

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, 2001

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 or organization)

(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  
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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 (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   
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Number of Common Shares outstanding at September 30, 2001 117,275,168

PART I - FINANCIAL INFORMATION

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

<TABLE>  
<CAPTION>

	Three Months Ended September 30,	
	2001	2000
	-----	-----
<S>	<C>	<C>
Net sales	\$ 1,475,867	\$ 1,485,131
Cost of sales	1,197,625	1,159,029
	-----	-----
Gross profit	278,242	326,102
Selling, general and administrative expenses	165,415	162,441
Interest expense	20,454	21,168
Interest and other (income) expense, net	(117)	(51,377)
	-----	-----
Income before income taxes	92,490	193,870
Income taxes	31,909	68,824
	-----	-----
Net income	\$ 60,581	\$ 125,046
	=====	=====

Earnings per share - basic	\$	.53	\$	1.10
Earnings per share - diluted	\$	.52	\$	1.09
Cash dividends per common share	\$	.18	\$	.17

See accompanying notes to consolidated financial statements.

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

<TABLE>  
<CAPTION>

ASSETS	September 30, 2001	June 30, 2001
<S>	<C>	<C>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 35,384	\$ 23,565
Restricted investments	86,992	-
Accounts receivable, net	920,958	922,325
Inventories:		
Finished products	546,606	495,704
Work in process	334,256	344,861
Raw materials	166,851	168,299
	-----	-----
	1,047,713	1,008,864
Prepaid expenses	43,580	39,486
Deferred income taxes	109,376	91,439
Net assets held for sale	-	110,683
	-----	-----
Total current assets	2,244,003	2,196,362
Plant and equipment	3,142,175	3,006,064
Less accumulated depreciation	1,542,018	1,457,376
	-----	-----
	1,600,157	1,548,688
Goodwill	1,083,467	953,648
Intangible assets, net	17,492	8,584
Other assets	550,856	630,379
	-----	-----
Total assets	\$ 5,495,975	\$ 5,337,661
	=====	=====
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Notes payable	\$ 583,428	\$ 546,502
Accounts payable, trade	380,009	367,806
Accrued liabilities	452,821	436,947
Accrued domestic and foreign taxes	81,315	61,874
	-----	-----
Total current liabilities	1,497,573	1,413,129
Long-term debt	874,228	857,078
Pensions and other postretirement benefits	206,427	318,527
Deferred income taxes	144,243	131,708
Other liabilities	192,866	88,304
	-----	-----
Total liabilities	2,915,337	2,808,746
<b>SHAREHOLDERS' EQUITY</b>		
<b>Serial preferred stock, \$.50 par value;</b>		
authorized 3,000,000 shares; none issued	--	--
<b>Common stock, \$.50 par value; authorized</b>		
600,000,000 shares; issued 117,466,709 shares at		
September 30 and 117,409,197 shares at June 30	58,733	58,705
Additional capital	349,183	346,228
Retained earnings	2,466,347	2,426,496
Unearned compensation related to guarantee of ESOP debt	(89,990)	(96,398)
Deferred compensation related to stock options	2,347	2,347
Accumulated other comprehensive (loss)	(198,918)	(204,531)
	-----	-----
Total shareholders' equity	2,587,702	2,532,847
Less treasury shares, at cost:		
191,541 shares at September 30		
and 100,000 shares at June 30	(7,064)	(3,932)
	-----	-----
Total shareholders' equity	2,580,638	2,528,915

Total liabilities and shareholders' equity	\$ 5,495,975	\$ 5,337,661
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</TABLE>

See accompanying notes to consolidated financial statements.

