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

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**FORM 8-K**

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

**Date of report (Date of earliest event reported): August 16, 2006**

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**PARKER-HANNIFIN CORPORATION**

(Exact Name of Registrant as Specified in Charter)

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**Ohio**  
(State or Other Jurisdiction  
of Incorporation)

**1-4982**  
(Commission File Number)

**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**

**Not Applicable**  
(Former name or former address, if changed since last report.)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01 Entry into a Material Definitive Agreement.**

**Non-Employee Directors Compensation**

On August 17, 2006, the Board of Directors of the Registrant approved the following changes to the cash compensation of the non-employee members of the Board of Directors effective as of October 1, 2006:

1. Increase the annual retainer for the Audit Committee Chair from \$82,500 to \$95,000;
2. Increase the annual retainer for all Committee Chairs other than the Chair of the Audit Committee from \$72,500 to \$85,000; and
3. Increase the annual retainer for non-Chair Committee members from \$67,500 to \$80,000.

A summary of the compensation of the non-employee members of the Board of Directors is attached hereto as [Exhibit 10.1](#) and incorporated herein by reference.

**Restricted Stock Awards to Non-Employee Directors**

On August 16, 2006, the Human Resources and Compensation Committee of the Board of Directors (the "Compensation Committee") of the Corporation authorized, pursuant to the Corporation's 2004 Non-Employee Directors' Stock Incentive Plan, a grant of 1,125 shares of restricted stock to each of its non-employee directors. The restricted stock will be issued on October 1, 2006 subject to the terms and conditions set forth in the form of grant letter attached hereto as [Exhibit 10.2](#) and incorporated herein by reference.

**Stock Option Awards with Tandem Stock Appreciation Rights to Executive Officers**

On August 16, 2006, the Compensation Committee, pursuant to the Corporation's 2003 Stock Incentive Plan, as amended and restated, authorized a grant of stock options with tandem stock appreciation rights to each of its executive officers, including the named executive officers listed below:

<u>Named Executive Officer</u>	<u>Number of Shares Underlying Stock Options with Tandem SARs</u>
Donald E. Washkewicz	104,500
Nickolas W. Vande Steeg	43,500
John D. Myslenski	34,500
Timothy K. Pistell	26,700
Robert P. Barker	18,150

The stock options with tandem stock appreciation rights were granted using the form of grant letter attached hereto as [Exhibit 10.3](#) and incorporated herein by reference.

**Target Incentive Bonus Awards**

On August 16, 2006, the Compensation Committee approved a target incentive bonus award, an annual cash incentive based on the Corporation's free cash flow margin for fiscal year 2007, to Robert P. Barker, one of the Corporation's named executive officers, and certain other executive officers. Mr. Barker's target bonus is \$85,000. The target bonus was granted using the form of award letter attached hereto as Exhibit 10.4 and incorporated herein by reference.

**Bonus Awards Under the Corporation's Performance Bonus Plan**

On August 16, 2006, the Compensation Committee, approved the following annual and long-term bonus awards pursuant to the Corporation's Performance Bonus Plan which is incorporated herein by reference:

**Target Bonus Awards to Named Executive Officers**

A 2007 target bonus award, an annual cash incentive based on the Corporation's free cash flow margin for fiscal year 2007, was awarded to the named executive officers listed below:

<u>Named Executive Officer</u>	<u>Target Bonus Award</u>
Donald E. Washkewicz	\$ 600,000
Nickolas W. Vande Steeg	\$ 310,000
John D. Myslenski	\$ 205,000
Timothy K. Pistell	\$ 175,000

These target bonus awards were granted pursuant to the form of award letter attached hereto as Exhibit 10.5 and incorporated herein by reference.

**Long-Term Incentive ("LTI") Awards to Executive Officers**

A target 2006-07-08 LTI award was awarded to each of the executive officers, including the named executive officers listed below:

<u>Named Executive Officer</u>	<u>Number of Target Shares Awarded</u>
Donald E. Washkewicz	38,750
Nickolas W. Vande Steeg	14,275
John D. Myslenski	11,425
Timothy K. Pistell	8,650
Robert B. Barker	5,800

These target LTI awards are based on the Corporation's revenue growth, earnings per share growth and return on invested capital during the three-year performance period as compared to the results of its peers for each of the foregoing performance measures. These awards were granted pursuant to the form of award letter attached hereto as Exhibit 10.6 and incorporated herein by reference.

