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

FORM 10-K

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

For the fiscal year ended June 30, 2006

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 No. 1-4982

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

Ohio (State or other jurisdiction of Incorporation or Organization)	**34-0451060** (I.R.S. Employer Identification No.)
6035 Parkland Boulevard, Cleveland, Ohio (Address of Principal Executive Offices)	**44124-4141** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares, $.50 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one).

Large Accelerated Filer: ☒ Accelerated Filer: ☐ Non- Accelerated Filer: ☐

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

The approximate aggregate market value of the outstanding common stock held by non-affiliates of the Registrant as of December 31, 2005, excluding, for purposes of this computation only, stock holdings of the Registrant's Directors and Officers: $7,856,056,445.

The number of Common Shares outstanding on July 31, 2006 was 120,216,041.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference:

(1) Annual Report to Shareholders of the Company for the fiscal year ended June 30, 2006 is incorporated by reference into Parts I and II hereof.

(2) Definitive Proxy Statement for the Company's 2006 Annual Meeting of Shareholders to be held on October 25, 2006 is incorporated by reference into Part III hereof.

PARKER-HANNIFIN CORPORATION

FORM 10-K

Fiscal Year Ended June 30, 2006

PART I

ITEM 1. Business. Parker-Hannifin Corporation is a leading worldwide full-line diversified manufacturer of motion control products, including fluid power systems, electromechanical controls and related components. Fluid power involves the transfer and control of power through the medium of liquid, gas or air, in hydraulic, pneumatic and vacuum applications. Fluid power systems move and position materials, control machines, vehicles and equipment and improve industrial efficiency and productivity. Components of a simple fluid power system include one or more pumps which generate pressure, one or more valves which control the fluid's flow, one or more actuators which translate the pressure from the fluid into mechanical energy, one or more filters to insure proper fluid condition and numerous hoses, couplings, fittings and seals. Electromechanical control involves the use of electronic components and systems to control motion and precisely locate or vary speed in automation and aerospace applications. In addition to motion control products, the Company also is a leading worldwide producer of fluid purification, fluid and fuel control, process instrumentation, air conditioning, refrigeration, electromagnetic shielding and thermal management products and systems.

The Company also designed and manufactured custom-engineered buildings through its Astron Buildings Group, which business unit comprised the Other Segment, until the Company divested such business unit in August 2005. The divested business unit was classified as discontinued operations for all periods during the fiscal year ended June 30, 2006.

The Company was incorporated in Ohio in 1938. Its principal executive offices are located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, telephone (216) 896-3000. As used in this Report, unless the context otherwise requires, the term "Company" or "Parker" refers to Parker-Hannifin Corporation and its subsidiaries.

The Company's investor relations internet website address is www.phstock.com. The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after filing or furnishing such material electronically with the Securities and Exchange Commission. The information contained on or accessible through the Company's website is not part of this Annual Report on Form 10-K.

The Board of Directors has adopted a written charter for each of the committees of the Board of Directors. These charters, as well as the Company's Code of Ethics, Guidelines on Corporate Governance Issues and Independence Standards for Directors, are posted and available on the

Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Shareholders may request copies of these corporate governance documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

The Company's manufacturing, service, distribution and administrative facilities are located in 35 states and in 42 foreign countries. The Company's motion control technology is used in products of its three principal business segments: Industrial; Aerospace; and Climate & Industrial Controls. The products are sold as original and replacement equipment through product and distribution centers worldwide. The Company markets its products through direct-sales employees, independent distributors, sales representatives and builder/dealers. Parker products are supplied to approximately 417,000 customers in virtually every significant manufacturing, transportation and processing industry. For the fiscal year ended June 30, 2006, total net sales were $9,385,887,731; Industrial Segment products accounted for 73% of net sales, Aerospace Segment products for 16%, and Climate & Industrial Controls Segment products for 11%.

Markets

Motion control systems are used throughout industries in applications which include moving materials, controlling machines, vehicles and equipment and positioning materials during manufacturing processes. Motion control systems contribute to the efficient use of energy and improve industrial productivity.

The approximately 417,000 customers who purchase the Company's products are found throughout virtually every significant manufacturing, transportation and processing industry. No single customer accounted for more than 3% of the Company's total net sales for the fiscal year ended June 30, 2006.

Major markets for products of the Fluid Connectors, Hydraulics, Automation and Seal Groups of the Industrial Segment are agricultural machinery, analytical instrumentation, aerospace, automotive, construction machinery, electronic equipment, energy, oil and gas, fabricated metals, food production, information technology, industrial machinery, power generation, pulp and paper, machine tools, marine, medical devices, mining, mobile equipment, chemicals and chemical processing, robotics, semi-conductor equipment, telecommunications, textiles, transportation and every other major production and processing industry. Major markets for products manufactured by the Instrumentation Group of the Industrial Segment are power generation, oil and gas exploration, petrochemical and chemical processing, pulp and paper, healthcare, and semi-conductor manufacturing. Major markets for products of the Filtration Group of the Industrial Segment are industrial machinery, mobile equipment, diesel engines, process equipment, marine, aviation, environmental and semi-conductor manufacturing. Sales of Industrial Segment products are made to original equipment manufacturers and their replacement markets.

Sales of Aerospace Segment products are made primarily to original equipment manufacturers in the commercial, military and general aviation markets and to end users for maintenance, repair and overhaul.

Products manufactured by the Climate & Industrial Controls Segment are used principally in commercial and industrial refrigeration systems, residential and commercial air conditioning systems, mobile air conditioning systems, and equipment and industrial fluid control markets. Sales of Climate & Industrial Controls Segment products are made to original equipment manufacturers and their replacement markets.

Principal Products, Methods of Distribution and Competitive Conditions

Industrial Segment. The product lines of the Company's Industrial Segment consist of a broad range of motion control and fluid systems and components. The Fluid Connectors Group manufactures a broad range of connectors, including hydraulic, industrial and thermoplastic hoses and fittings, tube fittings, quick disconnects, and plastic tubing and fittings which control, transmit and contain fluid. The Hydraulics Group produces a broad range of hydraulic components and systems for builders and users of industrial and mobile machinery and equipment, such as cylinders, accumulators, rotary actuators, valves, motors and pumps, hydrostatic steering units, power units, integrated hydraulic circuits, electrohydraulic systems, engineered systems, digitally controlled fan-drive systems, and power take-off equipment. The Automation Group produces a broad range of pneumatic and electromechanical components and systems. Pneumatic products include pneumatic valves, air preparation units, pneumatic actuators, vacuum products, pneumatic logic systems, and structural extrusions. Electromechanical products include human-machine interface hardware and software; industrial PCs; single and multi-axis stand-alone and bus-based controllers; rotary and linear servo motors; rotary and linear stepper motors; analog and digital stepper and servo drives; precision gearheads; ballscrew, belt, and linear motor driven positioning tables; electric rod-style and rodless cylinders; and gantry robots. The Seal Group manufactures static and dynamic sealing devices, including o-rings, extruded and lathe-cut products, custom molded shapes, and combination and dynamic seals; gaskets and packings which ensure leak-proof connections; electromagnetic interference shielding; and thermal management products. The Filtration Group manufactures filters, systems and instruments to monitor and remove contaminants from fuel, air, oil, water and other fluids and gases, including hydraulic, lubrication and coolant filters; process, chemical and microfiltration filters; compressed air and gas purification filters; compressed air and gas dryers; lube oil and fuel filters; fuel conditioning filters; fuel filters/water separators; cabin air filters; intake air filters; and nitrogen and hydrogen generators and condition monitoring devices. The Instrumentation Group manufactures high quality critical flow components for process instrumentation, healthcare and ultra-high-purity applications, including fittings, valves, regulators, manifolds, process and analytical systems and PTFE products.

Industrial Segment products include custom units which are engineered and produced to original equipment manufacturers' specifications for application to a particular end product and standard items. Both custom and standard products are also used in the replacement of original motion control system components. Industrial Segment products are marketed primarily through field sales employees and approximately 8,400 independent distributors.

Aerospace Segment. Principal products of the Company's Aerospace Segment are hydraulic, fuel and pneumatic systems and components used on commercial and military airframe and engine programs. The Aerospace Group also manufactures a broad range of connectors, hoses and fittings, tube fittings and quick disconnects which control, transmit and contain fluid for aircraft applications.

The Aerospace Segment offers complete hydraulic and primary flight control systems that include hydraulic, electrohydraulic and electromechanical components used for precise control of aircraft rudders, elevators, ailerons and other aerodynamic control surfaces and utility hydraulic components such as reservoirs, accumulators, selector valves, electrohydraulic servovalves, thrust-reverser actuators, engine-driven pumps, motor pumps, nosewheel steering systems, electromechanical actuators, engine controls and electronic controllers. The Aerospace Segment also designs and manufactures aircraft wheels and brakes for general aviation and military markets.

The Aerospace fuel product line includes complete fuel systems as well as components such as fuel transfer and pressurization controls; in-flight refueling systems; fuel pumps and valves; fuel measurement and management systems; center of gravity controls; engine fuel injection atomization nozzles, manifolds and augmentor controls; and electronic monitoring computers.

Pneumatic components include bleed air control systems, pressure regulators, low-pressure pneumatic controls, engine starter systems, engine bleed control and anti-ice systems, and electronic control and monitoring computers.

Aerospace Segment products are marketed by the Company's regional sales organization and are sold directly to manufacturers and end users.

Climate & Industrial Controls Segment. The principal products of the Company's Climate & Industrial Controls Segment are refrigeration and air conditioning systems and components and fluid control process systems and components for use primarily in the mobile and stationary refrigeration and air conditioning industry.

The Climate & Industrial Controls Segment manufactures components and systems for use in industrial, residential, commercial, mobile air conditioning and refrigeration systems and other applications, including pressure regulators, solenoid valves, expansion valves, filter-dryers, heat exchangers, gerotors and hose assemblies. Climate & Industrial Controls Segment products are marketed primarily through field sales employees and independent distributors and wholesalers.

Competition. All aspects of the Company's business are highly competitive. No single manufacturer competes with respect to all products manufactured and sold by the Company and the degree of competition varies with different products. In the Industrial Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and price competitiveness. The Company believes that, in most of the major markets for its Industrial Segment products, it is one of the principal suppliers of motion control systems and components.

In the Aerospace Segment, the Company has developed alliances with key customers based on the Company's advanced technological and engineering capabilities, superior performance in quality, delivery, and service, and price competitiveness, which has enabled the Company to obtain significant original equipment business on new aircraft programs for its systems and components and, thereby, to obtain the follow-on repair and replacement business for these programs. The Company believes that it is one of the primary suppliers in the aerospace market.

In the Climate & Industrial Controls Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and competitive price. The Company believes that it is one of the principal suppliers in the climate and industrial controls market.

Research and Product Development

The Company continually researches the feasibility of new products and services through its development laboratories and testing facilities in many of its worldwide manufacturing locations. Its research and product development staff includes chemists, mechanical, electronic and electrical engineers and physicists.

Research and development costs relating to the development of new products and services and the improvement of existing products and services amounted to $203,702,371 in fiscal year 2006, $164,228,546 in fiscal year 2005 and $141,987,688 in fiscal year 2004. These amounts include costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts for each of the respective fiscal years 2006, 2005 and 2004 were $37,531,597, $34,756,921 and $48,013,075. These costs are included in the total research and development cost for each of the respective years.

Patents, Trademarks, Licenses

The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights to use a number of patents owned by others. In addition, patent applications on certain products are now pending, although there can be no assurance that patents will be issued. The Company is not dependent to any material extent on any single patent or group of patents.

Backlog and Seasonal Nature of Business

The Company's backlog at June 30, 2006 was approximately $2,695,876,258 and at June 30, 2005 was approximately $2,304,163,095. Approximately 89% of the Company's backlog at June 30, 2006 is scheduled for delivery in the succeeding twelve months. The Company's business generally is not seasonal in nature.

Environmental Regulation

The Company is subject to U.S. federal, state, local and foreign laws and regulations designed to protect the environment and to regulate the discharge of materials into the environment. Among other environmental laws, the Company is subject to the U.S. federal "Superfund" law, under which the Company has been designated as a "potentially responsible party" and may be liable for cleanup costs associated with various waste sites, some of which are on the U.S. Environmental Protection Agency's Superfund priority list.

As of June 30, 2006, the Company is involved in environmental remediation at 34 manufacturing facilities presently or formerly operated by the Company and has been named as a "potentially responsible party," along with other companies, at two off-site waste disposal facilities and three regional sites.

The Company believes that its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and the consequent financial liability to the Company. Compliance with environmental laws and regulations requires continuing management effort and expenditures by the Company. Compliance with environmental laws and regulations has not had in the past, and, the Company believes, will not have in the future, material effects on the capital expenditures, earnings, or competitive position of the Company.

As of June 30, 2006, the Company has a reserve of $18,374,260 for environmental matters which are probable and reasonably estimable. This reserve is recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties.

The Company's estimated total liability for the above mentioned sites ranges from a minimum of $18,374,260 to a maximum of $71,872,189. The largest range for any one site is approximately $8,304,328. The actual costs to be incurred by the Company will be dependent on final delineation of contamination, final determination of remedial action required, negotiations with federal and state agencies with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technology, effectiveness of remedial technologies employed, the ultimate ability to pay of the other responsible parties, and any insurance or third-party recoveries.

