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

FORM 10-Q

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

For the quarterly period ended September 30, 1998

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 | 34-0451060 |
| (State or other jurisdiction of incorporation) | (IRS Employer Identification No.) |

| | |
|---|---|
| 6035 Parkland Blvd., Cleveland, Ohio | 44124-4141 |
| (Address of principal executive offices) | (Zip Code) |

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

Indicate by check mark whether 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.

Number of Common Shares outstanding at September 30, 1998 108,921,002

PART I - FINANCIAL INFORMATION

<TABLE>
<CAPTION>

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 1998 | 1997 |
| <S> | <C> | <C> |
| Net sales | $ 1,218,724 | $ 1,083,169 |
| Cost of sales | 947,307 | 827,139 |
| Gross profit | 271,417 | 256,030 |
| Selling, general and administrative expenses | 134,158 | 125,275 |
| Income from operations | 137,259 | 130,755 |
| Other income (deductions): | | |
| Interest expense | (16,075) | (10,437) |
| Interest and other income, net | (73) | 1,017 |
| | (16,148) | (9,420) |

| | | |
|---|---|---|
| Income before income taxes | 121,111 | 121,335 |
| Income taxes | 42,994 | 43,074 |
| Net income | $ 78,117 | $ 78,261 |
| | =========== | =========== |
| Earnings per share - basic | $ .71 | $ .70 |
| Earnings per share - diluted | $ .71 | $ .70 |
| Cash dividends per common share | $ .15 | $ .15 |

See accompanying notes to consolidated financial statements.

</TABLE>



<TABLE>
<CAPTION>

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

| <S> | September 30, 1998 <C> | June 30, 1998 <C> |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 44,201 | $ 30,488 |
| Accounts receivable, net | 714,364 | 699,179 |
| Inventories: | | |
| Finished products | 483,328 | 416,034 |
| Work in process | 380,559 | 392,880 |
| Raw materials | 146,175 | 135,357 |
| | 1,010,062 | 944,271 |
| Prepaid expenses | 20,583 | 22,035 |
| Deferred income taxes | 86,577 | 84,102 |
| Total current assets | 1,875,787 | 1,780,075 |
| Plant and equipment | 2,439,894 | 2,345,109 |
| Less accumulated depreciation | 1,262,550 | 1,209,884 |
| | 1,177,344 | 1,135,225 |
| Other assets | 706,939 | 609,521 |
| Total assets | $ 3,760,070 | $ 3,524,821 |
| | =========== | =========== |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes payable | $ 355,218 | $ 265,485 |
| Accounts payable, trade | 285,642 | 338,249 |
| Accrued liabilities | 305,206 | 350,662 |
| Accrued domestic and foreign taxes | 64,753 | 34,374 |
| Total current liabilities | 1,010,819 | 988,770 |
| Long-term debt | 639,049 | 512,943 |
| Pensions and other postretirement benefits | 277,122 | 265,675 |
| Deferred income taxes | 37,797 | 29,739 |
| Other liabilities | 54,189 | 44,244 |
| Total liabilities | 2,018,976 | 1,841,371 |
| 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 111,812,025 shares at September 30 and 111,812,025 shares at June 30 | 55,906 | 55,906 |
| Additional capital | 139,528 | 139,726 |
| Retained earnings | 1,693,002 | 1,631,316 |
| Accumulated other comprehensive income | (34,827) | (60,026) |
| | 1,853,609 | 1,766,922 |
| Less treasury shares, at cost: 2,891,023 shares at September 30 and 1,938,762 shares at June 30 | (112,515) | (83,472) |

| | | |
|---|---|---|
| Total shareholders' equity | 1,741,094 | 1,683,450 |
| Total liabilities and shareholders' equity | $ 3,760,070 | $ 3,524,821 |

See accompanying notes to consolidated financial statements.