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*Return on Net Asset ("RONA") Bonus Awards to Named Executive Officers*

A RONA bonus award, an annual cash incentive based on the Corporation's fiscal year 2007 return on net assets, to the four named executive officers listed below:

<u>Named Executive Officer</u>	<u>Number of RONA Shares</u>
Donald E. Washkewicz	22
Nickolas W. Vande Steeg	16
John D. Myslenski	14
Timothy K. Pistell	14

These RONA awards were granted pursuant to the form of award letter attached hereto as Exhibit 10.7 and incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Summary of the Compensation of the Non-Employee Members of the Board of Directors.
10.2	Form of Grant Letter for Restricted Stock for Non-Employee Directors.
10.3	Form of Grant Letter for Stock Options with Tandem Stock Appreciation Rights for Executive Officers.
10.4	Form of 2007 Target Incentive Bonus Award Letter.
10.5	Form of 2007 Target Incentive Bonus Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan.
10.6	Form of 2007-08-09 Long Term Incentive Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan.
10.7	Form of RONA Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan.
10.8	Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit A to the Corporation's Definitive Proxy Statement filed with the Securities and Exchange Commission on September 26, 2005 (Commission File No. 1-4982).

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**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 hereunto duly authorized.

PARKER-HANNIFIN CORPORATION

By: /s/ Thomas A. Piraino, Jr.

Thomas A. Piraino, Jr.

Vice President and Secretary

Date: August 22, 2006

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EXHIBIT INDEX

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10.6	Form of 2007-08-09 Long Term Incentive Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan.
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10.8	Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit A to the Corporation's Definitive Proxy Statement filed with the Securities and Exchange Commission on September 26, 2005 (Commission File No. 1-4982).

**PARKER-HANNIFIN CORPORATION**  
**SUMMARY OF THE COMPENSATION OF THE NON-EMPLOYEE MEMBERS**  
**OF THE BOARD OF DIRECTORS**

*Adopted August 16, 2006, effective October 1, 2006*

Annual retainer for Audit Committee Chair:	\$ 95,000
Annual retainer for Committee Chairs (other than the Audit Committee Chair):	\$ 85,000
Annual retainer for Non-Chair Committee members:	\$ 80,000

Meeting fees of \$1,500 for attending any Board or Committee meeting during any fiscal year in excess of the number of regularly scheduled Board or Committee meetings, plus two.

Annual restricted stock grant



Name: [Name]

PID: \_\_\_\_\_

October 1, 2006

### NOTICE OF ISSUANCE OF RESTRICTED STOCK

On August 16, 2006, pursuant to the 2004 Non-Employee Directors' Stock Incentive Plan (the "Plan"), the Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Corporation") granted to you \_\_\_\_\_ restricted shares of Parker-Hannifin Corporation Common Stock ("Shares"), to be issued to you subject to the following terms and conditions:

1. Shares will be issued as of October 1, 2006.
2. Ownership of the Shares will become vested (i.e., unrestricted) on September 30, 2009.
3. During the vesting period, the Shares cannot be sold or otherwise transferred or assigned.
4. Except as otherwise provided herein, in the event you cease to be Director of the Corporation for any reason prior to September 30, 2009, including, without limitation, your retirement, death, disability, voluntary or involuntary removal from the Board of Directors or a "change in control" of the Corporation, a pro rata portion of the unvested Shares shall become vested immediately, based upon the ratio of the number of months actually served as a Director to the total number of months in the vesting period, and all remaining unvested Shares shall be forfeited.
5. Certificates representing the Shares will not be issued during the vesting period. Rather, the Shares will be issued in an uncertificated book entry format at the transfer agent.
6. Shares will earn non-refundable dividends during the vesting period, payable directly to you.
7. Upon vesting, the value of the Shares will become taxable income to you. In the event the Corporation is liable to remit withholding taxes on your behalf, you will be obligated to immediately reimburse the Corporation for all withholding taxes payable by the Corporation at such time. At your election, you may surrender a portion of the Shares to satisfy such withholding taxes.