Energy Matters and Sources and Availability of Raw Materials

The Company's primary energy source for each of its business segments is electric power. While the Company cannot predict future costs of such electric power, the primary source for production of the required electric power will be coal from substantial, proven coal reserves available to electric utilities. The Company is subject to governmental regulations in regard to energy supplies both in the United States and elsewhere. To date, the Company has not experienced any significant disruptions of its operations due to energy curtailments.

Steel, brass, aluminum, elastomeric and thermoplastic materials and chemicals are the principal raw materials used by the Company. These materials are available from numerous sources in quantities sufficient to meet the requirements of the Company.

Employees

The Company employed 57,073 persons as of June 30, 2006, of whom approximately 27,525 were employed by foreign subsidiaries.

Business Segment Information

The Company's net sales, segment operating income and identifiable assets by business segment and net sales and long-lived assets by geographic area for the past three fiscal years, as set forth on pages 13-16 to 13-17 of Exhibit 13 to this Annual Report on Form 10-K, are incorporated into this section by reference.

Acquisitions and Divestitures

During fiscal year 2006, the Company completed a number of acquisitions and divestitures. The description of these transactions, as set forth on pages 13-23 to 13-24 of Exhibit 13 to this Annual Report on Form 10-K, is incorporated into this section by reference.

ITEM 1A. Risk Factors.

The Company's business, financial condition, results of operations and cash flows are subject to various risks factors, including, but not limited to those set forth below, any one of which could cause actual results to vary materially from recent results or from anticipated future results. These risk factors should be considered together with information included elsewhere in this Annual Report on Form 10-K. The risk factors described below are those that the Company believes are currently the most significant. Additional risk factors not currently known to the Company or that the Company believes are immaterial also may impair the Company's business, financial condition, results of operations and cash flows.

The Company is subject to risks relating to its foreign operations.

In fiscal year 2006, approximately 37% of the Company's net sales were derived from customers outside the United States. In addition, many of the Company's manufacturing operations and suppliers are located outside the United States. The Company expects net sales from foreign markets to continue to represent a significant portion of its total net sales. The Company's foreign operations are subject to risk in addition to those risks of its domestic operations, including:

- fluctuations in currency exchange rates;
- limitations on ownership and on repatriation of earnings;
- transportation delays and interruptions;
- political, social and economic instability and disruptions;
- government embargoes or foreign trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;

- labor unrest and current and changing regulatory environments;
- the potential for nationalization of enterprises;
- difficulties in staffing and managing multi-national operations;
- limitations on its ability to enforce legal rights and remedies; and
- potentially adverse tax consequences.

If the Company is unable to manage successfully the risks associated with expanding its global business or adequately manage operational fluctuations internationally, the risks could have a material adverse effect on the Company's business, results of operations or financial condition.

Demand for and supply of the Company's products may be adversely affected by numerous factors, some of which the Company cannot predict or control, which could adversely affect its results of operations.

Numerous factors may affect the demand for and supply of the Company's products, including:

- changes in the market acceptance of its products;
- increased competition in the markets it serves;
- changes in economic conditions in individual markets;
- declines in the general level of industrial production; or
- declines in the availability or increases in the prices of raw materials.

If any of these factors occur, the demand for and supply of the Company's products could suffer, which would adversely affect its results of operations.

The Company operates in a highly competitive environment.

The Company's domestic and foreign operations are subject to significant competitive pressures. To compete successfully, the Company's Industrial Segment and Climate and Industrial Controls Segment must excel in terms of product quality and innovation, customer service, manufacturing and distribution capability and price competitiveness and its Aerospace Segment must excel on the basis of technological and engineering capability, quality, delivery and service, and price competitiveness. The financial resources and performance of certain of the Company's competitors may put the Company at a competitive disadvantage, which would adversely affect its results of operations.

The Company's future growth is partly dependent on the development of new products and technologies and preservation of its intellectual property.

The markets the Company operates in are characterized by rapidly changing technologies and frequent introductions of new products and services. The Company's ability to develop new products based on technological innovation can affect its competitive position and often requires the investment of significant resources. Difficulties or delays in research, development or production of new products and services or failure to gain market acceptance of new products and technologies may significantly reduce future revenues and materially adversely affect the Company's competitive position.

Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights under patents owned by others. The Company's intellectual property may be challenged or infringed upon by third parties or the Company may be unable to maintain, renew or enter into new license agreements with third party owners of intellectual property on reasonable terms. Unauthorized use of the Company's intellectual property rights or inability to preserve existing intellectual property rights could materially adversely impact the Company's competitive position and results of operations.

The raw materials used in the Company's production processes and by its suppliers of component parts are subject to price and supply fluctuations that could increase the Company's costs of products and adversely affect the Company's results of operations.

The Company's supply of raw materials for its businesses could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. While the Company generally attempts to pass along increased raw material prices to its customers in the form of price increases, there may be a time delay between the increased raw material prices and the Company's ability to increase the price of its products, or it may be unable to increase the prices of its products due to pricing pressure or other factors.

The Company's suppliers of component parts may significantly and quickly increase their prices in response to increases in costs of raw materials that they use to manufacture their component parts. In those circumstances, the Company may not be able to increase its prices commensurately with its increased costs. Consequently, its results of operations and financial condition may be materially adversely affected.

The Company may face limitations on its ability to complete acquisitions or successfully integrate acquired businesses.

The Company expects to continue its strategy of identifying and acquiring businesses with complementary products and services that it believes will enhance its operations and profitability. However, there can be no assurance that the Company will be able to continue to find suitable businesses to purchase or that it will be able to acquire such businesses on acceptable terms.

In addition, no guarantee can be given that the Company will be able to integrate successfully any business that it purchases into its existing business or that any acquired businesses will be profitable. The successful integration of new businesses depends on the Company's ability to manage these new businesses and cut excess costs. If the Company is unable to complete the integration of new businesses in a timely manner, its results of operations and financial condition could be materially adversely affected.

Potential product liability risks exist from the products that the Company sells.

The Company's businesses expose it to potential product liability risks that are inherent in the design, manufacture and sale of its products and the products of third-party vendors that it uses or resells. The Company currently maintains what it believes to be suitable and adequate product liability insurance. There can be no assurance, however, that the Company will be able to maintain its product liability insurance on acceptable terms or that its product liability insurance will provide adequate protection against potential liabilities. In the event of a claim against it, a lack of sufficient insurance coverage could have a material adverse effect on the Company's financial condition, liquidity and results of operations. Moreover, even if it maintains adequate insurance, any successful claim could have a material adverse effect on the Company's financial condition, liquidity and results of operations and on the ability to obtain suitable or adequate insurance.

The Company may be adversely affected by the impact of environmental and safety regulations to which it is subject.

The Company's operations necessitate the use and handling of hazardous materials and, as a result, it is subject to various U.S. federal, state, local and foreign laws and regulations designed to protect the environment and to regulate the discharge of materials into the environment. These laws impose penalties, fines and other sanctions for non-compliance and liability for response costs, property damage and personal injury resulting from past and current spills, disposals or other releases of, or the exposure to, hazardous materials. Among other environmental laws, the Company is subject to the U.S. federal "Superfund" law, under which it has been designated as a "potentially responsible party" and may be liable for clean-up costs associated with various waste sites, some of which are on the U.S. Environmental Protection Agency's Superfund priority list. The Company could incur substantial costs as a result of non-compliance with or liability for cleanup or other costs or damages under environmental laws, including the Superfund law.

The Company may be subject to more stringent environmental laws in the future. If more stringent environmental laws are enacted in the future, these laws could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company does business with the U.S government and as such is subject to increased government regulations.

In addition to normal business risks, doing business with the U.S. government subjects the Company to increased risks, including dependence on the level of government spending and compliance with and changes in governmental procurement regulations. Agreements relating to the sale of products to government entities may be subject to termination, reduction or modification, either at the convenience of the government or for the Company's failure to perform under the applicable contract. The Company is subject to government investigations of business practices and compliance with government procurement regulations. If the Company were charged with wrongdoing as a result of any such investigation, it could be suspended from bidding on or receiving awards of new government contracts, which could have a material adverse effect on the Company's results of operations.

Changes in the Company's tax rates or exposure to additional income tax liabilities could affect profitability.

The Company is subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. The Company's effective tax rate could be adversely affected by changes in the mix among earnings in countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets or tax laws. The amount of income taxes paid is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to the Company's tax liabilities.

Increasing costs of certain employee and retiree benefits could adversely affect the Company's results of operations.

The amount of expenses recorded for the Company's defined benefit pension plans is dependent on changes in market interest rates and the value of plan assets, which are dependent on actual plan asset returns. Significant changes in market interest rates and decreases in the fair value of plan assets and investment losses on plan assets may adversely affect the Company's future results of operations.

ITEM 1B. Unresolved Staff Comments. None.

ITEM 1C. Executive Officers of the Company.

The Company's Executive Officers are as follows:

Name	Position	Officer Since(1)	Age
Donald E. Washkewicz	Chairman of the Board and Chief Executive Officer	1997	56
Nickolas W. Vande Steeg	President and Chief Operating Officer	1995	63
John D. Myslenski	Executive Vice President – Sales, Marketing and Operations Support	1997	55
Timothy K. Pistell	Executive Vice President – Finance and Administration and Chief Financial Officer	1993	59
Lee C. Banks	Vice President and President, Hydraulics Group	2001	43
Robert P. Barker	Vice President and President, Aerospace Group	2003	56
Robert W. Bond	Vice President and President, Fluid Connectors Group	2000	48
John G. Dedinsky, Jr.	Vice President – Global Supply Chain and Procurement	2006	49

Dana A. Dennis	Vice President and Controller	1999	58
Heinz Droxner	Vice President and President, Seal Group	2002	61
William G. Eline	Vice President – Chief Information Officer	2002	50
Thomas F. Healy	Vice President and President, Climate & Industrial Controls Group	2006	46
Pamela J. Huggins	Vice President and Treasurer	2003	52
Marwan M. Kashkoush	Corporate Vice President – Worldwide Sales and Marketing	2000	52
A. Ricardo Machado	Vice President and President, Latin America Group	2006	58
M. Craig Maxwell	Vice President – Technology and Innovation	2003	48
John K. Oelslager	Vice President and President, Filtration Group	1997	63
Thomas A. Piraino, Jr.	Vice President, General Counsel and Secretary	1998	57
Daniel S. Serbin	Vice President – Human Resources	2005	52
Roger S. Sherrard	Vice President and President, Automation Group	2003	40
Joseph J. Vicic	Vice President and President, Asia Pacific Group	2006	61
Thomas L. Williams	Vice President and President, Instrumentation Group	2005	47

(1) Officers of the Company serve for a term of office from the date of election to the next organizational meeting of the Board of Directors and until their respective successors are elected, except in the case of death, resignation or removal. Messrs. Dennis, Oelslager and Piraino have served in the executive capacities indicated above opposite their respective names during each of the past five years.

Mr. Washkewicz has served as a Director of the Company since 2000. Mr. Washkewicz has been Chairman of the Board of Directors of the Company since October 2004 and Chief Executive Officer of the Company since July 2001. He was previously the President of the Company from February 2000 to October 2004.

Mr. Vande Steeg has been President since October 2004, a member of the Board of Directors since August 2004 and Chief Operating Officer since October 2003. He was Executive Vice President from October 2003 to October 2004, Senior Vice President from August 2002 to October 2003, Operating Officer from January 2002 to October 2003, Corporate Vice President from January 2002 to August 2002, Vice President from September 1995 to January 2002 and President of the Seal Group from 1987 to January 2002.

Mr. Myslenski has been Executive Vice President – Sales, Marketing and Operations Support since August 2003. He was Senior Vice President from August 2002 to October 2003, Operating Officer from October 2001 to October 2003 and Corporate Vice President from July 2001 to August 2002.

Mr. Pistell has been Executive Vice President – Finance and Administration since April 2005 and has been Chief Financial Officer since April 2003. He was Vice President – Finance and Administration from April 2003 to April 2005, a Vice President from October 2001 to April 2003 and Treasurer from July 1993 to April 2003.

Mr. Banks has been a Vice President since October 2001 and President of the Hydraulics Group since October 2003. He was President of the Instrumentation Group from July 2001 to November 2003, Vice President – Operations of the Climate & Industrial Controls Group from January 2001 to July 2001 and General Manager of the Skinner Valve Division from August 1997 to January 2001.

Mr. Barker has been a Vice President since April 2003 and President of the Aerospace Group since March 2003. He was Vice President-Operations of the Aerospace Group from April 1996 to March 2003.

Mr. Bond has been a Vice President since July 2000 and President of the Fluid Connectors Group since March 2005. He was President of the Automation Group from April 2000 to February 2005.

Mr. Dedinsky was elected as Vice President – Global Supply Chain and Procurement in January 2006. He was Vice President – Global Sourcing and Procurement from July 2004 to January 2006 and Vice President – Procurement from August 2000 to July 2004.

Mr. Droxner has been a Vice President and President of the Seal Group since January 2002. He was President of the Seal Group Europe from July 1999 to January 2002.

Mr. Eline has been Vice President – Chief Information Officer since August 2002. He was Vice President – Information Technology International from July 2000 to August 2002.

Mr. Healy was elected as a Vice President in April 2006 and named President of the Climate & Industrial Controls Group effective in July 2006. He was a Climate & Industrial Controls Group Vice President and General Manager of Mobile Climate Systems Division from September 2004 to April 2006 and General Manager of Nichols Portland Division from July 2000 to September 2004.

Ms. Huggins has been a Vice President and Treasurer since April 2003. She was Vice President and Controller of the Filtration Group from June 1999 to April 2003.