</TABLE>



<TABLE>
<CAPTION>

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

| <S> | Three Months Ended September 30, 1998 <C> | 1997 <C> |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 78,117 | $ 78,261 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 42,924 | 39,518 |
| Amortization | 6,655 | 6,110 |
| Deferred income taxes | (2,134) | (2,611) |
| Foreign currency transaction (gain) loss | (136) | 1,108 |
| Loss (gain) on sale of plant and equipment | 628 | (864) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 13,839 | (13,458) |
| Inventories | (38,297) | (30,074) |
| Prepaid expenses | 5,106 | 993 |
| Other assets | (7,147) | (22,844) |
| Accounts payable, trade | (66,285) | (16,766) |
| Accrued payrolls and other compensation | (52,315) | (18,545) |
| Accrued domestic and foreign taxes | 32,374 | 33,859 |
| Other accrued liabilities | (10,639) | 9,065 |
| Pensions and other postretirement benefits | 6,886 | 5,094 |
| Other liabilities | 9,628 | 4,450 |
| Net cash provided by operating activities | 19,204 | 73,296 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions (less acquired cash of $2,609 in 1998) | (89,466) | (143,603) |
| Capital expenditures | (56,668) | (60,424) |
| Proceeds from sale of plant and equipment | 931 | 4,427 |
| Other | 4,299 | 4,384 |
| Net cash used in investing activities | (140,904) | (195,216) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net payments for common share purchases | (29,581) | (10,337) |
| Proceeds from notes payable, net | 79,383 | 120,726 |
| Proceeds from long-term borrowings | 206,028 | 2,277 |
| Payments of long-term borrowings | (105,443) | (2,507) |
| Dividends | (16,429) | (16,745) |
| Net cash provided by financing activities | 133,958 | 93,414 |
| Effect of exchange rate changes on cash | 1,455 | (1,035) |
| Net increase (decrease) in cash and cash equivalents | 13,713 | (29,541) |
| Cash and cash equivalents at beginning of year | 30,488 | 68,997 |
| Cash and cash equivalents at end of period | $ 44,201 | $ 39,456 |

See accompanying notes to consolidated financial statements.

</TABLE>



<TABLE>
<CAPTION>

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

Parker operates in two industry 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, and agricultural and military machinery and equipment. Sales are direct 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.

Results by Business Segment:

| | Three Months Ended September 30, 1998 | 1997 |
|---|---|---|
| <S> | <C> | <C> |
| Net sales, including intersegment sales | | |
| Industrial: | | |
| North America | $ 626,889 | $ 585,499 |
| International | 310,370 | 264,398 |
| Aerospace | 281,978 | 233,554 |
| Intersegment sales | (513) | (282) |
| Total | $ 1,218,724 | $ 1,083,169 |
| Income from operations before corporate general and administrative expenses | | |
| Industrial: | | |
| North America | $ 79,588 | $ 89,682 |
| International | 25,757 | 20,151 |
| Aerospace | 44,363 | 36,916 |
| Total | 149,708 | 146,749 |
| Corporate general and administrative expenses | 12,449 | 15,994 |
| Income from operations | $ 137,259 | $ 130,755 |

See accompanying notes to consolidated financial statements.
</TABLE>



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, 1998, the results of operations for the three months ended September 30, 1998 and 1997 and cash flows for the three months then ended.

2. 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, 1998 and 1997.

| | Three Months Ended September 30, 1998 | 1997 |
|---|---|---|
| Numerator: | | |
| Net income applicable to common shares | $ 78,117 | $ 78,261 |
| Denominator: | | |

| | | |
|---|---|---|
| Basic - weighted average common shares | 109,366,054 | 111,603,371 |
| Increase in weighted average from dilutive effect of exercise of stock options | 761,963 | 851,962 |
| Diluted - weighted average common shares, assuming exercise of stock options | 110,128,017 | 112,455,333 |
| Basic earnings per share | $ .71 | $ .70 |
| Diluted earnings per share | $ .71 | $ .70 |

3. 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 will primarily be funded from operating cash flows and the shares will initially be held as treasury stock. During the three-month period ended September 30, 1998 the Company purchased 960,000 shares of its common stock at an average price of $30.943 per share.