8. If you engage in any Detrimental Activity (as hereinafter defined), the Committee has the right to revoke this award by either cancelling the shares issued under this award (whether unvested or vested) or, if vested shares issued under the award have been disposed of, by requiring repayment to the Corporation in cash of the fair market value (as defined in the Plan) of the liquidated shares as of the date the Committee authorizes revocation of the award. The Corporation may set off any repayment in cancelled shares or in cash against any amounts that may be owed by the Corporation to you, whether as director fees, deferred compensation, or in the form of any other benefit for any other reason. Detrimental Activity, as defined in the Plan, means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Corporation; (ii) the disclosure to anyone outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by you during or after your service as a Director of the Corporation; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Corporation's Code of Ethics.
9. By acknowledging of the terms of this award, you hereby consent to the cross-border collection, use and disclosure by the Corporation of certain personal data required solely for the purpose of administering the grant and exercise of this award. Such personal data shall be limited to your name, gender, address, telephone number, date of birth, date of hire, position, grade, supervisor, country of residence and country of employment. Such data shall be treated as highly confidential and shall not be used for any purpose other than Plan administration.
10. To the extent not otherwise specified above, the issuance of the Shares is subject to the terms and conditions of the Plan.

Please confirm your receipt of this Notice and indicate your acknowledgment and agreement to the terms specified herein by signing and returning a copy of this Notice to Tom Piraino.

Sincerely yours,

Donald E. Washkewicz  
Chairman and Chief Executive Officer

**ACKNOWLEDGED AND AGREED:**

\_\_\_\_\_

[Name]

Date: \_\_\_\_\_



Name: XXX

PID: XXX

**NOTICE OF GRANT OF STOCK OPTIONS WITH  
TANDEM STOCK APPRECIATION RIGHTS**

The Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Company") has granted to you, under the Company's 2003 Stock Incentive Plan (the "Plan"), stock options ("Options") with tandem stock appreciation rights ("SARs") with respect to the number of common shares of the Company ("Common Shares") set forth below. Your Options/SARs under this grant have a grant price ("Grant Price") that is 100% of the fair market value (the "Fair Market Value") of the Common Shares, which is taken as the reported closing price of the Common Shares on the New York Stock Exchange-Composite Transactions on the date of the grant. This grant will expire at the time indicated below unless an earlier lapse date ("Lapse Date") applies due to one of the status changes described in this notice.

Grant Date:	XX/XX/XXXX
No. of Shares to Which Options/SARs Apply:	XXX
Grant Price:	\$XX.XX
Expiration Date:	XX/XX/XXXX, at 4:00 PM ET

Each Option granted hereunder entitles you to purchase the Common Shares covered by the option at the Grant Price. Each SAR granted hereunder entitles you to receive the increase in value (the "Appreciation") of one Common Share from the grant date to the date the SAR is exercised with respect to all or any portion of the Common Shares.

You may exercise all or any portion of this grant as either Options or SARs but not both. The exercise of any portion of the grant as Options automatically cancels the corresponding SARs, and the exercise of any portion of the grant as SARs automatically cancels the corresponding Options.

**SAR Calculation.** Upon the exercise of an SAR, the Appreciation shall be paid to you in Common Shares having a value equivalent to the Appreciation determined in the manner described below. The Company reserves the right to settle the Appreciation in cash in lieu of Common Shares, at its sole election. Appreciation shall be calculated by subtracting the Grant Price from the last determinable Fair Market Value of the Common Shares (which shall be the Fair Market Value on the day prior to exercise, referred to hereafter as the "Prior Day's Close") and multiplying the result by the number of SARs exercised. To determine the number of Common Shares to be issued upon settlement, the Appreciation shall be divided by the Prior Day's Close, and fractional shares shall be rounded down to the nearest whole share with no cash consideration being paid for the fractional remainder.

**Vesting Period.** While you are an active employee, this grant shall vest in one-third increments as follows:

[Vesting Schedule]

provided, however, in the event of a Change in Control of the Company (as defined in the Plan), all of the Options/SARs granted hereunder shall immediately vest and become exercisable.

If your continuous full-time employment is terminated at any time prior to a vesting date as a result of retirement, permanent disability or death, any unvested Options/SARs shall continue to vest according to the schedule set forth above.

Following vesting, your Options/SARs are exercisable in accordance with the terms hereof only while you are a full-time employee of the Company or one of its Subsidiaries at any time until the Expiration Date or Lapse Date as to all or any portion of the Common Shares subject to the vested Options/SARs. Vested Options/SARs may also be exercised upon termination of full-time employment in accordance with the specific status change rules set forth below.

**Effect of Status Changes.** If your continuous full-time employment is terminated at any time prior to a vesting date for any reason other than death, permanent disability or retirement under the applicable retirement plan or policy of the Company, any unvested Options/SARs at such date of termination shall lapse immediately upon termination.