Mr. Kashkoush has been Corporate Vice President – Worldwide Sales and Marketing since October 2003. He was Vice President from July 2000 to October 2003 and President of the Hydraulics Group from February 2000 to October 2003.

Mr. Machado was elected as a Vice President in January 2006 and has been President of the Latin America Group effective March 1, 2000.

Mr. Maxwell has been Vice President – Technology and Innovation since July 2003. He was Vice President – Engineering and Innovation from January 2003 to July 2003, Business Unit Manager of the Fluid Control Division from July 2002 to January 2003 and Engineering Manager of the Racor Division from July 1998 to July 2002.

Mr. Serbin has been Vice President – Human Resources since May 2005. He was Vice President – Human Resources of the Fluid Connectors Group from October 2003 to April 2005 and Vice President – Human Resources of the Hydraulics Group and the Automation Group from July 2000 to October 2003.

Mr. Sherrard has been a Vice President since November 2003 and President of the Automation Group since March 2005. He was the President of the Instrumentation Group from November 2003 to February 2005 and General Manager of the Automation Actuator Division from May 2000 to November 2003.

Mr. Vicic was elected as a Vice President in January 2006 and has been President of the Asia Pacific Group since April 1994.

Mr. Williams has been a Vice President and President of the Instrumentation Group since March 2005. He was Vice President – Operations of the Hydraulics Group from November 2003 to February 2005; General Manager, Global Services of GE Transportation Systems (producer of rail locomotive) from October 2002 to November 2003 and General Manager, Global Sourcing and Components of GE Lighting (light bulbs and lighting systems) from November 1999 to October 2002.

ITEM 2. Properties. The following table sets forth the principal plants and other materially important physical properties of the Company and its subsidiaries. Leased properties are indicated with an asterisk. A “(1)” indicates that the property is occupied by the Company’s Industrial Segment, a “(2)” indicates that the property is occupied by the Company’s Aerospace Segment and a “(3)” indicates that the property is occupied by the Company’s Climate & Industrial Controls Segment.

UNITED STATES

State	City
Alabama	Boaz(1)
	Huntsville(1)
	Jacksonville(1)
Arizona	Glendale(2)
	Tolleson(2)
	Tucson(1)
Arkansas	Benton(1)
	Trumann(3)
California	Camarillo(2)
	Irvine(1)(2)
	Modesto(1)
	Oxnard(1)
	Richmond(1)
	Rohnert Park(1)
	San Diego(1)
	Sante Fe Springs*(1)
Connecticut	New Britain(3)
	North Haven(1)
Florida	Jacksonville(2)
	Longwood(3)
	Miami*(1)(3)
	Sarasota(1)
	Vero Beach*(1)
Georgia	Dublin(2)
Illinois	Bensenville(1)
	Broadview(3)
	Des Plaines(1)
	Elgin(1)
	Lincolnshire(1)
	Rockford(1)
	Woodridge*(1)
Indiana	Albion(1)
	Ashley(1)
	Goshen(1)
	Indianapolis*(1)
	Ligonier(1)
	New Haven(3)
	Syracuse(1)
	Tell City(1)
Iowa	Davenport*(1)
	Red Oak(1)
Kansas	Manhattan(1)

State	City
Kentucky	Lexington(1)
Maine	Kittery(1)
	Portland(3)
Maryland	Baltimore*(1)
Massachusetts	Devens(2)
	Haverhill*(1)
	Woburn(1)
Michigan	Kalamazoo(2)
	Lakeview(1)
	Mason(1)
	Otsego(1)
	Oxford(1)
	Richland(1)
	Troy*(1)(3)
Minnesota	Blaine(1)
	Chanhassen(1)
	Deerwood(1)
	Golden Valley(1)
	New Hope*(1)
	New Ulm(1)
Mississippi	Batesville(3)
	Booneville(3)
	Holly Springs(1)
	Madison(3)
	Olive Branch*(1)
Missouri	Kennett(3)
	Mexico*(3)
	Owensville(3)
	Washington(3)
Nebraska	Alliance(1)
	Gothenburg(1)
	Lincoln(1)
	McCook(1)
Nevada	Carson City(1)
New Hampshire	Hollis*(1)
	Hudson(1)
	Portsmouth*(1)
New Jersey	Fairfield*(1)
New York	Chestnut Ridge(1)
	Clyde(2)
	Fairport*(1)
	Lyons(3)
	Marion(1)
	Port Washington*(1)

State	City
	Smithtown(2)
North Carolina	Charlotte(1)
	Forest City(1)
	Kings Mountain(1)
	Wilson(1)
Ohio	Akron(1)
	Avon(2)
	Brookville(1)
	Columbus(1)
	Eastlake(1)
	Eaton(1)
	Elyria(1)(2)
	Fremont*(1)
	Hicksville(1)
	Kent(1)
	Lewisburg(1)
	Marysville(1)
	Mayfield Heights(1)(2)(3)
	Mentor(2)
	Metamora(1)
	Milford*(1)
	Ravenna(1)
	St. Marys(1)
	Strongsville*(1)
	Vandalia(1)
	Wadsworth(1)
	Wickliffe(1)
	Youngstown(1)
Oregon	Eugene(1)
Pennsylvania	Canton(1)
	Harrison City(1)
South Carolina	Beaufort(1)
	Bishopville (1)
	Moncks Corner(2)
	Spartanburg(1)
Tennessee	Collierville*(3)
	Greeneville(1)
	Greenfield(3)
	Lebanon(1)
	Livingston(1)
Texas	Dallas*(3)
	Ft. Worth(2)
	Houston*(1)
	Mansfield(2)

State	City
	Nacogdoches(1)
Utah	Ogden(2)
	Salt Lake City(1)
Virginia	Iron Gate*(1)
	Lynchburg(1)
	Roanoke*(1)
Washington	Seattle*(2)
Wisconsin	Chetek(1)
	Grantsburg(1)
	Manitowoc(1)
	Mauston(3)
	Waukesha(1)

FOREIGN COUNTRIES

Country	City
Argentina	Buenos Aires(1)(3)
Australia	Castle Hill(1)(3)
	Elizabeth West (1)
	Wodonga(1)
Austria	Wiener Neustadt(1)
Belgium	Boom*(1)
	Brussels*(1)
Brazil	Cachoerinha(1)
	Jacarei(1)(2)(3)
	São Paulo(1)(3)
	Sao Jose dos Campos(1)
Canada	Blainville(1)
	Brampton*(1)
	Grimsby(1)(3)
	Milton(1)
	Mississauga*(1)
	Orillia(1)
	Owen Sound(1)
Chile	Santiago*(1)
Czech Republic	Chomutov(1)(3)
	Prague*(1)(3)
	Sadská(1)
Denmark	Ballerup(1)(3)
	Espergarde(1)
Egypt	Cairo*(1)
England	Barnstaple(1)
	Birtley(1)

Country	City
	Bolden*(1)
	Brampton*(3)
	Burgess Hill*(1)
	Buxton(1)
	Cannock(1)
	Cornwall*(1)
	Cradley Heath(1)
	Derby*(1)
	Dewsbury(1)
	Grantham(1)
	Halesowen(1)
	Hemel Hempstead(1)(3)
	Littlehampton*(1)
	Marlow*(1)
	Ossett(1)
	Rotherham(1)
	Sheffield(1)
	Stanley*(1)
	Tamworth*(1)
	Team Valley(1)
	Warwick(1)
	Watford*(1)
Finland	Hyrynsalmi*(1)
	Oulu*(1)
	Tampere(1)
	Urjala(1)
	Vantaa(1)
France	Annemasse(1)
	Aubagne*(1)
	Contamine(1)(3)
	Dijon(1)
	Evreux(1)
	Paris*(1)
	Vierzon(1)
	Wissembourg(1)
Germany	Bad Schonborn*(1)
	Bielefeld(1)
	Bietigheim-Bissingen(1)
	Chemnitz(1)
	Cologne(1)
	Erfurt(1)
	Essen(1)
	Geringswalde(1)
	Heppenheim*(1)

Country	City
	Hochmössingen(1)
	Kaarst(1)(3)
	Lampertheim(1)
	Mücke(1)
	Offenburg*(1)
	Pleidelsheim(1)
	Scholß-Holte(1)
	Stuhr-Seckenhausen(1)
	Weiherdamm*(1)
	Wiesbaden(2)
Greece	Athens*(1)
Hungary	Budapest*(1)
India	Hyderabad(1)
	Mumbai(1)(3)
Ireland	Dublin*(1)
Italy	Adro(1)
	Arsago Seprio(1)
	Bologna*(1)
	Corsico(1)(3)
	Gessate(3)
	Milan(1)
	Ortona*(1)
	Padova*(1)
	Siziano*(1)
	Veniano*(1)
Japan	Tokyo*(1)(3)
	Yokohama(1)(2)
Malaysia	Kuala Lumpur*(2)
Mexico	Guaymas*(2)
	Matamoros(1)
	Montemorelos(3)
	Monterrey(1)(3)
	Tijuana(1)
	Toluca(1)
Namibia	Windhoek*(1)
Netherlands	Amelo*(1)
	Arnhem(1)
	Etten-Leur*(1)
	Hendrik-Ido-Ambacht(1)
	Hoogezand(1)
	Oldenzaal(1)(3)
New Zealand	Mt. Wellington(1)
Norway	Langhus(1)
Peoples Republic of China	Dong Guan(1)

Country	City
	Hong Kong*(1)(3)
	Shanghai(1)(3)
	Shenzhan*(1)
	Tianjin(1)
	Wuxi*(3)
Poland	Katowice*(1)
	Swiebodzice*(3)
	Warsaw(1)(3)
	Wroclaw(1)
Portugal	Porto*(1)
Singapore	Singapore(1)(2)(3)
Slovenia	Novo Mesto*(1)
South Africa	Kempton Park(1)(3)
South Korea	Chonan(3)
	Hwaseong(1)
	Seoul*(1)
	Siheung(1)
	Yangsan(1)
Spain	Barcelona*(1)
	Madrid(1)(3)
Sweden	Borås(1)
	Falköping(1)
	Spånga(1)
	Trollhätten(1)
	Ulricehamn(1)
Switzerland	Geneva(3)
Taiwan	Taipei*(1)(3)
Thailand	Bangkok*(1)(3)
Turkey	Istanbul*(1)
	Kocaeli(3)
Ukraine	Kiev*(1)
United Arab Emirates	Abu Dhabi*(1)
Venezuela	Caracas*(1)(3)

The Company believes that its properties have been adequately maintained, are in good condition generally and are suitable and adequate for its business as presently conducted. The extent of utilization of the Company's properties varies among its plants and from time to time. The Company's restructuring efforts over the past several years have brought capacity levels closer to present and anticipated needs. Although capacity has been reduced over the last fiscal year, most of the Company's material manufacturing facilities remain capable of handling additional volume increases.

ITEM 3. Legal Proceedings. None.

ITEM 4. Submission of Matters to a Vote of Security Holders. None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) ***Market for the Registrant's Common Equity.*** As of July 31, 2006, the number of shareholders of record of the Company was 4,456 and the number of beneficial owners was approximately 58,000. Information regarding stock price and dividend information with respect to the Company's common stock, as set forth on page 13-42 of Exhibit 13 to this Annual Report on Form 10-K, is incorporated into this section by reference.

(b) ***Use of Proceeds.*** Not Applicable.

(c) ***Issuer Purchases of Equity Securities.***

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2006 through April 30, 2006	38,900	$81.3389	38,900	9,875,300
May 1, 2006 through May 31, 2006	92,400	$82.3746	92,400	9,782,900
June 1, 2006 through June 30, 2006	112,800	$75.5814	112,800	9,670,100
Total:	244,100	$79.0704	244,100	9,670,100

(1) On August 16, 1990, the Company publicly announced that its Board of Directors authorized the repurchase of up to 3.0 million shares of its common stock. Such amount was subsequently adjusted to 6.75 million shares as a result of stock splits in June 1995 and September 1997. On July 14, 1998, the Company publicly announced that its Board of Directors authorized the repurchase of an additional 4.0 million shares of its common stock. On January 30, 2006, the Company publicly announced that its Board of Directors increased the authorization to repurchase up to 10.0 million shares of its common stock, including shares yet to be repurchased under prior authorizations. There is no expiration date for the Company's repurchase program.

ITEM 6. Selected Financial Data. The information set forth on page 13-46 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations The information set forth on pages 13-2 to 13-14 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk. The Company enters into forward exchange contracts and costless collar contracts to reduce its exposure to fluctuations in foreign currencies. In addition, in the ordinary course of business, the Company's foreign locations enter into various financial guarantees through financial institutions which enable customers to be reimbursed in the event of non-performance by the Company. The total carrying and fair value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt, thereby limiting its exposure to changes in near-term interest rates. A 100 basis point increase in near-term interest rates would increase annual interest expense on variable rate debt by approximately $260,913.

For further discussion, see the discussion of Significant Accounting Policies Footnote on page 13-22 of Exhibit 13 to this Annual Report on Form 10-K and incorporated into this section by reference.

ITEM 8. Financial Statements and Supplementary Data. The information set forth on pages 13-15 to 13-42 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. Not applicable.