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

<TABLE>  
<CAPTION>

	Three Months Ended September 30,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
-----		
Net income	\$ 60,581	\$ 125,046
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	59,159	51,415
Amortization	2,604	16,017
Deferred income taxes	(8,750)	22,557
Foreign currency transaction loss	1,342	524
(Gain) on sale of plant and equipment	(104)	(58,231)
Changes in assets and liabilities:		
Restricted investments	(8,472)	-
Accounts receivable	68,870	(64,532)
Inventories	2,522	(23,922)
Prepaid expenses	10,168	7,967
Net assets held for sale	35,683	6,973
Other assets	14,331	(28,369)
Accounts payable, trade	(10,427)	(35,989)
Accrued payrolls and other compensation	(43,599)	(49,930)
Accrued domestic and foreign taxes	14,485	34,922
Other accrued liabilities	7,537	287
Pensions and other postretirement benefits	(4,492)	7,910
Other liabilities	1,659	7,319
	-----	-----
Net cash provided by operating activities	203,097	19,964
CASH FLOWS FROM INVESTING ACTIVITIES		
-----		
Acquisitions (less acquired cash of \$5,240 in 2000)	(135,545)	(485,923)
Capital expenditures	(59,296)	(66,083)
Proceeds from sale of plant and equipment	5,679	67,486
Other	(15,391)	4,472
	-----	-----
Net cash (used in) investing activities	(204,553)	(480,048)
CASH FLOWS FROM FINANCING ACTIVITIES		
-----		
Net (payments for) proceeds from common share activity	(149)	1,725
Proceeds from notes payable, net	33,838	261,261
Proceeds from long-term borrowings	5,842	263,585
Payments of long-term borrowings	(3,837)	(58,839)
Dividends	(20,731)	(19,361)
	-----	-----
Net cash provided by financing activities	14,963	448,371
Effect of exchange rate changes on cash	(1,688)	(1,557)
	-----	-----
Net increase (decrease) in cash and cash equivalents	11,819	(13,270)
Cash and cash equivalents at beginning of year	23,565	68,460
	-----	-----
Cash and cash equivalents at end of period	\$ 35,384	\$ 55,190
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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

The Company operates in two principal 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, 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 an Other Segment consisting of several business units which produce motion-control and fluid power system components for use primarily in the transportation industry, a business unit which designs and manufactures custom-engineered buildings and beginning in fiscal 2002, a business unit which develops and manufactures chemical car care and industrial products and related service programs and a business unit which administers vehicle service contract programs.

#### Business Segment Results by Industry

<TABLE>  
<CAPTION>

	Three Months Ended September 30,	
	2001	2000
<S>	<C>	<C>
Net sales		
Industrial:		
North America	\$ 650,840	\$ 770,105
International	296,291	308,084
Aerospace	312,500	270,388
Other	216,236	136,554
Total	\$ 1,475,867	\$ 1,485,131
Segment operating income		
Industrial:		
North America	\$ 40,465	\$ 106,939
International	19,828	24,264
Aerospace	56,892	44,276
Other	16,992	11,865
Total segment operating income	134,177	187,344
Corporate general and administrative expenses	16,939	17,384
Income before interest expense and other	117,238	169,960
Interest expense	20,454	21,168
Other expense (income)	4,294	(45,078)
Income before income taxes	\$ 92,490	\$ 193,870

</TABLE>

Note: In July 2001, the Company adopted SFAS No. 142 and therefore, future amortization of goodwill has been discontinued. Income before income taxes for the three months ended September 30, 2000 includes \$14,709 of goodwill amortization (\$6,691 in Industrial North America; \$2,925 in Industrial International; \$1,860 in Aerospace; \$1,088 in Other; and \$2,145 in Other expense (income)).

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#### 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, 2001, the results of operations for the three months ended September 30, 2001 and 2000 and cash flows for the three months then ended.

2. Restricted investments

Restricted investments are funds held in a separate trust account to be used primarily to pay claims related to various vehicle service contract programs marketed by the extended care warranty businesses acquired as part of Wynn's International. The funds in the trust account are managed by the Company and typically include money market accounts, commercial paper and municipal securities which have maturities of three months or less when purchased and are stated at cost, which approximates fair market value. Any residual funds in the trust account and all investment income or loss accrue to the benefit of the Company.

3. 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, 2001 and 2000.