Vested Options/SARs may be exercised in whole or in part after termination of full-time employment before the Lapse Date shown in the right-hand column corresponding to the described status change:

<u>Status Change</u>	<u>Lapse Date</u>
(A) <b>Permanent Disability or Retirement.</b> If the termination of full-time employment is due to permanent disability or to retirement under the applicable retirement plan or policy of the Company or a Subsidiary.	<b>Expiration Date</b>
(B) <b>Death.</b> In the event of your death, if exercised by the executor or administrator of your estate (or if your estate has already been probated, the beneficiary who has inherited the Options/SARs).	<u>The earlier of: Two (2) years after the date of death</u> or the Expiration Date.
(C) <b>Termination.</b> If the termination of full-time employment is due to any other reason except your permanent disability or retirement as specified in (A) above, or your death as specified in (B) above.	<u>The earlier of: Three (3) months from the date of termination</u> or the Expiration Date

**Exercise and Settlement Procedures.** To exercise any portion of this grant, you shall be required to complete and deliver a notice of exercise in the prescribed format to the Company for processing on the Exercise Date. The Exercise Date shall be deemed to be the first business day on which the Company receives, prior to the established cut-off time, (i) the notice of exercise and (ii) if the grant is being exercised as Options, the exercise price which may be paid in cash or with other Common Shares of the Company. If you tender Common Shares of the Company to satisfy the exercise price, such shares will be valued at the Prior Day's Close.

To settle the exercise of the Options/SARs, the Company will instruct its stock transfer agent to issue to you the net number of Common Shares you are entitled to receive. If any portion of the grant is exercised as SARs, the Company may, in its sole discretion, alternatively elect to settle in cash, in which case the Company will pay you the appropriate dollar amount in settlement thereof.

**Automatic Self-Exercise Prior to Expiration.** If any vested portion of this grant has a positive value but remains unexercised on the business day preceding the Expiration Date or a Lapse Date, such grant remainder shall automatically self-exercise as SARs on the Expiration Date to prevent forfeiture.

**Compensation and Payment of Income Withholding Taxes.** If you are a U.S. citizen, you do not realize income upon the grant of these Options/SARs. In certain foreign countries, however, you may be taxed upon grant. In any year in which you exercise a part or all of such Options/SARs, the excess of the fair market value of the Common Shares on the Exercise Date over the Grant Price will be taxed as compensation at ordinary income rates and you will be subject to U.S. or foreign income tax withholding, as applicable. For U.S. citizens, such withholding shall include federal, state, local, FICA, Medicare, or other statutorily-required taxes ("Taxes"). Such Taxes must be paid to the Company at the time of exercise by surrendering to the Company a portion of the Common Shares received in settlement upon exercise. If, however, the Company elects to settle the exercise of SARs in cash instead of stock, the Taxes due upon exercise shall be deducted from the cash settlement prior to payment.

**Tax Withholding Calculation.** The Company will withhold for Taxes the number of shares having an aggregate value based on the Prior Day's Close at least equal to the amount required to be withheld by law. If the value of the withheld shares exceeds the withholding tax amount due, such excess (which will be less than the value of one Common Share) shall be credited to federal income tax withholding.

**Reloadability.** If you (or a permitted transferee as provided below) tender Common Shares of the Company to satisfy the exercise price on an Option, you will receive one (1) restorative or "reload" grant of SARs effective on the Exercise Date equivalent to the number of Common Shares surrendered to satisfy the exercise price (the "Reload SARs"). The Reload SARs will have a Grant Price equal to the Fair Market Value of the Common Shares on the Exercise Date. Except as otherwise specified herein, no Reload SARs may be exercised (a) prior to the completion of one (1) year of continuous full-time employment following the Exercise Date; and (b) unless you have retained ownership of the Common Shares resulting from the Option exercise on the Exercise Date (less a sufficient number of Common Shares to satisfy withholding tax obligations) for a period of one (1) year from the Exercise Date. No more than one (1) grant of Reload SARs shall be made

hereunder. All other terms and conditions of the Reload SARs will be identical to those contained herein, including without limitation the expiration and termination of the Reload SARs.

**Transferability.** Your Options/SARs are not transferable (other than by will or the laws of descent and distribution) except to (a) your spouse, children or grandchildren, (b) one or more trusts for the benefit of such family members; or (c) partnerships in which such family members are the only partners; provided, however, that you do not receive any consideration for the transfer. Any transferred Options/SARs shall continue to be subject to the same terms and conditions that were applicable immediately prior to its transfer (except that such transferred Options/SARs shall not be further transferable by the transferee *inter vivos*).