ITEM 9A. Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of fiscal year 2006. Based on this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of fiscal year 2006, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting set forth on page 13-43 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference. The Report of Independent Registered Public Accounting Firm set forth on pages 13-44 and 13-45 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

There has been no change in the Company’s internal control over financial reporting during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. Other Information. None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant. Information required with respect to the Directors of the Company is set forth under the caption “Election of Directors” in the definitive Proxy Statement for the Company’s 2006 Annual Meeting of Shareholders to be held October 25, 2006 (the “2006 Proxy Statement”) and is incorporated herein by reference. Information with respect to the executive officers of the Company is included in Part I hereof under the caption “Executive Officers of the Company”. The information set forth under the captions “Audit Committee Financial Experts” and “Report of the Audit Committee” in the 2006 Proxy Statement is incorporated herein by reference.

The information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2006 Proxy Statement is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer and Controller. The Code of Ethics is posted on the Company’s investor relations internet website at www.phstock.com under the Corporate Governance page. Any amendments to, or a waiver from, a provision of the Company’s Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer or Controller will also be posted at www.phstock.com under the Corporate Governance page.

ITEM 11. **Executive Compensation**. The information set forth under the captions “Compensation of Directors” and “Human Resources and Compensation Committee Report on Executive Compensation” in the 2006 Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. The information set forth under the captions “‘Change in Control’ Severance Agreements with Officers” and “Principal Shareholders of the Corporation” in the 2006 Proxy Statement is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth certain information regarding the Company's equity compensation plans as of June 30, 2006, unless otherwise indicated:

Plan Category	Column (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Column (b) Weighted-average exercise price of outstanding options, warrants and rights(1)	Column (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	8,610,818(2)	$ 50.29	8,028,227(3)
Equity compensation plans not approved by security holders(4)	67,288	$ 47.44	0
Total	8,678,106	$ 50.27	8,028,227

(1) In connection with the merger of Commercial Intertech Corp. with and into the Company in April 2000, the Company assumed the administration of the outstanding options under the Commercial Intertech stock option plans until such options are exercised or expire. No new options will be granted under the Commercial Intertech stock option plans. The stock options assumed pursuant to the merger are not included in the table. The number of the Company's common shares to be issued upon the exercise of these outstanding options is 13,372. The weighted-average exercise price of those outstanding options is $36.61.

(2) Includes 771,812 shares, which represents the actual payout of restricted stock under the 2004-05-06 Long-Term Incentive Plan ("LTIP") (which payout was made after June 30, 2006) and the maximum future payouts of restricted stock that may be issued under the Company's 2005-06-07 and 2006-07-08 LTIPs. Under the Company's 2005-06-07 LTIP, payouts will be made at the discretion of the Human Resources and Compensation Committee in restricted stock or as a credit to the participant's account under the Company's Executive Deferral Plan ("EDP") unless the participant has made a prior deferral election pursuant to the EDP. Under the Company's 2006-07-08 LTIP, payouts will be made in restricted stock unless the participant has made a prior deferral election pursuant to the EDP. Payouts are determined by comparing the Company's results during the performance period to the performance of a group of its peers during the same period for the following weighted performance measures: (a) compound annual revenue growth (20% weight); (b) compound annual growth in fully-diluted earnings per share (40% weight); and (c) average return on invested capital (40% weight). Also includes 59,215 phantom shares being held in an account pursuant to the Company's Stock Option Deferral Plan (which Plan has not been approved by shareholders). The phantom shares resulted from exercises of stock options granted under the Company's 1990 Employees Stock Option Plan, which was approved by the shareholders. No further deferral elections may be made under the Company's Stock Option Deferral Plan.

(3) The total number of securities available for issuance under the Company's 2003 Stock Incentive Plan is equal to the sum of (i) 9,000,000; plus (ii) the amount of any shares that are not delivered to an employee by reason of (A) the expiration, termination, cancellation or forfeiture of an award under the Company's 1993 Stock Incentive Program; and (B) the tendering or withholding of shares to satisfy all or a portion of the exercise price or tax withholding obligations relating to shares issued or distributed under an award under the 1993 Stock Incentive Program. The maximum number of shares that may be issued under the Company's 2003 Stock Incentive Plan as restricted stock is limited to 5,000,000 shares. The maximum number of shares that may be issued under the Company's 2004 Non-Employee Directors' Stock Incentive Plan is 250,000. The maximum number of shares that may be issued under the Company's Non-Employee Directors' Stock Plan, as amended and restated, is 230,000, all of which are granted as common stock, subject to such conditions or restrictions as the Human Resources and Compensation Committee may determine.

(4) The Company's 1996 Non-Employee Directors Stock Option Plan provides for the issuance of up to 375,000 shares of the Company's common stock pursuant to stock options granted to the Company's Directors who are not current or retired employees of the Company. Each option was granted at an exercise price equal to 100% of the fair market value of the Company's common stock on the date the options were granted. Grants have a ten-year term and vest 50% following one year of continued service and the remaining 50% following the second year of continued service from the date granted. No further options will be granted under the 1996 Non-Employee Directors Stock Option Plan.

ITEM 13. Certain Relationships and Related Transactions. The information set forth under the caption "Certain Relationships and Related Transactions" in the 2006 Proxy Statement is incorporated herein by reference.

ITEM 14. Principal Accounting Fees and Services. The information set forth under the captions "Audit Fees," "Audit-Related Fees," "Tax Fees," "All Other Fees" and "Audit Committee Pre-Approval Policies and Procedures" in the 2006 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

a. The following are filed as part of this report:

1. Financial Statements and Schedule

   The financial statements and schedule listed in the accompanying Index to Consolidated Financial Statements and Schedule are filed or incorporated by reference as part of this Annual Report on Form 10-K.

2. Exhibits

   The exhibits listed in the accompanying Exhibit Index and required by Item 601 of Regulation S-K (numbered in accordance with Item 601 of Regulation S-K) are filed, furnished or incorporated by reference as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Timothy K. Pistell
Timothy K. Pistell
Executive Vice President - Finance and
Administration and Chief Financial Officer

September 6, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature and Title

DONALD E. WASHKEWICZ, Chairman of the Board of Directors and Chief Executive Officer; DANA A. DENNIS, Principal Accounting Officer; DUANE E. COLLINS, Director; WILLIAM E. KASSLING, Director; ROBERT J. KOHLHEPP, Director; PETER W. LIKINS, Director; GIULIO MAZZALUPI, Director; KLAUS-PETER MÜLLER, Director; CANDY M. OBOURN, Director; JOSEPH M. SCAMINACE, Director; WOLFGANG R. SCHMITT, Director; MARKOS I. TAMBAKERAS, Director and NICKOLAS W. VANDE STEEG, Director.

Date: September 6, 2006

/s/ Timothy K. Pistell
Timothy K. Pistell, Executive Vice President – Finance and
Administration, Principal Financial Officer and
Attorney-in-Fact

PARKER-HANNIFIN CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Individual financial statements and related applicable schedules for the Registrant (separately) have been omitted because the Registrant is primarily an operating company and its subsidiaries are considered to be wholly-owned.

PARKER-HANNIFIN CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2004, 2005 and 2006
(Dollars in Thousands)

Column A Description	Column B Balance at Beginning Of Period	Column C Additions Charged to Costs and Expenses	Column D Other (Deductions)/ Additions (A)	Column E Balance At End Of Period
Allowance for doubtful accounts:				
Year ended June 30, 2004	$ 13,404	$ 4,230	$ (4,842)	$ 12,792
Year ended June 30, 2005	$ 12,792	$ 5,322	$ (4,954)	$ 13,160
Year ended June 30, 2006	$ 13,160	$ 4,362	$ (5,190)	$ 12,332
Deferred tax asset valuation allowance:				
Year ended June 30, 2004	$ 46,306	$ 17,400	$ (10,976)	$ 52,730
Year ended June 30, 2005	$ 52,730	$ 5,017	$ (25,509)	$ 32,238
Year ended June 30, 2006	$ 32,238	$ 2,951	$ (27,798)	$ 7,391

(A) For allowance for doubtful accounts, net balance of deductions due to uncollectible accounts charged off and additions due to acquisitions or recoveries. For defered tax asset valuation allowance, primarily represents reversal of valuation allowance due to changes in the uncertainty of realizing operating loss and capital loss carryforwards.

Exhibit Index

Exhibit No.	Description of Exhibit
(3)	Articles of Incorporation and By-Laws:
(3)(i)	Amended Articles of Incorporation **(A)**.
(3)(ii)	Code of Regulations, as amended **(B)**.
(4)	Instruments Defining Rights of Security Holders:
	Shareholder Protection Rights Agreement, dated January 31, 1997, between the Registrant and KeyBank National Association ("KeyBank") **(C)**, as amended by the First Addendum to Shareholder Protection Rights Agreement, dated April 21, 1997, between the Registrant and Wachovia Bank of North Carolina N.A. ("Wachovia"), as successor to KeyBank **(D)**, and the Second Addendum to Shareholder Protection Rights Agreement, dated June 15, 1999, between the Registrant and National City Bank, as successor to Wachovia **(D)**.
	The Registrant is a party to other instruments, copies of which will be furnished to the Commission upon request, defining the rights of holders of its long-term debt identified in Note 9 of the Notes to Consolidated Financial Statements on page 13-30 of Exhibit 13 hereto, which Note is incorporated herein by reference.
(10)	Material Contracts:
(10)(a)	Form of Change in Control Severance Agreement entered into by the Registrant and executive officers, as amended and restated **(E)**.*
(10)(b)	Parker-Hannifin Corporation Change in Control Severance Plan, as amended **(F)**.*
(10)(c)	Form of Indemnification Agreement entered into by the Registrant and its directors and executive officers **(G)**.
(10)(d)	Exchange Agreement entered into as of May 11, 1999 between the Registrant and Duane E. Collins including an Executive Estate Protection Plan comprised of the Executive Estate Protection Agreement entered into by the Registrant, Duane E. Collins and The Duane E. Collins Irrevocable Trust dated 5/10/99 (the "Trust"), the Collateral Assignment between the Registrant and the Trust and the "as sold" illustration of an Executive Estate Protection Plan Insurance Policy **(H)**.*
(10)(e)	Cancellation Agreement dated December 29, 2003 between the Registrant, Duane E. Collins and the Trust **(I)**.*

(10)(f)	Description of the Parker-Hannifin Corporation Officer Life Insurance Plan **(J)**.*
(10)(g)	Parker-Hannifin Corporation Supplemental Executive Retirement Benefits Program (Restatement)**(K)**.*
(10)(h)	Parker-Hannifin Corporation 1993 Stock Incentive Program, as amended**(L)**.*
(10)(i)	Parker-Hannifin Corporation 2003 Stock Incentive Plan, as amended and restated**(M)**.*
(10)(j)	Parker-Hannifin Corporation Performance Bonus Plan**(N)**.*
(10)(k)	Form of 2006 Grant Letter for Stock Options with Tandem Stock Appreciation Rights for Executive Officers**(O)**.*
(10)(l)	Form of 2007 Grant Letter for Stock Options with Tandem Stock Appreciation Rights for Executive Officers**(P)**.*
(10)(m)	Description of the Parker-Hannifin Corporation 2006 Target Incentive Bonus Plan**(Q)**.*
(10)(n)	Form of 2006 Target Incentive Bonus Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan**(R)**.*
(10)(o)	Form of 2007 Target Incentive Bonus Award Letter**(S)**.*
(10)(p)	Form of 2007 Target Incentive Bonus Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan**(T)**.*
(10)(q)	Description of the Parker-Hannifin Corporation 2004-05-06 Long Term Incentive Plan**(U)**.*
(10)(r)	Description of the Parker-Hannifin Corporation 2005-06-07 Long Term Incentive Plan**(V)**.*
(10)(s)	Form of 2006-07-08 Long Term Incentive Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan**(W)**.*
(10)(t)	Form of 2007-08-09 Long Term Incentive Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan**(X)**.*
(10)(u)	Form of 2006 RONA Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan**(Y)**.*

(10)(v)	Form of 2007 RONA Award Letter under the Parker-Hannifin Corporation Performance Bonus Plan**(Z)**.*
(10)(w)	Parker-Hannifin Corporation Savings Restoration Plan, as restated**(AA)**.*
(10)(x)	Amendment to the Parker-Hannifin Corporation Savings Restoration Plan, as restated**(BB)**.*
(10)(y)	Parker-Hannifin Corporation Pension Restoration Plan, as amended and restated**(CC)**.*
(10)(z)	Parker-Hannifin Corporation Executive Deferral Plan, as restated**(DD)**.*
(10)(aa)	Amendment to the Parker-Hannifin Corporation Executive Deferral Plan, as restated**(EE)**.*
(10)(bb)	Parker-Hannifin Corporation Volume Incentive Plan, as amended**(FF)**.*
(10)(cc)	Parker-Hannifin Corporation Non-Employee Directors' Stock Plan, as amended and restated **(GG)**.*
(10)(dd)	Parker-Hannifin Corporation Non-Employee Directors Stock Option Plan **(HH)**.*
(10)(ee)	Parker-Hannifin Corporation 2004 Non-Employee Directors' Stock Incentive Plan **(II)**.*
(10)(ff)	Form of 2006 Grant Letter for Stock Options for Non-Employee Directors **(JJ)**.*
(10)(gg)	Form of 2007 Grant Letter for Restricted Stock for Non-Employee Directors **(KK)**.*
(10)(hh)	Parker-Hannifin Corporation Deferred Compensation Plan for Directors, as amended and restated**(LL)**.*
(10)(ii)	Amendment to the Parker-Hannifin Corporation Deferred Compensation Plan for Directors, as amended and restated**(MM)**.*
(10)(jj)	Parker-Hannifin Corporation Stock Option Deferral Plan **(NN)**.*
(10)(kk)	Summary of the Compensation of the Non-Employee Members of the Board of Directors **(OO)**.*
(10)(ll)	Summary of the Compensation of the Non-Employee Members of the Board of Directors, effective October 1, 2006 **(PP)**.*
(10)(mm)	Description of Duane E. Collins' Consulting/Director Compensation Arrangement **(QQ)**.*
(10)(nn)	Notice of Issuance of Restricted Stock for Nickolas W. Vande Steeg dated October 29, 2004 **(RR)**.*

(10)(oo)	Notice of Issuance of Restricted Stock for Nickolas W. Vande Steeg dated August 17, 2005 **(SS)**.*
(11)	Computation of Common Shares Outstanding and Earnings Per Share is incorporated by reference to Note 5 of the Notes to Consolidated Financial Statements on page 13-27 of Exhibit 13 hereto.
(12)	Computation of Ratio of Earnings to Fixed Charges as of June 30, 2006.
(13)	Excerpts from Annual Report to Shareholders for the fiscal year ended June 30, 2006 which are incorporated herein by reference thereto.
(21)	List of subsidiaries of the Registrant.
(23)	Consent of Independent Registered Public Accounting Firm.
(24)	Power of Attorney.
(31)(i)(a)	Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
(31)(i)(b)	Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
(32)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.