	Three Months Ended September 30,	
	2001	2000
Numerator:		
-----		
Net income applicable to common shares	\$ 60,581	\$ 125,046
Denominator:		
-----		
Basic - weighted average common shares	115,166,914	113,929,685
Increase in weighted average from dilutive effect of exercise of stock options	585,784	632,296
	-----	-----
Diluted - weighted average common shares, assuming exercise of stock options	115,752,698	114,561,981
	=====	=====
Basic earnings per share	\$ .53	\$ 1.10
Diluted earnings per share	\$ .52	\$ 1.09

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4. 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. During the three-month period ended September 30, 2001 the Company purchased 85,000 shares of its common stock at an average price of \$33.59 per share.

5. 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, 2001 and 2000 is as follows:

	Three Months Ended September 30,	
	2001	2000
Net income	\$60,581	\$125,046
Foreign currency translation adjustments	10,886	(44,787)
Unrealized (loss) gain on marketable securities (net of taxes of \$(3,177) in 2001 and \$9,321 in 2000)	(5,273)	15,469
	-----	-----
Comprehensive income	\$66,194	\$ 95,728

6. Gain on sale of real property

During the first quarter of fiscal 2001 the Company recorded a \$55,548 gain (\$34,662 after-tax or \$.30 per share) realized on the sale of real property. The gain is reflected in the Consolidated Statement of Income in Interest and other (income) expense, net.

7. Charges related to business realignment

During the first quarter of fiscal 2002, the Company recorded a \$5,041 charge (\$3,302 after-tax or \$.03 per share) for the costs of appropriately structuring its businesses to operate in their current economic environment. The charge primarily relates to severance costs attributable to 288 employees in the Industrial Segment, 139 employees in the Aerospace Segment and 8 employees in the Other Segment. As of September 30, 2001, the Company had made the majority of the severance payments with the remaining payments expected to be made by December 31, 2001. Of the pre-tax amount, \$3,317 relates to the Industrial Segment, \$1,207 relates to the Aerospace Segment and \$517 relates to the Other Segment.

The business realignment costs are presented in the Consolidated Statement of Income for the three months ended September 30, 2001 as follows: \$4,634 in Cost of sales and \$407 in Selling, general and administrative expenses.

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8. Goodwill and Intangible Assets

On July 1, 2001 the Company adopted the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for by the purchase method and that certain acquired intangible assets be recognized as assets apart from goodwill. SFAS No. 142 provides that goodwill should not be amortized but instead be tested for impairment annually at the reporting unit level. In accordance with SFAS No. 142, the Company intends to complete a transitional goodwill impairment test by December 31, 2001 and does not anticipate recognizing an impairment loss. No reclassification of intangible assets apart from goodwill was necessary as a result of the adoption of SFAS No. 142. Goodwill amortization expense in the first quarter of fiscal 2001 was \$14,709 (\$12,641 after tax or \$.11 per share).

The following table reflects the consolidated results adjusted as though the adoption of SFAS No. 142 occurred as of the beginning of the three-month period ended September 30, 2000:

	Three Months Ended September 30,	
	2001	2001
	-----	-----
Net income:		
As reported	\$60,581	\$125,046
Goodwill amortization		12,641
	-----	-----
Adjusted net income	\$60,581	\$137,687
	=====	=====
Basic earnings per share:		
As reported	\$ 0.53	\$ 1.10
Goodwill amortization		0.11
	-----	-----
Adjusted basic earnings per share	\$ 0.53	\$ 1.21
	=====	=====
Diluted earnings per share:		
As reported	\$ 0.52	\$ 1.09
Goodwill amortization		0.11
	-----	-----
Adjusted diluted earnings per share	\$ 0.52	\$ 1.20
	=====	=====

The changes in the carrying amount of goodwill for the three months ended September 30, 2001 are as follows:

<TABLE>  
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Industrial Segment	Aerospace Segment	Other Segment	Total
-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
Balance as of June 30, 2001	\$769,675	\$76,090	\$107,883	\$ 953,648
Acquisitions	25,558		48,110	73,668
Balance sheet reclassification			31,055	31,055
Goodwill adjustments and other	18,939	107	6,050	25,096
	-----			
Balance as of September 30, 2001	\$814,172	\$76,197	\$193,098	\$1,083,467
	=====			

</TABLE>

Balance sheet reclassification represents the change in balance sheet presentation during the first quarter of fiscal 2002 for net assets held for sale (see Note 10 for further discussion). Goodwill adjustments and other represents final adjustments to the purchase price allocation for acquisitions completed within the last fiscal year and foreign currency translation adjustments.