**Detrimental Activity.** If you engage in any Detrimental Activity (as hereinafter defined), the Committee has the right to cancel this grant if unexercised or require repayment to the Company of any compensation received (in the form of cash or Common Shares) as a result of the exercise of any portion of this grant. Detrimental Activity, as defined in the Plan, means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Corporation; (ii) the disclosure to anyone outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by the Grantee during or after employment with the Corporation; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Corporation's Code of Ethics.

**Consent to Use Data.** By acknowledging of the terms of this award, you hereby consent to the cross-border collection, use and disclosure by the Corporation of certain personal data required solely for the purpose of administering the grant and exercise of this award. Such personal data shall be limited to your name, gender, address, telephone number, date of birth, date of hire, position, grade, supervisor, country of residence and country of employment. Such data shall be treated as highly confidential and shall not be used for any purpose other than Stock Incentive Program administration.

**Prospectus Notification.** A Memorandum dated July 29, 2004 (the "Prospectus") describing the terms of the 2003 Stock Incentive Program which governs this grant and the most recent Annual Report and Proxy Statement issued by Parker-Hannifin Corporation are available for your review on your Stock Incentives Web page. You have the right to receive a printed copy of the Prospectus upon request by either calling the Stock Plan Administrator at 216-896-2950 or by sending your written request to Parker's Legal Department.

**All Terms Herein Subject to the Plan.** The grant of your Options/SARs hereunder is at all times subject to all other terms, conditions and provisions of the Plan (and any rules or procedures adopted thereunder by the Committee) to the extent not specifically addressed herein. All initially capitalized terms, to the extent not otherwise defined herein, shall have the meaning ascribed to such terms in the Plan. In the event of a conflict between the terms of the Plan and this grant letter, the Plan shall prevail.

By acknowledging the terms of this award, you acknowledge that: (i) any award of equity compensation is purely discretionary and is not compensation/salary for termination indemnity purposes; (ii) future awards of equity incentives may be discontinued at any time; and (iii) an award granted in one year does not guarantee a grant of awards in future years.

Please acknowledge your receipt of this letter and your agreement to the terms stated herein by clicking on the "Accept" button below. **Failure to acknowledge receipt of this letter and the terms stated herein will jeopardize your ability to exercise the Options/SARs granted herein.**

Sincerely yours,

Thomas A. Piraino, Jr.  
Vice President, General Counsel and Secretary



TO: [Name]

August 16, 2006

**FISCAL YEAR 2007  
TARGET INCENTIVE BONUS AWARD**

Dear \_\_\_\_\_:

On August 16, 2006, the Human Resources and Compensation Committee of the Board of Directors (the "Committee") authorized an executive compensation award (the "EC Award") to you in the target amount of \$\_\_\_\_\_ (the "Target Amount"). The EC Award is subject to the following terms and conditions:

1. The payout under the EC Award (the "Payout") will be based upon the Corporation's actual operating cash flow less capital expenditures (free cash flow) expressed as a percent of the Corporation's sales ("FCF Margin") for fiscal year 2007 (the "Performance Period"). Discretionary pension contributions by the Corporation shall not be included in the calculation of FCF Margin. You will receive a Payout of 100% of your Target Amount if a FCF Margin of 6.1% is achieved by the Corporation for the Performance Period. FCF Margin above or below 6.1% for the Performance Period will result in a lesser or greater Payout than the Target Amount on a *pro rata* basis (see Table 1 below). The minimum threshold for any Payout under the EC Award is 3.1% FCF Margin during the Performance Period.

FY07 FCF Margin:	<3.1%	3.1%	4.1%	5.1%	6.1%	7.1%	8.1%	<sup>3</sup> 9.1%
Payout %:	0%	25%	50%	75%	100%	133%	167%	200%

2. The Payout earned under the EC Award will be paid at the end of the Performance Period. Your payout will be reduced on *pro rata* basis to reflect the actual amount of time you serve in an eligible position during the Performance Period.

3. If you retire (at or after age 60, or earlier with the consent of the Committee), die or become disabled during the Performance Period, you will be entitled to receive a *pro rata* share of the Payout ultimately earned during the Performance Period based upon the number of full months worked during the Performance Period. Termination of employment for any other reason during the Performance Period will result in forfeiture of your EC Award.

4. You will receive the Payout in either cash or a credit to your Executive Deferral Plan account (based on your election made in accordance with rules established by the Corporation).