*Management contracts or compensatory plans or arrangements.

(A)	Incorporated by reference to Exhibit 3 to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1997 (Commission File No. 1-4982).
(B)	Incorporated by reference to Exhibit 3(b) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
(C)	Incorporated by reference to Exhibit 4.1 to the Registrant's Report on Form 8-K filed with the Commission on February 4, 1997 (Commission File No. 1-4982).
(D)	Incorporated by reference to Exhibit 4(a) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1999 (Commission File No. 1-4982).
(E)	Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission File No. 1-4982).
(F)	Incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).

(G) Incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission File No. 1-4982).

(H) Incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1999 (Commission File No. 1-4982).

(I) Incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2004 (Commission File No. 1-4982).

(J) Incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2005 (Commission File No. 1-4982).

(K) Incorporated by reference to Exhibit 10(k) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).

(L) Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1997 (Commission File No. 1-4982).

(M) Incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 16, 2005 (Commission File No. 1-4982).

(N) Incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed with the Commission on September 26, 2005 (Commission File No. 1-4982).

(0) Incorporated by reference to Exhibit 10.3 to the Registrant's Report on Form 8-K filed with the Commission on August 16, 2005 (Commission File No. 1-4982).

(P) Incorporated by reference to Exhibit 10.3 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).

(Q) Incorporated by reference to Exhibit 10(n) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2005 (Commission File No. 1-4982).

(R) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2005 (Commission File No. 1-4982).

(S) Incorporated by reference to Exhibit 10.4 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).

(T)	Incorporated by reference to Exhibit 10.5 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).
(U)	Incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2003 (Commission File No. 1-4982).
(V)	Incorporated by reference to Exhibit 10(s) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).
(W)	Incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2005 (Commission File No. 1-4982).
(X)	Incorporated by reference to Exhibit 10.6 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).
(Y)	Incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2005 (Commission File No. 1-4982).
(Z)	Incorporated by reference to Exhibit 10.7 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).
(AA)	Incorporated by reference to Exhibit 10(t) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).
(BB)	Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2005 (Commission File No. 1-4982).
(CC)	Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1999 (Commission File No. 1-4982).
(DD)	Incorporated by reference to Exhibit 10(v) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).
(EE)	Incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2005 (Commission File No. 1-4982).
(FF)	Incorporated by reference to Exhibit 10(t) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2000 (Commission File No. 1-4982).
(GG)	Incorporated by reference to Exhibit 10(x) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).
(HH)	Incorporated by reference to Exhibit 10(w) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
(II)	Incorporated by reference to Exhibit 10(y) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2005 (Commission File No. 1-4982).

(JJ)	Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Commission on August 16, 2005 (Commission File No. 1-4982).
(KK)	Incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).
(LL)	Incorporated by reference to Exhibit 10(x) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
(MM)	Incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2005 (Commission File No. 1-4982).
(NN)	Incorporated by reference to Exhibit 10(u) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1998 (Commission File No. 1-4982).
(OO)	Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2004 (Commission File No. 1-4982).
(PP)	Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).
(QQ)	Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2004 (Commission File No. 1-4982).
(RR)	Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 8-K filed with the Commission on November 4, 2004 (Commission File No. 1-4982).
(SS)	Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2005 (Commission File No. 1-4982).

Shareholders may request a copy of any of the exhibits to this Annual Report on Form 10-K by writing to the Secretary, Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141.

**Exhibit (12) * to Report
on Form 10-K for Fiscal
Year Ended June 30, 2006
by Parker-Hannifin Corporation**

**Computation of Ratio of Earnings to Fixed Charges
as of June 30, 2006**

	Fiscal Year Ended June 30, 2006	2005	2004	2003	2002
EARNINGS					
Income from continuing operations before income taxes	$ 899,958	$ 738,271	$ 472,956	$ 286,608	$ 218,036
Add:					
Interest on indebtedness, exclusive of interest capitalized in accordance with FASB #34 and interest on ESOP loan guarantee	71,278	62,482	67,183	75,068	75,994
Amortization of deferred loan costs	1,888	1,457	2,293	1,786	1,357
Portion of rents representative of interest factor	25,609	21,507	21,213	20,585	20,509
Equity share of losses of companies for which debt obligations are not guaranteed	897			2,895	6,078
Amortization of previously capitalized interest	304	280	291	291	297
Income as adjusted	$ 999,934	$ 823,997	$ 563,936	$ 387,233	$ 322,271
FIXED CHARGES					
Interest on indebtedness, exclusive of interest capitalized in accordance with FASB #34 and interest on ESOP loan guarantee	$ 71,278	$ 62,482	$ 67,183	$ 75,068	$ 75,994
Amortization of deferred loan costs	1,888	1,457	2,293	1,786	1,357
Portion of rents representative of interest factor	25,609	21,507	21,213	20,585	20,509
Fixed charges	$ 98,775	$ 85,446	$ 90,689	$ 97,439	$ 97,860
RATIO OF EARNINGS TO FIXED CHARGES	10.12x	9.64x	6.22x	3.97x	3.29x

Note: Certain amounts presented, as applicable, have been restated to reflect a business divested in August 2005 as discontinued operations.

Exhibit (13) to Report
On Form 10-K for Fiscal
Year Ended June 30, 2006
By Parker-Hannifin Corporation

Forward-Looking Statements

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

- changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments, or significant changes in financial condition,
- uncertainties surrounding timing, successful completion or integration of acquisitions,
- threats associated with and efforts to combat terrorism,
- competitive market conditions and resulting effects on sales and pricing,
- increases in raw material costs that cannot be recovered in product pricing,
- the Company's ability to manage costs related to insurance and employee retirement and health care benefits, and
- global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as interest rates.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Company is a leading worldwide diversified manufacturer of motion control technologies and systems, providing precision engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets.

The Company's order rates provide a near-term perspective of the Company's future revenues particularly when viewed in the context of prior and future order rates. The Company publishes its order rates on a monthly basis. The lead time between the time an order is received and revenue is realized can range from one day to 12 weeks for commercial, mobile and industrial orders and from one day to 18 months for aerospace orders. The Company believes the leading economic indicators of these markets that have a strong correlation to the Company's future order rates are the Institute of Supply Management (ISM) index of manufacturing activity with respect to commercial, mobile and industrial markets and aircraft miles flown, revenue passenger miles and Department of Defense spending for aerospace markets.

An ISM index above 50 indicates that the manufacturing economy is expanding resulting in the expectation that the Company's order rates in the commercial, mobile and industrial markets should be positive year-over-year. The ISM index at the end of fiscal 2006 was 53.8 compared to 54.0 at the end of June 2005. With respect to the aerospace market, aircraft miles flown and revenue passenger miles in 2006 have shown moderate improvement over comparable fiscal 2005 levels and the Company expects continued improvement in 2007. The Company anticipates that Department of Defense spending in fiscal 2007 will remain at the fiscal 2006 levels.

The Company also believes that there is a high correlation between interest rates and Industrial manufacturing activity. The Federal Reserve raised the federal funds rate eight times during fiscal 2006. Additional increases in interest rates could have a negative impact on industrial production thereby lowering future order rates.

The Company's major opportunities for growth are as follows:

- Leverage the Company's broad product line with customers desiring to consolidate their vendor base and outsource engineering,
- Marketing systems solutions for customer applications,
- Expand the Company's business presence outside of North America,
- New product introductions, including those resulting from the Company's innovation initiatives, and
- Strategic acquisitions in a consolidating industry.

The financial condition of the Company remains strong as evidenced by the continued generation of substantial cash flows from operations, a debt to debt-equity ratio of 21.1 percent, ample borrowing capabilities and strong short-term credit ratings. Cash flows from operations in 2006 were $955 million, or 10.2 percent of sales.

Many acquisition opportunities remain available to the Company within its target markets. During fiscal 2006, the Company completed 13 acquisitions whose aggregate annual revenues were approximately $983 million. The Company believes that future financial results will reflect the benefit of a fast and efficient integration of the companies recently acquired. Acquisitions will continue to be considered from time to time to the extent there is a strong strategic fit, while at the same time, maintaining the Company's strong financial position. The Company will also continue to assess the strategic fit of its existing businesses and initiate efforts to divest businesses that are not considered to be a good long-term fit for the Company, as evidenced by the divestitures completed in fiscal 2006 and 2005.

Current challenges facing the Company include maintaining premier customer service levels while benefiting from strong customer demand, successfully matching price increases to raw material cost increases and managing rising expenses related to employee retirement and health care benefits. The Company is also challenged with trying to minimize the potential adverse impact of the weakening financial condition of its automotive market customers. The Company has implemented a number of strategic financial performance initiatives relating to growth and margin improvement in order to meet these challenges, including strategic procurement, strategic pricing, lean manufacturing and business realignments.

The discussion below is structured to separately discuss each of the financial statements presented on pages 13-15 to 13-19. All year references are to fiscal years.

Discussion of Consolidated Statement of Income

The Consolidated Statement of Income summarizes the Company's operating performance over the last three fiscal years.

(millions)	2006	2005	2004
Net sales	**$9,386**	$8,069	$6,888
Gross profit margin	**21.5%**	20.8%	19.0%
Selling, general and administrative expenses	**$1,037**	$ 860	$ 766
Goodwill impairment loss			1
Interest expense	**76**	67	73
Other (income) expense, net	**(9)**	8	(1)
Loss (gain) on disposal of assets	**15**	4	(2)
Effective tax rate from continuing operations	**29.1%**	27.8%	29.8%
Income from continuing operations	**$ 638**	$ 533	$ 332
Income from continuing operations, as a percent of sales	**6.8%**	6.6%	4.8%
Discontinued operations	**$ 35**	$ 72	$ 14
Net income	**$ 673**	$ 605	$ 346

Net sales in 2006 were 16.3 percent higher than 2005. The increase in sales in 2006 primarily reflects higher volume experienced across all Segments. Acquisitions completed within the last 12 months contributed about one-half of the net sales increase. The effect of currency rate changes reduced net sales by approximately $38 million.

Net sales in 2005 were 17.1 percent higher than 2004. The increase in sales in 2005 primarily reflects higher volume experienced throughout all of the Company's Segments, especially in the Industrial North American and Industrial International operations. Acquisitions completed within the last 12 months contributed about one-third of the sales increase and the effect of currency rate changes increased net sales by approximately $165 million.

During 2006, the Company experienced strong business conditions in most of the markets that the Industrial North American businesses serve. The Company anticipates that favorable business conditions will prevail for most of 2007 translating into sales growth in the mid-single digit range and operating margins remaining close to their 2006 level. Sales in the Industrial International operations are expected to increase approximately 18 percent with operating margins expected to remain at or be slightly higher than their 2006 level. Aerospace operations sales are expected to increase in the mid-single digit range with operating margins remaining near their 2006 level. Climate & Industrial Controls sales are expected to increase in the mid-single digit range with an operating margin improvement of about 25 percent over their 2006 level.

Gross profit margin was higher in 2006 primarily due to a combination of the increase in sales as well as the effects of the Company's financial performance initiatives, especially in the areas of lean manufacturing and strategic procurement. Included in 2006 gross profit is $10.3 million of expense related to stock-based compensation awards. The higher margins in 2005 reflect the effects of the Company's financial performance initiatives, resulting in better manufacturing utilization levels. Current-year acquisitions, not yet fully integrated, negatively affected the current-year gross margin.

Selling, general and administrative expenses increased 20.5 percent in 2006 primarily due to the higher sales volume, $23.1 million of expenses related to stock-based compensation awards, higher amortization expense related to intangible assets and higher incentive compensation.

Goodwill impairment loss in 2004 resulted from the Company's goodwill impairment test required to be performed under the provisions of SFAS No. 142. No impairment loss was required to be recognized in 2006 or 2005.

Interest expense increased in 2006 primarily due to higher average debt outstanding resulting from an increase in borrowings used to fund acquisition activity in 2006. Interest expense declined in 2005 as a result of lower average debt outstanding.

Loss (gain) on disposal of assets includes plant and equipment disposals, divestitures of businesses and asset impairments and other miscellaneous asset adjustments.

(millions)	2006	2005	2004
Plant and equipment disposals	**$ (1)**	$ 3	$ 2
Divestitures	**10**		(11)
Asset adjustments	**6**	1	7

See Note 2 on page 13-24 for a discussion of divestitures. See Note 3 on page 13-25 for a discussion of asset adjustments.