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#### 9. Acquisitions

On July 16, 2001 the Company completed the acquisition of Dana Corporation's Chelsea Products Division (Chelsea). Chelsea is a supplier of power take-offs and related auxiliary power devices for medium and heavy-duty vocational equipment with annual sales of \$67 million.

On August 31, 2001 the Company acquired the Aeroquip Air Conditioning and Refrigeration (AC&R) business from Eaton Corporation. AC&R produces mechanical controls and fluid systems for the residential and commercial air conditioning and refrigeration markets with annual sales of \$75 million.

On October 19, 2001 the Company acquired assets associated with the global fluid management business of Dayco Industrial from MarkIV/BC Partners. With annual revenues of \$304 million, the Dayco assets acquired include Imperial-Eastman products and a wide array of hydraulic and industrial hose and connectors.

Total purchase price for these businesses was approximately \$300 million in cash. These acquisitions are being accounted for by the purchase method.

#### 10. Net assets held for sale

At June 30, 2001, Net assets held for sale included the estimated net cash proceeds and estimated net earnings during the holding period (including incremental interest expense on debt incurred in the acquisition) of the metal forming business, which was acquired as part of Commercial Intertech in fiscal 2000, and the specialty chemical and warranty businesses, which were acquired as part of Wynn's International in fiscal 2001.

During the first quarter of fiscal 2002, the Company completed the divestiture of the metal forming business. No gain or loss was recognized on the transaction. In July 2001 the one-year period during which the earnings of the specialty chemical and warranty businesses were excluded from the Company's Consolidated Statement of Income expired. Due to market conditions, the Company decided to suspend its efforts to sell the specialty chemical and warranty businesses. As such, the net assets of the specialty chemical and warranty businesses are presented in the Consolidated Balance Sheet as of September 30, 2001 in their respective individual line items and their results of operations have been included in the Consolidated Statement of Income of the Company beginning in July 2001. The specialty chemical and warranty businesses are included in the Other Segment for segment reporting purposes.

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#### PARKER-HANNIFIN CORPORATION

FORM 10-Q

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001  
AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 2000

#### CONSOLIDATED STATEMENT OF INCOME

Net sales for the first quarter of fiscal 2002 were \$1,475.9 million, a slight decrease over prior-year first quarter sales of \$1,485.1 million. Without acquisitions and the inclusion of the results from businesses previously classified as assets held for sale, net sales decreased 11.4 percent, primarily the result of lower volume in the Industrial North American operations.

Income from operations in the current quarter were \$112.8 million, a 31.1 percent decrease over the prior-year quarter income from operations of \$163.7 million. Included in the current-year income from operations was \$5.0 million in business realignment charges (see Note 7 on page 7 for further discussion). Included in the prior-year income from operations was \$14.7 million of goodwill amortization. Excluding the business realignment charges and goodwill amortization, current-year operating income, as a percent of sales, decreased to 8.0 percent from 12.0 percent in the prior year. Excluding the business realignment charges and goodwill amortization, cost of sales, as a percent of sales, increased to 80.8 percent from 78.0 percent. The decreasing margins reflect the weakness experienced in the North American Industrial operations, resulting in underabsorption of overhead costs, partially offset by higher volume and margins experienced in the Aerospace operations. Excluding business realignment charges and goodwill amortization, selling, general and administrative expenses, as a percent of sales, were 11.2 percent compared to 9.9 percent in the prior year primarily due to the lower sales volume as well as higher selling expenses experienced by businesses previously held for sale.

Interest expense for the current-year quarter decreased 3.4 percent due primarily to lower weighted-average interest rates.

Interest and other (income) expense, net for the first quarter of fiscal 2001 included a \$55.5 million gain realized on the sale of real property and \$5.4 million of certain asset impairments.