5. The Committee may, at its sole discretion, adjust the level of the Payout earned hereunder based upon its assessment of the overall financial results of the Corporation for the Performance Period.

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Please acknowledge receipt of the EC Award and indicate your agreement with the terms hereof by signing and returning a copy to me as soon as possible.

Thomas A. Piraino, Jr.  
Vice President, General Counsel  
And Secretary

Receipt Acknowledged and Agreed:

\_\_\_\_\_

[Name]

Date: \_\_\_\_\_





TO: [Name]  
August \_\_, 2006

**FISCAL YEAR 2007  
TARGET INCENTIVE BONUS AWARD  
UNDER PERFORMANCE BONUS PLAN**

Dear \_\_\_\_\_:

On August 16, 2006, the Human Resources and Compensation Committee of the Board of Directors (the "Committee") authorized a target incentive bonus award (the "Award") to you under the Corporation's Performance Bonus Plan ("Bonus Plan"). This award is made subject to the Corporation's Performance Bonus Plan, which was approved by the shareholders of the Corporation on October 26, 2005, so that payments made hereunder will be qualified as "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code of 1986 and Section 1.162-27 of the Treasury Regulations promulgated thereunder. Your Award is in the target amount of \$\_\_\_\_\_ (the "Target Amount"). The Award is subject to the following terms and conditions:

1. The payout under the Award (the "Payout") will be based upon the Corporation's actual operating cash flow less capital expenditures (free cash flow) expressed as a percent of the Corporation's sales ("FCF Margin") for fiscal year 2007 (the "Performance Period"). Discretionary pension contributions by the Corporation shall not be included in the calculation of FCF Margin. You will receive a Payout of 100% of your Target Amount if a 6.1% FCF Margin for the Performance Period is achieved. FCF Margin above or below 6.1% for the Performance Period will result in a lesser or greater Payout than the Target Amount on a *pro rata* basis (see Table 1 below). The minimum threshold for any Payout under the Award is 3.1% FCF Margin during the Performance Period.

FY07 FCF Margin:	<3.1%	3.1%	4.1%	5.1%	6.1%	7.1%	8.1%	<sup>3</sup> 9.1%
Payout %:	0%	25%	50%	75%	100%	133%	167%	200%

2. The Payout earned under the Award will be paid at the end of the Performance Period. Your Payout will be reduced on *pro rata* basis to reflect the actual amount of time you serve in an eligible position during the Performance Period.

3. If you retire (at or after age 60, or earlier with the consent of the Committee), die or become disabled during the Performance Period, you will be entitled to receive a *pro rata* share of the Payout ultimately earned during the Performance Period based upon the number of full months worked during the Performance Period. Termination of employment for any other reason during the Performance Period will result in forfeiture of your Award.

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4. You will receive the Payout in either cash or a credit to your Executive Deferral Plan account (based on your election made in accordance with rules established by the Corporation) following certification of the calculation of the FCF Margin by the Committee at the end of the Performance Period. The Committee retains the ability to reduce the Payout at its sole discretion. The amount of the Payout is also subject to the payout limitations set forth in Section 5(c) of the Bonus Plan.

5. The Award is subject to all terms, conditions and provisions of the Bonus Plan to the extent not specifically addressed herein. In the event of any conflict between the terms of the Bonus Plan and the Award, the Bonus Plan shall prevail.

Please acknowledge receipt of the Award and indicate your agreement with the terms hereof by signing and returning a copy to me as soon as possible.

Thomas A. Piraino, Jr.  
Vice President, General Counsel  
And Secretary

Receipt Acknowledged and Agreed:

\_\_\_\_\_

[Name]

Date: \_\_\_\_\_



TO: [Name]

August \_\_, 2006

**2007-08-09**  
**LONG TERM INCENTIVE (LTI) AWARD**  
**UNDER PERFORMANCE BONUS PLAN**

Dear \_\_\_\_\_:

On August 16, 2006, the Human Resources and Compensation Committee of the Board of Directors (the "Committee") authorized an LTI award (the "Award") to you under the Corporation's Performance Bonus Plan, which was approved by the shareholders of the Corporation on October 26, 2005, so that payments made hereunder may be qualified as "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code of 1986 and Section 1.162-27 of the Treasury Regulations promulgated thereunder. Your Award is in the target amount of \_\_\_\_\_ restricted shares of the Common Stock of the Corporation (the "Target Amount"). The Award is subject to the following terms and conditions:

1. The payout under the Award will be determined by comparing the Corporation's results to the performance of the Corporation's peer group listed on attached Exhibit A ("Peers") for the measurements indicated below (the "Performance Measures") for fiscal years 2007, 2008 and 2009 (the "Performance Period"). The Target Amount will be weighted as follows for each Performance Measure (each a "Weighted Target"):

Performance Measure	Weight
Revenue Growth	20%
Earnings Per Share (EPS) Growth	40%
Return on Capital (ROC)	40%

Revenue growth, EPS and ROC for the Corporation and the Peers shall be calculated by reference to sales and income from continuing operations.