Effective tax rate from continuing operations in 2006 was higher primarily due to a lower level of research and development tax credits as compared to 2005, partially offset by the effect of tax planning initiatives. The effective tax rate in 2005 was lower primarily due to a favorable ruling obtained from the Internal Revenue Service regarding research and development tax credits as well as the effect of tax planning initiatives related to recent acquisitions.

Income from continuing operations - In addition to the individual income statement items discussed above, net income in 2006 and 2005 was adversely affected by an additional expense of approximately $15 million and $11 million, respectively, related to domestic qualified defined benefit plans. The increase in expense associated with the Company's domestic qualified defined benefit plans resulted primarily from changes in actuarial assumptions for 2006 and higher amortization of prior years' actuarial losses. Net income in 2007 is expected to be positively affected by a decrease in pension expense related to the Company's domestic defined qualified benefit plans of approximately $19 million. The decrease in pension expense in 2007 is primarily due to an increase in the discount rate from 5.25 percent to 6.0 percent and lower expense from the amortization of prior years' actuarial losses.

Discontinued operations represents the operating results and related gain on the sale, net of tax, of the Astron Buildings business which was divested in August 2005 and the Wynn's Specialty Chemical business which was divested in December 2004.

Other comprehensive income (loss) – Items included in other comprehensive income (loss) are gains and losses that under generally accepted accounting principles are recorded directly into stockholders' equity. The following are the Company's items of other comprehensive income (loss):

(millions)	2006	2005	2004
Foreign currency translation	**$104**	$ 13	$34
Net unrealized (loss) gain on marketable equity securities		(11)	5
Minimum pension liability	**167**	(154)	95
Net unrealized gain (loss) on cash flow hedges	**5**	(7)	

The change in foreign currency translation in 2006 primarily resulted from the weakening of the U.S. dollar against most other currencies. The minimum pension liability was recorded in comprehensive income in accordance with the requirements of SFAS No. 87 (see Note 10 on page 13-32 for further discussion).

Discussion of Business Segment Information

The Business Segment information presents sales, operating income and assets on a basis that is consistent with the manner in which the Company's various businesses are managed for internal review and decision-making. See Note 1 on page 13-20 for a description of the Company's reportable business segments.

Industrial Segment (millions)

	2006	2005	2004
Sales			
North America	**$3,993**	$3,517	$3,017
International	**2,903**	2,398	1,970
Operating income			
North America	**597**	468	291
International	**354**	267	160
Operating income as a percent of sales			
North America	**15.0%**	13.3%	9.6%
International	**12.2%**	11.1%	8.1%
Backlog	**$1,178**	$ 944	$ 840
Assets	**6,154**	4,714	4,277
Return on average assets	**11.0%**	10.4%	7.1%

Sales in 2006 for the Industrial North American operations were 13.6 percent higher than 2005 following a 16.6 percent increase from 2004 to 2005. The increase in sales in 2006 was primarily due to acquisitions, which accounted for about one-half of the sales increase, as well as higher end-user demand experienced in virtually all markets, with the largest increases in heavy-duty truck, construction, mobile equipment and oil and gas. The sales increase from 2004 to 2005 was primarily due to higher end-user demand experienced in the heavy-duty truck, construction and agriculture and mobile equipment markets.

Sales in the Industrial International operations increased 21.0 percent in 2006 following an increase of 21.8 percent from 2004 to 2005. The sales increase in 2006 was primarily due to acquisitions, which accounted for about 70 percent of the sales increase, as well as higher volume in Europe and the Asia Pacific region, partially offset by lower volume in Latin America. Foreign currency rate changes reduced net sales in 2006 by $54 million. The increase in sales from 2004 to 2005 was primarily due to higher volume across most markets in Europe, Latin America and the Asia Pacific region. Acquisitions completed in 2005 and the effect of foreign currency rate changes each contributed about 30 percent of the sales increase.

The higher Industrial North American operating margins in 2006 and 2005 were primarily due to the increased sales volume as well as operating efficiencies. The operating efficiencies reflect the execution of the Company’s financial performance initiatives, especially in the area of lean manufacturing and strategic procurement. Acquisitions, not yet fully integrated, negatively impacted margins in both 2006 and 2005. Included in Industrial North American operating income in 2006, 2005 and 2004 are business realignment charges of $5.4 million, $3.7 million and $9.1 million, respectively. The business realignment charges resulted from actions the Company took to structure the Industrial North American operations to operate in their then current economic environment and primarily consisted of severance costs and costs relating to the consolidation of manufacturing operations.

The Industrial International operating margin improvement in 2006 and 2005 was primarily due to the higher sales volume, especially throughout all businesses in Europe, as well as the effects of the Company’s financial performance initiatives. Acquisitions, not fully integrated, negatively impacted margins in 2006 and 2005. Operating income in 2006, 2005 and 2004 included $10.3 million, $9.9 million and $4.5 million, respectively, of business realignment charges that were taken to appropriately structure primarily the European operations.

Industrial Segment order rates were higher throughout 2006 as virtually all markets experienced continued strength in end-user demand. The Company expects order entry levels in 2007 in most markets of the Industrial North American operations to be relatively flat or decline slightly as compared to their 2006 levels. The Company expects sales in the Industrial International operations to increase about 18 percent over 2006 reflecting strong end-user demand and the sales contribution from acquisitions completed in 2006. Operating margins in both the Industrial North American and Industrial International operations are expected to remain at or be slightly higher than their 2006 level. Industrial International operating margin in 2007 is expected to be adversely affected by recent acquisitions that will not be completely integrated for the entire year. As part of the Company’s financial performance initiatives, the recognition of additional business realignment charges may be required in 2007.

The increase in total Industrial Segment backlog in 2006 and 2005 is primarily due to acquisitions, which contributed about one-half of the increase in both 2006 and 2005, as well as higher order rates in both the Industrial North American and Industrial International businesses.

The increase in assets in 2006 and 2005 was primarily due to current-year acquisitions and the effect of currency fluctuations partially offset by a decrease in plant and equipment.

Aerospace Segment (millions)

	2006	2005	2004
Sales	**$1,505**	$1,359	$1,216
Operating income	**221**	199	158
Operating income as a percent of sales	**14.7%**	14.7%	13.0%
Backlog	**$1,328**	$1,229	$1,203
Assets	**748**	658	635
Return on average assets	**31.4%**	30.8%	24.3%

Sales in 2006 increased 10.7 percent compared to an increase of 11.8 percent from 2004 to 2005. The increase in sales in both 2006 and 2005 primarily reflects the continued recovery of the commercial airline industry, in both the original equipment manufacturer (OEM) and aftermarket markets as well as continued strong demand in the military market.

Despite the higher sales volume in 2006, operating margin remained at the 2005 amount of 14.7 percent primarily due to a higher concentration of 2006 sales occurring in the commercial and military OEM businesses as well as higher engineering costs incurred in 2006 for new programs. The higher margins in 2005 were primarily due to the higher sales volume as well as product mix partially offset by higher aircraft product liability insurance premiums. The continued implementation of the Company's financial performance initiatives also positively affected margins in 2006 and 2005.

The increase in backlog in 2006 was primarily due to higher order rates experienced in both the commercial and military businesses. The slight increase in backlog in 2005 was primarily due to higher order rates in the commercial businesses being partially offset by lower order rates in the military business. The upward trend in commercial order rates experienced in 2006 is expected to continue in 2007. Military order rates are expected to be slightly lower in 2007. Heavier commercial OEM volume in future product mix could result in lower margins.

The increase in assets in 2006 and 2005 was primarily due to increases in accounts receivable and inventory partially offset by a decline in plant and equipment. A portion of the increase in assets in 2006 was also attributable to an acquisition.

Climate & Industrial Controls Segment (millions)

	2006	2005	2004
Sales	**$ 985**	$ 794	$ 671
Operating income	**83**	75	72
Operating income as a percent of sales	**8.5%**	9.4%	10.7%
Backlog	**$ 190**	$ 131	$ 122
Assets	**812**	696	361
Return on average assets	**11.0%**	14.2%	19.5%

Sales in 2006 increased 24.0 percent compared to an 18.3 percent increase in sales from 2004 to 2005. The increase in sales in 2006 was primarily due to acquisitions, which accounted for about one-half of the sales increase, as well as higher end-user demand in the residential air conditioning market, which is being driven by energy efficiency legislation. The increase in sales in 2005 was the result of current-year acquisitions partially offset by lower end-user demand experienced in the automotive market. The lower margins in 2006 is primarily due to manufacturing inefficiencies related to recent plant relocations and integration costs related to recent acquisitions. The lower margins in 2005 are primarily due to unfavorable overhead absorption levels and higher automotive platform set-up costs as compared to 2004. Operating income in 2006 included $3.6 million of business realignment charges.

During 2006, the Climate & Industrial Controls Segment experienced strong business conditions in the residential air conditioning market and soft business conditions in the automotive market. For 2007, business conditions in the residential air conditioning market are anticipated to be strong while business conditions in the automotive market are not expected to improve significantly. Sales in 2007 are anticipated to increase in the mid-single digit range with a corresponding 25 percent increase in operating margin. Operating margins in 2007 are expected to benefit from the completion of recent plant relocations and margin contributions from recent acquisitions which have now been completely integrated.

The increase in assets in 2006 was primarily due to acquisitions and an increase in accounts receivable and inventory partially offset by a decline in plant and equipment. The increase in assets in 2005 was primarily due to acquisitions.

Corporate assets decreased 42.2 percent in 2006 and 13.7 percent in 2005. The fluctuation in 2006 is primarily due to a decrease in cash partially offset by an increase in investments and a decrease in inventory reserves. The fluctuation in 2005 was primarily due to a decrease in accounts receivable, investments and net assets of discontinued operations and an increase in inventory reserves.

Discussion of Consolidated Balance Sheet

The Consolidated Balance Sheet shows the Company's financial position at year-end, compared with the previous year-end. This statement provides information to assist in assessing factors such as the Company's liquidity and financial resources.

(millions)	2006	2005
Accounts receivable	**$1,592**	$1,225
Inventories	**1,183**	1,017
Plant and equipment, net	**1,694**	1,581
Investments and other assets	**859**	832
Goodwill	**2,010**	1,371
Intangible assets, net	**471**	240
Accounts payable, trade	**771**	569
Shareholders' equity	**4,241**	3,340
Working capital	**$1,458**	$1,455
Current ratio	**1.87**	2.12

Accounts receivable are primarily receivables due from customers for sales of product ($1,475.9 million at June 30, 2006 and $1,111.1 million at June 30, 2005). The current-year increase in accounts receivable is primarily due to acquisitions as well as a higher level of sales experienced in the latter part of the current fiscal year as compared to fiscal 2005. Days sales outstanding relating to trade receivables for the Company increased to 51 days in 2006 compared to 47 days in 2005. The increase in days sales outstanding is primarily due to accounts receivable of companies acquired during the latter part of 2006.

Inventories increased primarily due to acquisitions. Days supply of inventory on hand decreased to 60 days in 2006 from 65 days in 2005.

Plant and equipment, net of accumulated depreciation, increased in 2006 primarily due to plant and equipment acquired in current-year acquisitions partially offset by depreciation expense exceeding capital expenditures.

Goodwill increased primarily as a result of current-year acquisitions.

Intangible assets, net consist primarily of patents, trademarks and customer lists. Intangible assets, net increased primarily due to current-year acquisitions.

Accounts payable, trade increased primarily due to current-year acquisitions as well as an increase in purchasing across all Segments of the Company to support the increase in customer orders.

Accrued payrolls and other compensation increased to $297.1 million from $263.0 million primarily due to higher incentive compensation accruals.

Accrued domestic and foreign taxes increased to $140.4 million in 2006 from $97.9 million in 2005 primarily due to acquisitions and higher taxable income in 2006.

Pensions and other postretirement benefits decreased 23.2 percent in 2006. The change in this amount is explained further in Note 10 to the Consolidated Financial Statements.

Net deferred income taxes decreased $96.3 million in 2006. The change in this amount is explained further in Note 4 to the Consolidated Financial Statements.

Other liabilities increased to $261.6 million in 2006 from $189.7 million in 2005 as a result of higher long-term incentive compensation accruals as well as a higher amount of minority interests in consolidated subsidiaries resulting from the acquisition of a majority ownership of two entities in 2006 that were previously accounted for by the equity method.

Shareholders' equity - The change in shareholders' equity is explained in Note 12 to the Consolidated Financial Statements.

Discussion of Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows reflects cash inflows and outflows from the Company's operating, investing and financing activities.

A summary of cash flows follows:

(millions)	2006	2005	2004
Cash provided by (used in):			
Operating activities	**$ 955**	$ 853	$ 662
Investing activities	**(921)**	(565)	(270)
Financing activities	**(194)**	(138)	(449)
Effect of exchange rates	**(4)**	2	(5)
Net (decrease) increase in cash and cash equivalents	**$(164)**	$ 152	$ (62)

Cash Flows From Operating Activities – The increase in net cash provided by operating activities in 2006 was primarily the result of an increase in net income, a decrease in net income from discontinued operations and the non-cash charge related to stock-based compensation. Cash flow from working capital items decreased in 2006 primarily due to an increase in cash flow used by accounts receivable partially offset by an increase in cash flow provided by accounts payable and accrued domestic and foreign taxes.

Cash Flows Used In Investing Activities – The significant increase in the amount of cash used in investing activities in 2006 is attributable to an increase in acquisition activity. Capital expenditures increased $43.2 million in 2006. The level of capital expenditures is expected to be approximately 3.5 percent of sales in 2007. Refer to Note 2 on page 13-24 for a summary of net assets of acquired companies at their respective acquisition dates.