The effective tax rate decreased to 34.5 percent for the current-year quarter, compared to 35.5 percent in the prior-year quarter. The decrease in the rate is primarily due to the deductibility of certain goodwill amortization for tax purposes that is no longer being amortized for financial reporting purposes due to the Company's adoption of SFAS No. 142 in the first quarter of fiscal 2002.

Net income for the quarter was \$60.6 million compared to \$125.0 million in the prior year. Net income decreased to 4.1 percent of sales compared to 8.5 percent in the prior-year.

Backlog decreased to \$1.91 billion at September 30, 2001 compared to \$1.98 billion in the prior year and \$1.99 billion at June 30, 2001. The decrease in backlog reflects lower order rates experienced across most markets in the Industrial North American operations, as well as a decrease in Aerospace orders rates that began in the latter part of the first quarter.

#### RESULTS BY BUSINESS SEGMENT

INDUSTRIAL - Net sales of the Industrial Segment decreased 12.2 percent to \$947.1 million compared to \$1,078.2 million in the prior year. Industrial North American sales decreased 15.5 percent, and Industrial International sales decreased 3.8 percent. Without the effect of currency rate changes, International sales would have increased 1.3 percent. Without the effect of acquisitions, North American sales decreased 23.6 percent, and International sales decreased 7.2 percent. The decrease in Industrial North American sales reflects lower volume experienced across virtually all of the Industrial

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North American markets, particularly in the semiconductor manufacturing and telecommunications markets. The decrease in International Industrial sales is attributed to lower volume across most markets in Europe, Latin America and the Asia Pacific region.

Operating income for the Industrial Segment decreased 54.0 percent to \$60.3 million compared to \$131.2 million in the prior year with Industrial North American operating income decreasing 62.2 percent and Industrial International operating income decreasing 18.3 percent. Included in the current-year operating income was \$2.5 million and \$0.8 million of business realignment charges in Industrial North America and Industrial International, respectively. 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 for 186 employees in the Industrial North American operations and 102 employees in the Industrial International operations. Included in the prior-year operating income was \$6.7 million and \$2.9 million of goodwill amortization in Industrial North America and Industrial International, respectively. Excluding the business realignment charges and goodwill amortization, Industrial North American operating income decreased 62.2 percent from the prior year and Industrial International operating income decreased 24.2 percent from the prior year.

Excluding business realignment charges and goodwill amortization, North American operating income, as a percent of sales, decreased to 6.6 percent from 14.8 percent and Industrial International operating income, as a percent of sales, decreased to 7.0 percent from 8.8 percent. The decline in Industrial North American margins is primarily due to lower sales volume experienced across virtually all markets which resulted in the underabsorption of fixed overhead costs. The decline in Industrial International margins is primarily due to the



lower sales volume experienced across most international markets.

Industrial Segment backlog decreased 18.5 percent compared to a year ago, and decreased 6.3 percent since June 30, 2001, primarily due to lower order rates within most Industrial markets.

The tragic events of September 11, 2001 and their near-term effect on the U.S. economy has made it difficult to assess the business conditions that are likely to be experienced by the Industrial Segment operations for the remainder of fiscal year 2002. At the present time, business conditions are expected to be the same as those experienced in the first quarter with some improvement anticipated in the second half of the fiscal year. The second half improvement assumes the Industrial Segment markets experience an increase in demand resulting from an economic stimulus package provided by the federal government, although no assurance can be given that the stimulus package will create such demand. The Company expects to continue to take the necessary actions to appropriately structure 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 2002.

AEROSPACE - Net sales of the Aerospace Segment increased 15.6 percent to \$312.5 million compared to \$270.4 million in the prior year. Operating income increased 28.5 percent to \$56.9 million compared to \$44.3 million in the prior year. Operating income for the current-year first quarter includes \$1.2 million in business realignment charges, and operating income for the prior-year first quarter included \$1.9 million in goodwill amortization. The business realignment charge relates to actions the Company took to appropriately structure the Aerospace operations to operate in their current economic environment and consisted of severance costs related to 139 employees. Excluding the business realignment charges and goodwill amortization, operating income, as a percent of sales, increased to 18.6 percent from 17.1 percent primarily due to a higher mix of aftermarket business, as well as an increase in OEM activity.