You will receive a payout of 100% of the Weighted Target for each Performance Measure if the Corporation ranks in the 5<sup>th</sup> percentile among the Peers in the applicable Performance Measure. Percentile rankings above or below the 55<sup>th</sup> percentile for the Performance Period among the Peers for any Performance Measure will result in a lesser or greater payout for each Weighted Target in accordance with the following table:

Percentile Ranking:	£35 <sup>th</sup>	45 <sup>th</sup>	55 <sup>th</sup>	65 <sup>th</sup>	75 <sup>th</sup>
Payout %:	0	50	100	150	200

For each Performance Measure, the Corporation's ranking must be above the 35<sup>th</sup> percentile among the Peers for the Performance Period in order to receive a payout for the applicable Weighted Target. The total payout under the Award ("Payout") will be determined by adding together the payouts for each of the Performance Measures.

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In light of the impact of the adoption of FAS 123R by the Corporation on July 1, 2005 (which requires the expensing of equity-based compensation), in order to make a valid Peer comparison when the date of adoption for the Corporation and any of its Peers is not the same, the calculation of each Performance Measure for each Peer who has not adopted FAS 123R will be adjusted to include the pro forma expense for equity-based compensation reported by such Peers in the footnotes to their published financial statements; provided, however, that if such pro forma expense is not readily available for all such Peers, then the calculation of each Performance Measure for the Corporation and each Peer which has adopted FAS 123R will be adjusted to remove the effect of the expense for equity-based compensation.

Peers which do not publish stand-alone financial results for the entire Performance Period as a result of going private, acquisition, or any similar transaction will be removed from the list of Peers. Peers which merge during the Performance Period will remain as Peers only if they are the surviving entity of the merger. Any Peer which has publicly announced the need to restate its financial statements for any portion of the Performance Period, but has not yet published such restatement, will be excluded from the Peer comparisons for any Performance Metric in which its result is better than the Corporation's result. Any Peer which has not published financial statements for the entire Performance Period due to the publicly announced need to restate its financial statements will be removed from the list of Peers.

2. The Payout earned under the Award will be paid after the end of the Performance Period.

3. If you retire (at or after age 60, or earlier with the consent of the Committee), die or become disabled during the Performance Period, you will be entitled to receive a *pro rata* share of the Payout ultimately earned during the Performance Period based upon the number of full calendar quarters worked during the Performance Period. Termination of employment for any other reason during the Performance Period will result in forfeiture of your Award.

4. Except as otherwise provided herein, if you are actively employed by the Corporation at the time of the Payout, you will receive the Payout in the form of restricted shares of the Common Stock of the Corporation (the "Restricted Shares"). The Restricted Shares will be subject to the terms and conditions imposed by the Committee at the time of issuance.

5. You may elect, in accordance with rules established by the Corporation, to receive your Payout in the form of a credit to your Executive Deferral Plan ("EDP") account. If such an election is timely made, you will receive your Payout in the form of a credit to your EDP account as of July 1, 2009 in an amount equal to the number of Restricted Shares earned under the Award multiplied by the closing price of the Corporation's Common Shares on the New York Stock Exchange on June 30, 2009 (the "Cash Equivalent")

6. If you are not an active employee of the Corporation at the time of the Payout pursuant to the Award, your Payout will be in the form of cash equal to the Cash Equivalent, unless you have made the EDP election specified in Section 5.

7. In the event of a "Change in Control of the Company" (as defined in the Corporation's Change in Control Severance Agreements), you will receive an amount in cash under the Award within fifteen (15) days following the date of the Change in Control equal to the greater of (a) the amount equal to (i) the Target Amount of Restricted Shares multiplied by (ii) the Stock Price (as hereinafter defined); or (b) the amount equal to (i) what your Payout in Restricted Shares would have been had the Corporation's percentile ranking against the Peers for each of the Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the date of the Change in Control continued throughout the Performance Period at the same level, multiplied by (ii) the Stock Price. As used herein, the "Stock Price" shall mean the closing price for the Corporation's shares on the New York Stock Exchange on July 1, 2006, or on the date of the Change in Control, whichever is higher.