Cash Flows From Financing Activities – In 2006, the Company decreased its outstanding borrowings by a net total of $101.5 million compared to a decrease of $21.2 million in 2005. The substantial level of cash flow from operating activities allowed the Company to minimize the borrowings necessary to complete acquisitions in 2006 and 2005. Common share activity provided cash of $16.9 million in 2006 compared to using cash of $23.7 million in 2005. The increase in cash provided by common stock activity in 2006 is primarily due to the level of stock option activity and share repurchases between periods.

Book overdrafts have been excluded from Cash flows from financing activities and included in Cash flows from operating activities, in Accounts payable, trade. The book overdrafts result from a delay in sweeping cash from one bank to another and are settled the next business day; therefore, the book overdrafts are not considered bank borrowings by the Company. Had the book overdrafts been reflected as bank borrowings, cash flows from financing activities would have been $3.3 million higher in 2006, $13.0 million lower in 2005 and $18.1 million higher in 2004.

The Company has the availability to issue securities with an aggregate initial offering price of $775 million under its universal shelf registration statement. Securities that may be issued under this shelf registration statement include debt securities, common stock, serial preferred stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

The Company's goal is to maintain no less than an "A" rating on senior debt to ensure availability and reasonable cost of external funds. As one means of achieving this objective, the Company has established a financial goal of maintaining a ratio of debt to debt-equity of no more than 37 percent.

Debt to Debt-Equity Ratio

(dollars in millions)	2006	2005
Debt	**$1,132**	$ 970
Debt & Equity	**5,373**	4,311
Ratio	**21.1%**	22.5%

The Company regularly explores acquisition opportunities and additional borrowings may be used to finance acquisitions completed in 2007.

Common share activity in 2006 primarily involves the exercise of stock options and the repurchase of shares of the Company's common stock for treasury. The repurchase of the Company's shares is done pursuant to a program to repurchase up to 5.0 million of the Company's common shares per fiscal year on the open market, at prevailing prices, including the systematic repurchase of up to $20 million in common shares each fiscal quarter.

Dividends have been paid for 224 consecutive quarters, including a yearly increase in dividends for the last 50 fiscal years. The expected annual dividend rate for fiscal 2007 is $1.04 per share.

As of June 30, 2006, the Company has a line of credit totaling $1,025 million through a multi-currency revolving credit agreement with a group of banks. The Company has the right, no more than once a year, to increase the facility amount, in minimum increments of $25 million up to a maximum facility amount of $1,250 million. The credit agreement expires September 2010, however the Company has the right to request a one-year extension of the expiration date on an annual basis. The credit agreement supports the Company's commercial paper note program, which is rated A-1 by Standard & Poor's, P-1 by Moody's and F-1 by Fitch, Inc. These ratings are considered investment grade. The revolving credit agreement contains provisions that increase the facility fee of the credit agreement in the event the Company's credit ratings are lowered. A lowering of the Company's credit ratings would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company seeks to minimize its total cost of borrowing and therefore uses its commercial paper note program as its primary source of working capital liquidity. The primary alternative source of borrowing for working capital liquidity is the committed line of credit, which typically bears a higher cost of borrowing.

The Company's revolving credit agreement and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the revolving credit agreement for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At the Company's present rating level, the most restrictive financial covenant provides that the ratio of secured debt to net tangible assets be less than 10 percent. As of June 30, 2006, the ratio of secured debt to net tangible assets was less than one percent. The Company is in compliance with all covenants and expects to remain in compliance during the term of the agreement and indentures.

Based upon the Company's past performance and current expectations, management believes the cash flows generated from future operating activities should provide adequate funds to support internal growth and continued improvements in the Company's manufacturing facilities and equipment. The Company's worldwide financial capabilities may be used to support planned growth as needed.

Contractual Obligations – The following table summarizes the Company's fixed contractual obligations

(In thousands)	Payments due by period				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (Note 9)	$ 1,125,444	$ 65,983	$ 62,021	$ 402,114	$ 595,326
Interest on long-term debt	381,781	54,973	100,067	93,040	133,701
Operating leases (Note 9)	200,296	55,302	70,118	29,281	45,595
Retirement benefits (Note 10)	1,580,572	250,702	240,254	268,606	821,010
Total	$ 3,288,093	$ 426,960	$ 472,460	$ 793,041	$ 1,595,632

Quantitative and Qualitative Disclosures About Market Risk

The Company enters into forward exchange contracts and costless collar contracts to reduce its exposure to fluctuations in related foreign currencies. The total carrying and fair value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations. During 2006, two interest rate swap agreements were settled. The swap agreements were designated as a hedge against the anticipated refinancing of the Company's Euro Notes that were due in November 2005. The Company made a net payment of $3.5 million to settle the swaps. This net payment is being recognized as an adjustment to interest expense over the term of the Euro Bonds issued in November 2005.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates. A 100 basis point increase in near-term interest rates would increase annual interest expense on variable rate debt existing at June 30, 2006 by approximately $0.3 million.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The policies discussed below are considered by management to be more critical than other policies because their application places the most significant demands on management's judgment.

Revenue Recognition – Substantially all of the Industrial Segment and Climate & Industrial Controls Segment revenues are recognized when the risks and rewards of ownership and title to the product have transferred to the customer. This generally takes place at the time the product is shipped. The Aerospace Segment uses the percentage of completion method to recognize a portion of its revenue. The percentage of completion method requires the use of estimates of costs to complete long-term contracts and for some contracts includes estimating costs related to aftermarket orders. The estimation of these costs requires substantial judgment on the part of management due to the duration of the contracts as well as the technical nature of the products involved. Adjustments to estimated costs are made on a consistent basis and a contract reserve is established when the costs to complete a contract exceed the contract revenues.

Impairment of Goodwill and Long-lived Assets – Goodwill is tested for impairment, at the reporting unit level, on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may exceed its fair value. A discounted cash flow model is used to estimate the fair value of a reporting unit. This model requires the use of long-term planning forecasts and assumptions regarding industry specific economic conditions that are outside the control of the Company. Long-lived assets held for use are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use and eventual disposition is less than their carrying value. The long-term nature of these assets requires the estimation of its cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test.

Inventories – Inventories are valued at the lower of cost or market. Cost is determined on the last-in, first-out basis for a majority of U.S. inventories and on the first-in, first-out basis for the balance of the Company's inventories. Inventories have been reduced by an allowance for obsolete inventories. The estimated allowance is based on management's review of inventories on hand compared to estimated future usage and sales. Changes in the allowance have not had a material effect on the Company's results of operations, financial position or cash flows.

Pensions and Postretirement Benefits Other Than Pensions – The annual net periodic expense and benefit obligations related to the Company's defined benefit plans are determined on an actuarial basis. This determination requires critical assumptions regarding the discount rate, long-term return on plan assets, increases in compensation levels, amortization periods for actuarial gains and losses and health care cost trends. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plan's measurement date. Changes in the assumptions to reflect actual experience as well as the amortization of actuarial gains and losses could result in a material change in the annual net periodic expense and benefit obligations reported in the financial statements. For the Company's domestic defined benefit plans, a one-half percentage point change in the assumed long-term rate of return on plan assets is estimated to have a $7 million effect on pension expense and a one-half percentage point decrease in the discount rate is estimated to increase pension expense by $14 million. As of June 30, 2006, $495 million of past years' actuarial losses related to the Company's domestic qualified defined benefit plans have yet to be amortized. These losses will generally be amortized over approximately 11.5 years and will negatively affect earnings in the future. Actuarial gains experienced in future years will help reduce the effect of the actuarial loss amortization.

Further information on pensions and postretirement benefits other than pensions is provided in Note 10 to the Consolidated Financial Statements.

Stock-Based Compensation – The computation of the expense associated with stock-based compensation requires the use of a valuation model. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options and stock appreciation rights. The Black-Scholes model requires assumptions regarding the volatility of the Company's stock, the expected life of the stock award and the Company's dividend ratio. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility, future dividend payments and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards.

Other Loss Reserves – The Company has a number of loss exposures incurred in the ordinary course of business such as environmental claims, product liability, litigation, recoverability of deferred income tax benefits and accounts receivable reserves. Establishing loss reserves for these matters requires management's estimate and judgment with regards to risk exposure and ultimate liability or realization. These loss reserves are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances.

Recently Adopted Accounting Pronouncement

On July 1, 2005, the Company adopted the provisions of FASB Statement No. 123 (revised 2004) (FAS 123R) and elected to use the modified prospective transition method. The modified prospective transition method requires compensation cost to be recognized in the financial statements for all awards granted after the date of adoption. Prior to the adoption of FAS 123R, the Company used the intrinsic-value based method to account for stock options and made no charges against earnings with respect to options granted.

The Company's stock incentive plans provide for the grant of nonqualified options and stock appreciation rights (SARs) to officers, directors and key employees of the Company. Outstanding options and SARs are exercisable from one to three years after the date of grant and expire no more than ten years after the date of grant. The Company uses a Black-Scholes option pricing model to estimate the fair value of nonqualified options and SARs granted. The adoption of FAS 123R reduced Income from continuing operations before income taxes in fiscal 2006 by $33.4 million and reduced fiscal 2006 Net income by $21.8 million ($.18 per basic and diluted share). The adoption of FAS 123R had an immaterial effect on the Consolidated Statement of Cash flows in fiscal 2006. As of June 30, 2006, $14.5 million of expense with respect to nonvested stock-based awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 18 months.

Recently Issued Accounting Pronouncement

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 is effective as of the beginning of fiscal years that start after December 15, 2006. The Company has not yet determined the effect on the Company's financial position or results of operations of complying with the provisions of FIN 48.

Consolidated Statement of Income

(Dollars in thousands, except per share amounts)	For the years ended June 30, 2006	2005	2004
Net Sales	**$ 9,385,888**	$ 8,068,805	$ 6,887,596
Cost of sales	**7,367,618**	6,391,477	5,577,888
Gross profit	**2,018,270**	1,677,328	1,309,708
Selling, general and administrative expenses	**1,036,646**	860,278	765,570
Goodwill impairment loss (Note 7)			1,033
Interest expense	**75,763**	66,869	73,144
Other (income) expense, net	**(9,393)**	8,040	(891)
Loss (gain) on disposal of assets	**15,296**	3,870	(2,104)
Income from continuing operations before income taxes	**899,958**	738,271	472,956
Income taxes (Note 4)	**261,682**	205,105	140,871
Income from continuing operations	**638,276**	533,166	332,085
Income from discontinued operations (Note 2)	**34,891**	71,526	13,698
Net Income	**$ 673,167**	$ 604,692	$ 345,783
Earnings per Share (Note 5)			
Basic earnings per share			
Income from continuing operations	**$ 5.35**	$ 4.49	$ 2.82
Income from discontinued operations	**0.30**	0.60	0.12
Net income per share	**$ 5.65**	$ 5.09	$ 2.94
Diluted earnings per share			
Income from continuing operations	**$ 5.28**	$ 4.43	$ 2.79
Income from discontinued operations	**0.29**	0.59	0.12
Net income per share	**$ 5.57**	$ 5.02	$ 2.91

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

(Dollars in thousands)	For the years ended June 30, 2006	2005	2004
Net Income	**$ 673,167**	$ 604,692	$ 345,783
Other comprehensive income (loss), net of taxes (Note 11):			
Foreign currency translation adjustment	**103,842**	13,138	34,487
Minimum pension liability	**167,008**	(154,377)	94,513
Net unrealized (loss) gain on marketable equity securities	**(26)**	(10,697)	5,272
Net unrealized cash flow hedging gain (loss)	**5,321**	(7,318)	
Comprehensive Income	**$ 949,312**	$ 445,438	$ 480,055

The accompanying notes are an integral part of the financial statements.

Business Segment Information

By Industry

(Dollars in thousands)	2006	2005	2004
Net Sales:			
Industrial:			
North America	**$ 3,993,370**	$ 3,516,627	$ 3,016,820
International	**2,902,508**	2,398,439	1,969,727
Aerospace	**1,504,922**	1,359,431	1,215,920
Climate & Industrial Controls	**985,088**	794,308	671,157
Other			13,972
	$ 9,385,888	$ 8,068,805	$ 6,887,596
Segment Operating Income:			
Industrial:			
North America	**$ 597,204**	$ 468,213	$ 290,783
International	**353,760**	267,207	159,641
Aerospace	**221,005**	199,187	157,946
Climate & Industrial Controls	**83,256**	74,843	71,769
Other			741
Total segment operating income	**1,255,225**	1,009,450	680,880
Corporate administration	**133,695**	111,615	106,108
Income from continuing operations before interest expense and other	**1,121,530**	897,835	574,772
Interest expense	**75,763**	66,869	73,144
Other expense	**145,809**	92,695	28,672
Income from continuing operations before income taxes	**$ 899,958**	$ 738,271	$ 472,956
Identifiable Assets:			
Industrial	**$ 6,153,559**	$ 4,713,574	$ 4,277,413
Aerospace	**748,213**	658,394	634,931
Climate & Industrial Controls	**812,218**	695,641	361,148
Other			1,741
	7,713,990	6,067,609	5,275,233
Corporate (a)	**459,442**	793,094	919,468
	$ 8,173,432	$ 6,860,703	$ 6,194,701
Property Additions (b):			
Industrial	**$ 292,671**	$ 196,394	$ 165,983
Aerospace	**18,827**	12,919	9,691
Climate & Industrial Controls	**41,459**	40,050	12,625
Corporate	**24,959**	9,900	852
	$ 377,916	$ 259,263	$ 189,151
Depreciation:			
Industrial	**$ 196,751**	$ 198,247	$ 195,865
Aerospace	**20,412**	20,777	19,723
Climate & Industrial Controls	**23,625**	19,954	18,675
Corporate	**4,893**	6,228	4,843
	$ 245,681	$ 245,206	$ 239,106

By Geographic Area (c)

(Dollars in thousands)	2006	2005	2004
Net Sales:			
North America	**$ 6,219,054**	$ 5,455,466	$ 4,714,184
International	**3,166,834**	2,613,339	2,173,412
	$ 9,385,888	$ 8,068,805	$ 6,887,596
Long-Lived Assets:			
North America	**$ 978,028**	$ 1,027,376	$ 1,041,171
International	**715,766**	553,972	533,817
	$ 1,693,794	$ 1,581,348	$ 1,574,988

The accounting policies of the business segments are the same as those described in the Significant Accounting Policies footnote except that the business segment results are prepared on a basis that is consistent with the manner in which the Company's management disaggregates financial information for internal review and decision-making.

