statements are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the Company may differ materially from current expectations, depending on economic conditions within both its industrial and aerospace markets, and the Company’s ability to achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins and growth initiatives. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance. Among other factors which may affect future performance are:

- changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments,
- uncertainties surrounding timing, successful completion or integration of acquisitions,
- threats associated with and efforts to combat terrorism,
- competitive market conditions and resulting effects on sales and pricing,
- increases in raw material costs that cannot be recovered in product pricing, and
- global economic factors, including currency exchange rates, difficulties entering new markets and general economic conditions such as interest rates.

The Company undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company enters into forward exchange contracts, costless collar contracts and cross-currency swap agreements to reduce its exposure to fluctuations in related foreign currencies. These contracts are with major financial institutions and the risk of loss is considered remote. The Company does not hold or issue derivative financial instruments for trading purposes. In addition, the Company's foreign locations, in the ordinary course of business, enter into financial guarantees through financial institutions, which enable customers to be reimbursed in the event of nonperformance by the Company. The total carrying and fair value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates. In addition, the Company has entered into an interest rate swap agreement for a $200 million notional principal amount. The agreement is with a major financial institution and the risk of loss is considered remote. The carrying value and fair value of the swap agreement is not material to the Company's financial position, liquidity or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the first quarter of fiscal 2004. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective.

PART II – OTHER INFORMATION

Item 6. **Exhibits and Reports on Form 8-K.**

(a) The following documents are furnished as exhibits and are numbered pursuant to Item 601 of Regulation S-K:

Exhibit 10(a)	Description of the Parker-Hannifin Corporation 2004 Target Incentive Bonus Plan.
Exhibit 10(b)	Description of the Parker-Hannifin Corporation Amended 2002-03-04 Long Term Incentive Plan.
Exhibit 10(c)	Description of the Parker-Hannifin Corporation Amended 2003-04-05 Long Term Incentive Plan.
Exhibit 10(d)	Description of the Parker-Hannifin Corporation 2004-05-06 Long Term Incentive Plan.
Exhibit 31(a)	Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b)	Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.

(b) The Registrant furnished a report on Form 8-K on July 29, 2003 to furnish under Items 9 and 12 the press release issued and Webcast presented by the Registrant announcing earnings for the fiscal quarter and year ended June 30, 2003.

SIGNATURE

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.

PARKER-HANNIFIN CORPORATION
(Registrant)

/s/ Timothy K. Pistell

Timothy K. Pistell
Vice President – Finance and Administration
and Chief Financial Officer

Date: October 31, 2003

<u>EXHIBIT INDEX</u>

Exhibit No.	Description of Exhibit
10(a)	Description of the Parker-Hannifin Corporation 2004 Target Incentive Bonus Plan.
10(b)	Description of the Parker-Hannifin Corporation Amended 2002-03-04 Long Term Incentive Plan.
10(c)	Description of the Parker-Hannifin Corporation Amended 2003-04-05 Long Term Incentive Plan.
10(d)	Description of the Parker-Hannifin Corporation 2004-05-06 Long Term Incentive Plan.
31(a)	Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10(a)

PARKER-HANNIFIN CORPORATION 2004 TARGET INCENTIVE BONUS PLAN DESCRIPTION

1. Definitions:

(a) “Company” means Parker-Hannifin Corporation, an Ohio corporation.

(b) “Committee” means the Compensation and Management Development Committee of the Board of Directors of the Company.

(c) “Free Cash Flow” or “FCF” equals cash flow from operations less capital expenditures.

(d) “FCF Margin” is FCF as a percent of sales.

2. Participants: All of the executive officers of the Company, plus Group Presidents who are not executive officers.

3. Payments earned under the Bonus Plan depend upon the Company’s FCF Margin as compared to the Company’s fiscal year 2004 operating plan for FCF Margin.

4. Target awards for each participant are determined by the Committee. The payout under the Plan ranges from 30% to 200% of each participant’s target award with 100% payout set at achievement of fiscal year 2004 planned FCF Margin.