4. Comprehensive income

On July 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes new standards for reporting comprehensive income and its components. The Company's only item of other comprehensive income is foreign currency translation adjustments recorded in shareholders' equity. Comprehensive income for the three months ended September 30, 1998 and 1997 is as follows:

| | Three Months Ended September 30, | |
|---|---|---|
| | 1998 | 1997 |
| Net income | $ 78,117 | $ 78,261 |
| Foreign currency translation adjustments | 25,199 | (3,855) |
| Comprehensive income | $ 103,316 | $ 74,406 |

5. Acquisitions

In July 1998 the Company acquired the stock of B.A.G. Acquisition Ltd., the parent company of Veriflo Corporation, located in Richmond, California and Carson City, Nevada. Veriflo, with calendar year 1997 revenues of $65 million, manufactures high-purity regulators and valves for precision gas delivery.

In August 1998 the Company acquired Fluid Power Systems of Lincolnshire, Illinois, a manufacturer of hydraulic valves and electrohydrualic systems and controls. Fluid Power Systems, with estimated calendar year 1998 revenues of $42 million, serves the construction, aerial reach and agricultural markets.

Total purchase price for these businesses was approximately $85.2 million in cash. Both acquisitions are being accounted for by the purchase method.





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1998 AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 1997

CONSOLIDATED STATEMENT OF INCOME

Net sales for the first quarter of fiscal 1999 increased 12.5 percent to $1,218.7 million. Prior-year first quarter sales were $1,083.2 million. Acquisitions within the past twelve months accounted for approximately 43 percent of the current-year increase. Additionally, continuing high volume in the commercial aviation business also contributed.

Income from operations for the quarter increased 5.0 percent to $137.3 million. However, as a percent of sales, the current-quarter operating income decreased to 11.3 percent from 12.1 percent the prior year. Cost of sales, as a percent of sales, increased to 77.7 percent from 76.4 percent. The declining margins reflect the weakness experienced in several markets, including semiconductor manufacturing, resulting in underabsorption of fixed costs and a less favorable product mix. Selling, general and administrative expenses, as a percent of sales, decreased to 11.0 percent from 11.6 percent primarily a result of a decrease in Corporate general and administrative expenses.

Interest expense for the current-year quarter increased $5.6 million due to higher average debt outstanding for the quarter. Borrowings were used primarily to fund acquisitions.

Net income for the quarter was $78.1 million compared to $78.3 million in the prior year and declined to 6.4 percent of sales compared to 7.2 percent the prior-year quarter.

Backlog increased to $1.70 billion at September 30, 1998 compared to $1.54 billion the prior year and $1.65 billion at June 30, 1998.

RESULTS BY BUSINESS SEGMENT

INDUSTRIAL - Net sales of the Industrial Segment increased 10.3 percent to $937.3 million compared to $849.9 million the prior year. Industrial North American sales increased 7.1 percent while Industrial International sales increased 17.4 percent. Without the effects of acquisitions, North America sales would have increased 2.5 percent and International sales would have increased 5.8 percent. Without the effects of currency-rate changes International sales increased 18.2 percent. Industrial North America sales were affected by the continuing decline in the semiconductor manufacturing market. International Industrial sales benefited from improved economic conditions in Europe while Latin American sales were flat.

Operating income for the Industrial Segment decreased 4.1 percent to $105.3 million. Industrial North America decreased 11.3 percent and Industrial International increased 27.8 percent. North American operating income, as a percent of sales, decreased to 12.7 percent from 15.3 percent as margins were affected by a change in the mix of products sold and lower margin returns from sales contributed by recent acquisitions. International operating income, as a percent of sales, increased to 8.3 percent from 7.6 percent primarily due to the improving industrial economy in Europe.