Backlog for the Aerospace Segment increased 4.6 percent compared to a year ago and decreased 3.3 percent since June 30, 2001. Backlog decreased during the first quarter of fiscal 2002 primarily due to a decline in both commercial OEM and aftermarket order rates, particularly those experienced in the latter part of the first quarter. For the remainder of the fiscal year, the Company expects further slowdowns in commercial OEM and aftermarket orders, especially in light of the impact on the commercial airline industry resulting from the tragic events of September 11, 2001. However, an increase in orders is anticipated in the military and defense market. The Company expects to continue to take the necessary actions to appropriately structure the Aerospace operations to operate in their

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current economic environment. Such actions may include the necessity to record additional business realignment charges in fiscal 2002.

OTHER - Net Sales of the Other Segment for the first quarter of fiscal 2002 increased 58.4 percent to \$216.2 million compared to \$136.6 million in the prior-year first quarter. Without the effect of acquisitions and the inclusion of the results from businesses previously classified as assets held for sale (see Note 10 on page 9 for further discussion), sales decreased 5.4 percent as a result of lower demand across virtually all businesses. Operating income increased 43.2 percent to \$17.0 million compared to \$11.9 million in the prior year. Included in the current-year operating income was \$0.5 million in business realignment charges and included in the prior-year operating income was \$1.1 million in goodwill amortization. Excluding the business realignment charges and goodwill amortization, operating income, as a percent of sales, decreased to 8.1 percent from 9.5 percent primarily due to recent acquisitions and the inclusion of the results from businesses previously classified as assets held for sale, which have not yet been fully integrated, contributing lower margins.

Backlog for the Other Segment increased 14.1 percent compared to a year ago and increased 0.3 percent since June 30, 2001. Backlog increased primarily due to the inclusion of backlog from businesses previously classified as assets held for sale, offset by a decrease in order rates by businesses that produce motion-control and fluid power system components for use primarily in the transportation industry. For the remainder of fiscal year 2002, business conditions are expected to be the same as those experienced in the first quarter with some improvement anticipated in the second half of the fiscal year. The second half improvement assumes several markets within the Other Segment experience an increase in demand resulting from an economic stimulus package provided by the federal government, although no assurance can be given that the stimulus package will create such demand.

Corporate general and administrative expenses decreased to \$16.9 million for fiscal 2002 compared to \$17.4 million in the prior year. As a percent of sales, corporate general and administrative expenses for the current-year quarter decreased slightly to 1.1 percent compared to 1.2 percent in the prior year.

Included in Other expense (income) (in the Business Segment Results by Industry) for fiscal 2001 is a \$55.5 million gain realized on the sale of real property and \$7.7 million of certain asset impairments.

#### BALANCE SHEET

Working capital declined to \$746.4 million at September 30, 2001 from \$783.2 million at June 30, 2001, with the ratio of current assets to current liabilities decreasing to 1.5:1. The decrease was primarily due to the reclassification of Net assets held for sale into their respective individual line items and an increase in Notes payable, partially offset by an increase in Inventories.

Restricted investments are funds held in a separate trust account to be used primarily to pay claims related to various vehicle service contract programs marketed by the extended care warranty businesses acquired as part of Wynn's International. The corresponding reserve for estimated future warranty claims to which the trust account relates is included in Accrued liabilities and Other liabilities.

Accounts receivable decreased slightly to \$921.0 million at September 30, 2001 from \$922.3 million at June 30, 2001, primarily due to a reduction in volume experienced in the Industrial operations, mostly offset by acquisitions and the reclassification of businesses previously held for sale. Days sales outstanding increased to 51 days from 49 days during the quarter. Inventories increased \$38.8 million since June 30, 2001, primarily the result of acquisitions and the reclassification of businesses previously held for sale, with months supply increasing slightly.

Net assets held for sale at June 30, 2001 included the metal forming business, which was acquired as part of Commercial Intertech in fiscal 2000, and the specialty chemical and warranty businesses, which

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were acquired as part of Wynn's International in fiscal 2001. During the first quarter of fiscal 2002, the Company completed the divestiture of the metal forming business and suspended its efforts to sell the specialty chemical and warranty businesses. As such, the net assets of the specialty chemical and warranty businesses are presented in the Consolidated Balance Sheet as of September 30, 2001 in their respective individual line items.