5. Fiscal year 2004 planned FCF Margin: 5.12%

FCF Payout Schedule

FY04 FCF Margin	Percentage of Target Award Paid
<2.00%	0%
2.00%	30%
2.45%	40%
3.34%	60%
4.23%	80%
5.12%	100%
5.63%	120%
6.14%	140%
6.66%	160%
7.17%	180%
^{3}7.68%	200%

6. The Committee has determined that it is appropriate to exclude discretionary pension plan contributions from both the FY04 operating plan and actual results in calculating FCF Margin. The Committee retains discretion to exclude additional extraordinary items from actual results to the degree appropriate.

Exhibit 10(b)

PARKER-HANNIFIN CORPORATION

AMENDED

2002-03-04

LONG TERM INCENTIVE PLAN

DESCRIPTION

In September 2003 the Compensation and Management Development Committee of the Board of Directors of Parker-Hannifin Corporation (the "Company") approved plan design changes to the Company's Long Term Incentive Plans ("LTIP"). Based on these changes, the 2002-03-04 LTIP was amended as follows:

1. No payout under the 2002-03-04 LTIP will be earned by active participants for fiscal years 2002 and 2003.

2. Target awards under the original Plan for active participants are reduced by two-thirds. Payouts will no longer be based upon the Company's return on equity but rather will be based upon the Company's performance in fiscal year 2004 as compared to its peers based on the performance measures, payout schedule and other relevant terms of the Company's 2004-05-06 Long Term Incentive Plan.

Exhibit 10(c)

PARKER-HANNIFIN CORPORATION

AMENDED

2003-04-05

LONG TERM INCENTIVE PLAN

DESCRIPTION

In September 2003 the Compensation and Management Development Committee of the Board of Directors of Parker-Hannifin Corporation (the "Company") approved plan design changes to the Company's Long Term Incentive Plans ("LTIP"). Based on these changes, the 2003-04-05 LTIP was amended as follows:

1. No payout under the 2003-04-05 LTIP will be earned by active participants for fiscal year 2003.

2. Target awards under the original Plan for active participants are reduced by one-third. Payouts will no longer be based upon the Company's return on equity but rather will be based upon the Company's performance in fiscal years 2004 and 2005 as compared to its peers based on the performance measures, payout schedule and other relevant terms of the Company's 2004-05-06 Long Term Incentive Plan.

PARKER-HANNIFIN CORPORATION

2004-05-06

LONG TERM INCENTIVE PLAN

DESCRIPTION

1. Definitions:

   (a) "Company" means Parker-Hannifin Corporation, an Ohio corporation.

   (b) "Committee" means the Compensation and Management Development Committee of the Board of Directors of the Company.

   (c) "EDP" means the Company's Executive Deferral Plan.

   (d) "EPS" means earnings per share.

   (e) "Plan" means the Company's 2004-05-06 Long Term Incentive Plan.

   (f) "Peers" is the list of companies attached hereto as Exhibit A that have been approved by the Committee.

   (g) "Performance Measures" means (i) compound annual revenue growth; (ii) EPS growth; and (iii) average ROC.

   (h) "Performance Period" is the three-year period consisting of FY04, FY05 and FY06

   (i) "ROC" means return on capital.

2. Participants: All of the executive officers of the Company, plus Group Presidents who are not executive officers.

3. Payouts earned under the Plan depend on the Company's results during the Performance Period, as compared to the results of its Peers, for each of the Performance Measures.

4. Target awards for each participant are determined by the Committee. Awards are expressed as a certain number of performance units calculated by dividing the dollar equivalent of the award by the Company's June 30, 2003 stock price.

5. Target awards are weighted as follows for the purpose of determining payouts for each Performance Measure:

Revenue Growth	20%
EPS Growth	40%
ROC	40%

The payout under the Plan for each Performance Measure ranges from 0% to 200% of each participant's weighted target award with 100% payout set if the Company ranks at the 55th percentile against its Peers for each Plan Measure. Total Plan payouts are determined by adding together the payouts for each of the Performance Measures.