Industrial Segment backlog increased 14.0 percent compared to a year ago, and 1.9 percent since June 30, 1998. For the remainder of the fiscal year, business conditions appear favorable for the International operations and are expected to remain the same as first quarter conditions for the North American operations.

AEROSPACE - Net sales of the Aerospace Segment were up 20.7 percent for the quarter. Income from operations increased 20.2 percent and Income from operations, as a percent of sales, was 15.7 percent



compared to 15.8 percent prior year. The increase in sales and operating income were primarily due to the continuing strong upswing of the commercial aviation business.

Backlog for the Aerospace Segment increased 8.6 percent compared to a year ago and increased 4.1 percent since June 30, 1998. As backlog for the commercial aviation business continues to increase, management anticipates continuing growth for the Aerospace Segment. However, a change to heavier OEM volume in future product mix could result in slightly lower margins.

Corporate general and administrative expenses decreased to $12.4 million for fiscal 1999 compared to $16.0 million the prior year. The decrease is primarily due to the reduced expense associated with incentive compensation plans as a result of the Company's lower stock price.

BALANCE SHEET

Working capital increased to $865.0 million at September 30, 1998 from $791.3 million at June 30, 1998, with the ratio of current assets to current liabilities increasing to 1.86 to 1. The increase was primarily due to an increase in Accounts receivable and Inventories and decreases in Accounts payable and Accrued liabilities, partially offset by increases in Notes payable and Accrued domestic and foreign taxes.

Accounts receivable and Inventories increased since June 30, 1998, primarily as a result of acquisitions within the Industrial segment and volume increases primarily in Aerospace operations. Days sales outstanding and months supply increased slightly during the quarter.

Other assets increased $97.4 million since June 30, 1998, primarily due to an increase in goodwill from acquisitions.

The increase in Accrued domestic and foreign taxes to $64.8 million at September 30, 1998 from $34.4 million at June 30, 1998 is essentially due to the timing of the quarterly income tax payments.

Other liabilities increased $9.9 million to $54.2 million at September 30, 1998 primarily due to a reclassification from Accrued liabilities resulting from participants electing to defer certain incentive compensation benefits.

The debt to debt-equity ratio increased to 36.3 percent at September 30, 1998 compared to 31.6 percent as of June 30, 1998 primarily due to an increase in Notes payable and Long-term debt.

Due to the weakening of the dollar, foreign currency translation adjustments resulted in an increase in net assets of $25.2 million during the first quarter of fiscal 1999. The translation adjustments primarily affected Accounts Receivable, Inventories and Plant and equipment.

STATEMENT OF CASH FLOWS

Net cash provided by operating activities was $19.2 million in fiscal 1999 compared to $73.3 million for the three months ended September 30, 1997. The decline in net cash provided was primarily the result of the activity within the working capital items - Accounts receivable, Inventories, Accounts payable, Accrued payrolls and Prepaid expenses - which used cash of $138.0 million in fiscal 1999 compared to using cash of $77.9 million in fiscal 1998. In addition, Other accrued liabilities used cash in the current year compared to providing cash in the prior year and cash was provided by the net effect of activity in Other assets and Other liabilities, which had used cash in the prior year.

Net cash used in investing activities declined to $140.9 million for fiscal 1999 compared to $195.2 million for fiscal 1998 primarily due to a reduction in the amount spent on acquisitions and capital expenditures.

Financing activities provided net cash of $134.0 million in fiscal 1999 as opposed to $93.4 million for the three months ended September 30, 1997. The change resulted primarily from debt borrowings providing cash of $180.0 million in fiscal 1999 compared to $120.5 million the prior year, partially offset by an increase in cash used for common stock repurchases of $19.2 million between fiscal quarters.



QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company enters into forward exchange 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 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.