Plant and equipment, net of accumulated depreciation, increased \$51.5 million since June 30, 2001, primarily as a result of acquisitions and capital expenditures which exceeded depreciation.

The increase in Goodwill since June 30, 2001 reflects the goodwill recognized from fiscal 2002 acquisitions and the reclassification of businesses previously held for sale. In July 2001, the Company adopted SFAS No. 142 and therefore, future amortization of goodwill has been discontinued.

The debt to debt-equity ratio increased slightly to 36.1 percent at September 30, 2001 compared to 35.7 percent as of June 30, 2001.

Other liabilities increased \$104.6 million since June 30, 2001, primarily the result of the reclassification of businesses previously held for sale.

Due to the weakness of the dollar, foreign currency translation adjustments resulted in an increase in net assets of \$10.9 million during the first quarter of fiscal 2002. The translation adjustments primarily affected Accounts receivable, Inventories, Goodwill, Plant and equipment and Long-term debt.

#### STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$203.1 million for the three months ended September 30, 2001, as compared to \$20.0 million for the same three months of 2000. The increase in net cash provided was primarily the result of activity within the working capital items - Accounts receivable, Inventories, Net assets held for sale and Accounts payable, trade - which provided cash of \$96.6 million in fiscal 2002 compared to using cash of \$117.5 million in fiscal 2001. In addition, cash provided by operating activities excluded a (Gain) on sale of plant and equipment of \$0.1 million in fiscal 2002 compared to \$58.2 million in fiscal 2001 and Other assets provided cash of \$14.3 million in fiscal 2002 after using cash of \$28.4 million in fiscal 2001. These providers of cash were partially offset by a decrease in Net income of \$64.5 million, a decrease in amortization of \$13.4 million and a net change in Deferred income taxes of \$31.3 million.

Net cash used in investing activities decreased to \$204.6 million for fiscal 2002 compared to \$480.0 million for fiscal 2001 primarily due to a decrease of \$350.4 million in the amount spent on acquisitions and a decrease in capital expenditures of \$6.8 million. These uses of cash were partially offset by a decrease in the proceeds received from the sale of plant and equipment of \$61.8

million in fiscal 2002.

Financing activities provided net cash of \$15.0 million for the three months ended September 30, 2001, compared to providing cash of \$448.4 million for the same three months of the prior year. The change resulted primarily from debt borrowings providing cash of \$35.8 million in fiscal 2002 compared to providing cash of \$466.0 million in the prior year. The decrease in debt borrowings in fiscal 2002 was primarily due to a lower level of acquisition activity.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company enters into forward exchange contracts, costless collar contracts, interest-rate swap agreements and cross-currency swap agreements to reduce its exposure to fluctuations in related foreign currencies and interest rates. 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

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Company as a result of these arrangements as well as the market risk of changes in near term interest rates is not material to the Company's financial position, liquidity or results of operations.

#### FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q 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 the Company expects or anticipates to occur in the future, including statements relating to growth, operating margin performance, earnings per share or statements expressing general opinions about future operating results or the markets in which the Company does business, 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 or from major customers or suppliers, including delays or cancellations in shipments,
- . ability of suppliers to provide materials as needed,
- . uncertainties surrounding timing, successful completion or integration of acquisitions,
- . competitive market conditions and resulting effects on sales and pricing,
- . increases in raw-material and other production costs that cannot be recovered in product pricing,
- . threats associated with terrorism,
- . difficulties in introducing new products and entering new markets, and
- . uncertainties surrounding the global economy and global market conditions, including the federal government's policies to stimulate the economy, interest rate levels 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 Report.

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PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

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

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(a) There are no exhibits for the quarter for which this Report is filed.

(b) The Registrant filed a report on Form 8-K on September 26, 2001 to

file under Item 5 its earnings release for the fiscal year ended June 30, 2001.

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

Date: November 12, 2001