LTIP Payout Schedule

Percentile Ranking	**Percentage of Target Award Paid**
£35%	0%
40%	25%
45%	50%
50%	75%
55%	100%
60%	125%
65%	150%
70%	175%
³75%	200%

6. Payments earned under the Plan will be paid at the end of Performance Period. Except as otherwise provided herein, payment will be made in the form of a credit to the participant's account under the EDP. Payment may be made in restricted stock of the Company pursuant to the Company's 2003 Stock Incentive Plan at the discretion of the Committee unless the participant has previously elected a deferral under the EDP. The number of restricted shares issued will be equal to the number of performance units earned in accordance with the LTIP Payout Schedule described above and the restricted shares will be subject to a vesting schedule and such other terms and conditions determined by the Committee at the time of issuance. Retirees at the time of payout will receive cash unless the participant elected a deferral under the EDP prior to retirement. The value of any EDP credit or cash payment will be determined based upon the value of the earned performance units as of June 30, 2006 based upon the Company's stock price at such date.

7. If a participant dies, retires (with consent of the Committee if earlier than age 60) or is disabled during the Performance Period, he/she will receive a pro rata portion of the award payable upon completion of the Performance Period. A participant who resigns or is otherwise terminated during the Performance Period forfeits the award.

8. The Committee retains discretion to adjust (positively or negatively) the level of payouts earned based upon its assessment of overall Company results.

9. In the event of a "Change in Control" of the Company, the payout under the Plan will be accelerated to fifteen (15) days after the Change in Control. The amount of the payout will be in cash and will be the greater of the target award or the amount the payout would have been had the Company's ranking against the Peers during the Performance Period to the end of the fiscal quarter immediately preceding the date of the Change in Control continued throughout the Performance Period. The cash amount of such payout will be based upon the closing New York Stock Exchange stock price of the Company's common shares on the first day of the Performance Period or the date of the Change in Control, whichever is greater. If the Participant will reach age 65 prior to the end of the Performance Period, the payout in the event of a Change in Control will be reduced on a pro rata basis. "Change in Control" means the occurrence of one of the following events:

(i) any "person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the "Company" representing 20% or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board of Directors of the Company (the "Board") (the "Company's Voting Securities"); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Company or any corporation or entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities of such corporation or other entity (a "Subsidiary"); (B) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) as pertains to a Plan participant (the "Executive"), any acquisition by the Executive or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Executive (or any entity in which the Executive or a group of persons including the Executive, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Company Voting Securities from the Company, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);

(ii) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; provided, that (A) any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Company's shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;

(iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (3) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "Non-Control Transaction") or (B) the Business Combination is effected by means of the acquisition of Company Voting Securities from the Company, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or

(iv) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which, by reducing the number of Company Voting Securities outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control shall then occur.

Notwithstanding anything in this Plan to the contrary, if the Executive's employment is terminated prior to a Change in Control, and the Executive reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control, (a "Third Party"), then for all purposes of this Plan, the date immediately prior to the date of such termination of employment shall be deemed to be the date of a Change in Control for such Executive.

Exhibit A

Peers

Caterpillar Inc.

Cooper Industries, Ltd.

Cummins Inc.

Danaher Corporation

Deere & Company

Dover Corporation

Eaton Corporation

Emerson Electric Co.

Flowserve Corporation

Goodrich Corporation

Honeywell International Inc.

Illinois Tool Works Inc.

Ingersoll-Rand Company Limited

ITT Industries, Inc.

Pall Corporation

Rockwell Automation, Inc.

SPX Corporation

Textron Inc.

York International Corporation

Exhibit 31(a)

CERTIFICATIONS

I, Donald E. Washkewicz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 31, 2003

/s/ Donald E. Washkewicz

Donald E. Washkewicz
President and Chief Executive Officer

Exhibit 31(b)

CERTIFICATIONS

I, Timothy K. Pistell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 31, 2003

/s/ Timothy K. Pistell

Timothy K. Pistell
Vice President – Finance and
Administration and Chief Financial Officer

Exhibit 32

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
§906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Parker-Hannifin Corporation (the “Company”) for the quarterly period ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: October 31, 2003

/s/ Donald E. Washkewicz

Name: Donald E. Washkewicz
Title: President and Chief Executive Officer

/s/ Timothy K. Pistell

Name: Timothy K. Pistell
Title: Vice President-Finance and Administration and
Chief Financial Officer