YEAR 2000 CONSIDERATONS

The Company has been taking actions to assure that its computerized products and systems and all external interfaces are Year 2000 compliant. These actions are part of a formal information technology initiative which the Company began several years ago. As a result, none of the Company's other information technology projects have been delayed as a result of the year 2000 issue. The Company expects to have all internal standard application systems, including all information systems plus any equipment or embedded systems which may be impacted, compliant by July 1999 by modifying present systems, installing new systems and monitoring third-party interfaces. The cost for these actions is not material to the Company's results of operations. The Company will continue to reassess the need for alternative actions based on its progress towards being year 2000 compliant by July 1999.

In addition, the Company is currently contacting its key suppliers, customers, distributors and financial service providers regarding their Year 2000 status and anticipates this survey will be substantially complete by January 1999. If it is determined any key third party may not be prepared, the Company will develop a contingency plan.

While management does not expect that the consequences of any failure of the Company or any key third party to be fully compliant by 2000 would significantly affect the financial position, liquidity, or results of operations of the Company, there can be no assurance that any such failure to be fully compliant by 2000 would not have an adverse impact on the Company.

EURO PREPARATIONS

The Company is in the process of upgrading its systems to accommodate the Euro currency by January 1, 1999. The cost of this upgrade is immaterial to the Company's financial results. Although difficult to predict, any competitive implications and any impact on existing financial instruments are also expected to be immaterial to the Company's results of operations, financial position or liquidity.



FORWARD-LOOKING STATEMENTS

This Form 10-Q filing and other written reports and oral statements made from time to time by the Company may contain "forward-looking statements", all of which are subject to risks and uncertainties. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to growth, operating margin performance, earnings per share or statements expressing general opinions about future operating results, are forward-looking statements.

These forward-looking statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside the Company's control, that could cause actual results to differ materially from such statements. Such factors include:

* continuity of business relationships with and purchases by major customers, including among others, orders and delivery schedules for aircraft components,

* ability of suppliers to provide materials as needed,

* uncertainties surrounding timing, successful completion or integration of acquisitions,

* competitive pressure on sales and pricing,

* increases in material and other production costs which cannot be recovered in product pricing,

* uncertainties surrounding the year 2000 issues and the new Euro currency,

* difficulties in introducing new products and entering new markets, and

* uncertainties surrounding the global economy and global market conditions, including among others, the economy of the Asia Pacific region and the potential devaluation of currencies.

Any forward-looking statements are based on known events and circumstances at the time. 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 Filing.



PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(a) The Annual Meeting of the Shareholders of the Registrant was held on October 28, 1998.

(b) Not applicable.

(c)(i) The Shareholders elected four directors to the three-year class whose term of office will expire in 2001, as follows:

| | Votes For | Votes Withheld |
|---|---|---|

| | | |
|---|---|---|
| John G. Breen | 96,020,788 | 768,457 |
| Hector R. Ortino | 96,116,198 | 673,047 |
| Patrick S. Parker | 96,020,284 | 768,961 |
| Dennis W. Sullivan | 96,083,416 | 705,829 |

(ii) The Shareholders elected Klaus-Peter Muller as a director whose term of office will expire in 2000, as follows:

| | |
|---|---|
| Votes For | 95,275,782 |
| Votes Withheld | 1,513,463 |

(iii) The Shareholders approved the appointment of PricewaterhouseCoopers LLP as auditors of the Corporation for the fiscal year ending June 30, 1999, as follows:

| | |
|---|---|
| For | 95,987,399 |
| Against | 310,099 |
| Abstain | 491,747 |

(d) Not applicable.



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 27 - Financial Data Schedule

(b) The Registrant filed a report on Form 8-K on July 9, 1998 with respect to the computation of the ratio of earnings to fixed charges.

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)

Michael J. Hiemstra
Michael J. Hiemstra
Vice President - Finance and Administration
and Chief Financial Officer

Date: November 2, 1998



EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
|---|---|
| 27 | Financial Data Schedule |

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PARKER-HANNIFIN CORPORATION'S REPORT ON FORM 10-Q FOR ITS QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

<MULTIPLIER> 1,000

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| <PERIOD-END> | SEP-30-1998 |
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