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8. You will receive the Payout in the form described above following certification of the calculation of the Performance Measures and the Payout by the Committee at the end of the Performance Period. The Committee retains the ability to reduce the Payout at its sole discretion. The amount of the Payout is also subject to the payout limitations set forth in Section 5(c) of the Bonus Plan.

9. The Award is subject to all terms, conditions and provisions of the Bonus Plan to the extent not specifically addressed herein. In the event of any conflict between the terms of the Bonus Plan and the Award, the Bonus Plan shall prevail.

Please acknowledge receipt of the Award and indicate your agreement with the terms hereof by signing and returning a copy to me as soon as possible.

Thomas A. Piraino, Jr.  
Vice President, General Counsel  
And Secretary

Receipt Acknowledged and Agreed:

\_\_\_\_\_

[Name]

Date: \_\_\_\_\_

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**Exhibit A**  
**to**  
**2007-08-09 LONG TERM INCENTIVE (LTI) AWARD**  
**UNDER PERFORMANCE BONUS PLAN**

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.

Johnson Controls, Inc.

Pall Corporation

Rockwell Automation, Inc.

SPX Corporation

Textron Inc.



TO: [Name]

August \_\_, 2006

**FY07 RETURN ON NET ASSETS (RONA) AWARD  
UNDER PERFORMANCE BONUS PLAN**

Dear \_\_\_\_\_:

On August 16, 2006, the Human Resources and Compensation Committee of the Board of Directors (the "Committee") authorized a RONA award ("Award") for fiscal year 2007 ("FY07") to you under the Corporation's Performance Bonus Plan, which was approved by the shareholders of the Corporation on October 26, 2005, so that payments made hereunder will be qualified as "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code of 1986 and Section 1.162-27 of the Treasury Regulations promulgated thereunder. Your Award is in the amount of \_\_\_\_\_ RONA Shares. The Award is subject to the following terms and conditions:

1. The payout value of each RONA Share ("RONA %") is determined as follows:
  - a) **Earnings / Average Assets = Return on Assets (ROA)**
  - b) *If ROA is ≤35%: **ROA x 0.1786 = RONA%***  
*—or— if ROA is >35%: **6.25% + ((ROA-35%) x 0.08928) = RONA%***

where:

Earnings= the Corporation's Segment Operating Income for FY07;

Average Assets = the average of the Corporation's RONA Assets at the beginning of FY07 and at the end of each of the fiscal quarters of FY07; and

RONA Assets = inventory + accounts receivable + prepaid expenses + property, plant and equipment (net) + goodwill + intangibles – trade accounts payable.

2. The formula for calculating your "Payout" under the Award is as follows:
  - a) **RONA% x (# of RONA Shares) = Total Bonus %**
  - b) **Total Bonus % x Base Pay for fiscal year 2007 = Payout**

3. The Payout earned under the Award will be paid after the end of FY07. Your Payout will be reduced on *pro rata* basis to reflect the actual amount of time you serve in an eligible position during FY07.

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4. If you retire (at or after age 60, or earlier with the consent of the Committee), die or become disabled during FY07, you will be entitled to receive a pro rata share of the Payout ultimately earned during FY07 based upon the number of full months worked during FY07. Termination of employment for any other reason during FY07 will result in forfeiture of your Award.

5. You will receive the Payout in either cash or a credit to your Executive Deferral Plan account (based on your election made in accordance with rules established by the Corporation) following certification of the calculation of the RONA% and Payout by the Committee at the end of FY07. The Committee retains the ability to reduce the Payout at its sole discretion. The amount of the Payout is also subject to the payout limitations set forth in Section 5(c) of the Bonus Plan.

6. The Award is subject to all terms, conditions and provisions of the Bonus Plan to the extent not specifically addressed herein. In the event of any conflict between the terms of the Bonus Plan and the Award, the Bonus Plan shall prevail.

Please acknowledge receipt of this Award and indicate your agreement with the terms hereof by signing and returning a copy to me as soon as possible.

*Thomas A. Piraino Jr.*

Thomas A. Piraino, Jr.  
Vice President, General Counsel  
And Secretary

Receipt Acknowledged and Agreed:

\_\_\_\_\_

Date: \_\_\_\_\_

[Name]