(a) Corporate assets are principally cash and cash equivalents, domestic deferred income taxes, investments, benefit plan assets, headquarters facilities, assets held for sale and the major portion of the Company's domestic data processing equipment.

(b) Includes the value of net plant and equipment at the date of acquisition of acquired companies accounted for by the purchase method (2006 - $179,803; 2005 - $104,358; 2004 - $50,860).

(c) Net sales are attributed to countries based on the location of the selling unit. North America includes the United States, Canada and Mexico. No country other than the United States represents greater than 10% of consolidated sales. Long-lived assets are comprised of plant and equipment based on physical location.

Consolidated Balance Sheet

(Dollars in thousands)	June 30, 2006	2005
Assets		
Current Assets		
Cash and cash equivalents	**$ 171,553**	$ 336,080
Accounts receivable, less allowance for doubtful accounts (2006 - $12,332; 2005 - $13,160)	**1,592,323**	1,225,423
Inventories (Notes 1 and 6):		
Finished products	**520,159**	451,459
Work in process	**494,469**	426,432
Raw materials	**168,250**	139,154
	1,182,878	1,017,045
Prepaid expenses	**64,238**	49,669
Deferred income taxes (Notes 1 and 4)	**127,986**	127,490
Total Current Assets	**3,138,978**	2,755,707
Plant and equipment (Note 1):		
Land and land improvements	**212,750**	183,800
Buildings and building equipment	**1,116,634**	1,021,945
Machinery and equipment	**2,702,389**	2,512,079
Construction in progress	**54,594**	42,316
	4,086,367	3,760,140
Less accumulated depreciation	**2,392,573**	2,178,792
	1,693,794	1,581,348
Investments and other assets (Note 1)	**859,107**	831,595
Goodwill (Notes 1 and 7)	**2,010,458**	1,371,024
Intangible assets, net (Notes 1 and 7)	**471,095**	239,891
Net assets of discontinued operations (Note 2)		81,138
Total Assets	**$ 8,173,432**	$ 6,860,703
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable and long-term debt payable within one year (Notes 8 and 9)	**$ 72,039**	$ 31,962
Accounts payable, trade	**770,665**	569,047
Accrued payrolls and other compensation	**297,071**	262,976
Accrued domestic and foreign taxes	**140,387**	97,853
Other accrued liabilities	**400,943**	338,986
Total Current Liabilities	**1,681,105**	1,300,824
Long-term debt (Note 9)	**1,059,461**	938,424
Pensions and other postretirement benefits (Note 10)	**811,479**	1,056,230
Deferred income taxes (Notes 1 and 4)	**118,544**	35,340
Other liabilities	**261,640**	189,738
Total Liabilities	**3,932,229**	3,520,556
Shareholders' Equity (Note 11)		
Serial preferred stock, $.50 par value, authorized 3,000,000 shares; none issued		
Common stock, $.50 par value, authorized 600,000,000 shares; issued 120,683,890 shares in 2006 and 120,437,280 shares in 2005 at par value	**60,342**	60,219
Additional capital	**510,869**	478,219
Retained earnings	**3,916,412**	3,352,888
Unearned compensation related to ESOP (Note 9)	**(25,809)**	(36,818)
Deferred compensation related to stock options	**2,347**	2,347
Accumulated other comprehensive (loss)	**(194,819)**	(470,964)
	4,269,342	3,385,891
Common stock in treasury at cost: 368,695 shares in 2006 and 743,767 shares in 2005	**(28,139)**	(45,744)
Total Shareholders' Equity	**4,241,203**	3,340,147
Total Liabilities and Shareholders' Equity	**$ 8,173,432**	$ 6,860,703

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Cash Flows

(Dollars in thousands)	2006	2005 (Revised -Note 1)	2004 (Revised -Note 1)
	For the years ended June 30,		
Cash Flows From Operating Activities			
Net income	**$ 673,167**	$ 604,692	$ 345,783
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (income) from discontinued operations	**(34,891)**	(71,526)	(13,698)
Depreciation	**245,681**	245,206	239,106
Amortization	**35,290**	17,484	10,580
Stock-based compensation	**33,448**		
Deferred income taxes	**(50,548)**	16,102	(5,572)
Foreign currency transaction loss	**8,216**	9,092	1,846
Loss on sale of plant and equipment	**5,438**	3,870	7,139
Loss (gain) on divestiture of businesses	**9,858**		(11,444)
Changes in assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts receivable	**(109,978)**	(6,540)	(139,932)
Inventories	**17,498**	17,083	74,322
Prepaid expenses	**(2,037)**	(2,736)	10,217
Other assets	**(29,419)**	(13,607)	(74,820)
Accounts payable, trade	**56,202**	37,611	75,246
Accrued payrolls and other compensation	**17,783**	23,387	29,726
Accrued domestic and foreign taxes	**70,451**	(4,781)	48,318
Other accrued liabilities	**(2,781)**	(13,999)	60
Pensions and other postretirement benefits	**9,470**	(1,971)	3,558
Other liabilities	**5,050**	4,997	37,089
Discontinued operations	**(3,259)**	(10,858)	24,874
Net cash provided by operating activities	**954,639**	853,506	662,398
Cash Flows From Investing Activities			
Acquisitions (less cash acquired of $42,429 in 2006, $21,720 in 2005, and $63,691 in 2004)	**(835,981)**	(558,569)	(200,314)
Capital expenditures	**(198,113)**	(154,905)	(138,291)
Proceeds from sale of plant and equipment	**41,098**	20,284	27,195
Proceeds from sale of businesses	**92,715**	120,000	33,213
Discontinued operations	**(20,862)**	10,223	9,780
Other	**(100)**	(2,416)	(2,055)
Net cash (used in) investing activities	**(921,243)**	(565,383)	(270,472)
Cash Flows From Financing Activities			
Proceeds from (payments for) common share activity	**16,931**	(23,724)	56,223
(Payments of) notes payable, net	**(8,262)**	(16,927)	(12,785)
Proceeds from long-term borrowings	**495,796**	1,094	18,962
(Payments of) long-term borrowings	**(589,014)**	(5,369)	(421,605)
Dividends paid, net of tax benefit of ESOP shares	**(109,643)**	(92,612)	(89,286)
Net cash (used in) financing activities	**(194,192)**	(137,538)	(448,491)
Effect of exchange rate changes on cash	**(3,731)**	1,648	(5,438)
Net (decrease) increase in cash and cash equivalents	**(164,527)**	152,233	(62,003)
Cash and cash equivalents at beginning of year	**336,080**	183,847	245,850
Cash and cash equivalents at end of year	**$ 171,553**	$ 336,080	$ 183,847
Supplemental Data:			
Cash paid during the year for:			
Interest, net of capitalized interest	**$ 72,183**	$ 66,827	$ 73,433
Income taxes	**165,180**	186,853	96,097

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

1. Significant Accounting Policies

The significant accounting policies followed in the preparation of the accompanying consolidated financial statements are summarized below.

Nature of Operations - The Company is a leading worldwide full-line manufacturer of motion-control products, including fluid power systems, electromechanical controls and related components. The Company evaluates performance based on segment operating income before Corporate general and administrative expenses, Interest expense and Income taxes.

The Company operates in three business segments: Industrial, Aerospace and Climate & Industrial Controls. The Industrial Segment is an aggregation of several business units, which manufacture motion-control and fluid power system components for builders and users of various types of manufacturing, packaging, processing, transportation, agricultural, construction, and military vehicles and equipment. Industrial Segment products are marketed primarily through field sales employees and independent distributors. The North American Industrial business represents the largest portion of the Company's manufacturing plants and distribution networks and primarily services North America. The International Industrial operations provide Parker products and services to countries throughout Europe, Asia Pacific and Latin America.

The Aerospace Segment produces hydraulic, fuel and pneumatic systems and components, which are utilized on virtually every domestic commercial, military and general aviation aircraft and also performs a vital role in naval vessels and land-based weapons systems. This Segment serves original equipment and maintenance, repair and overhaul customers worldwide. Aerospace Segment products are marketed by field sales employees and are sold directly to manufacturers and end users.

The Climate & Industrial Controls Segment manufactures motion-control systems and components for use primarily in the refrigeration and air conditioning and transportation industries. The products in the Climate & Industrial Controls Segment are marketed primarily through field sales employees and independent distributors.

See the table of Business Segment Information "By Industry" and "By Geographic Area" on pages 13-16 and 13-17 for further disclosure of business segment information.

There are no individual customers to whom sales are three percent or more of the Company's consolidated sales. Due to the diverse group of customers throughout the world the Company does not consider itself exposed to any concentration of credit risks.

The Company manufactures and markets its products throughout the world. Although certain risks and uncertainties exist, the diversity and breadth of the Company's products and geographic operations mitigate significantly the risk that adverse changes would materially affect the Company's operating results.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Consolidation - The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. All material intercompany transactions and profits have been eliminated in the consolidated financial statements. The Company does not have off-balance sheet arrangements. Within the Business Segment Information, intersegment and interarea sales are recorded at fair market value and are immaterial in amount.

Revenue Recognition - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the customer. The Company's revenue recognition policies are in compliance with the SEC's Staff Accounting Bulletin (SAB) No. 104. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of sales.

Cash - Cash equivalents consist of short-term highly liquid investments, with a three-month or less maturity, carried at cost plus accrued interest, which are readily convertible into cash.

Inventories - Inventories are stated at the lower of cost or market. The majority of domestic inventories are valued by the last-in, first-out method and the balance of the Company's inventories are valued by the first-in, first-out method. Effective July 1, 2005, the Company adopted the provisions of FASB Statement No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4." This Statement required that certain abnormal expenses be recognized as current-period charges. The implementation of this accounting pronouncement did not have a material effect on the Company's results of operations, financial position or cash flows.

Long-term Contracts - The Company enters into long-term contracts for the production of aerospace products. For financial statement purposes, revenues are recognized using the percentage-of-completion method. The extent of progress toward completion is measured using the units-of-delivery method. Unbilled costs on these contracts are included in inventory. Progress payments are netted against the inventory balances. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Plant, Equipment and Depreciation - Plant and equipment are recorded at cost and are depreciated principally using the straight-line method for financial reporting purposes. Depreciation rates are based on estimated useful lives of the assets, generally 40 years for buildings, 15 years for land improvements and building equipment, seven to 10 years for machinery and equipment, and three to five years for vehicles and office equipment. Improvements, which extend the useful life of property, are capitalized, and maintenance and repairs are expensed. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.

Investments and Other Assets - Investments in joint-venture companies in which ownership is 50% or less and in which the Company does not have operating control are stated at cost plus the Company's equity in undistributed earnings. These investments and the related earnings are not material to the consolidated financial statements. During 2005 the Company recorded a charge of $8,766 ($.05 per share) related to a real estate investment. Investments and other assets include a prepaid pension cost at June 30, 2006 and 2005 of $344,987 and $366,675, respectively, and an intangible asset recognized in connection with an additional minimum pension liability of $86,071 and $90,310 at June 30, 2006 and 2005, respectively.

Goodwill - The Company conducts a formal impairment test of goodwill on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Intangible Assets - Intangible assets primarily include patents, trademarks and customer lists and are recorded at cost and amortized on a straight-line method. Patents are amortized over their remaining legal life. Trademarks are amortized over the estimated time period over which an economic benefit is expected to be received. Customer lists are amortized over a period based on historical customer attrition rates.

Income Taxes - Income taxes are provided based upon income for financial reporting purposes. Deferred income taxes arise from temporary differences in the recognition of income and expense for tax purposes. Tax credits and similar tax incentives are applied to reduce the provision for income taxes in the year in which the credits arise.

Product Warranty - In the ordinary course of business the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual at June 30, 2006 and 2005 is immaterial to the financial position of the Company and the change in the accrual during 2006 and 2005 was immaterial to the Company's results of operations and cash flows.

Foreign Currency Translation - Assets and liabilities of most foreign subsidiaries are translated at current exchange rates, and income and expenses are translated using weighted average exchange rates. The effects of these translation adjustments, as well as gains and losses from certain intercompany transactions, are reported in the Accumulated other comprehensive (loss) component of Shareholders' equity. Such adjustments will affect Net income only upon sale or liquidation of the underlying foreign investments, which is not contemplated at this time. Exchange gains and losses from transactions in a currency other than the local currency of the entity involved, and translation adjustments in countries with highly inflationary economies, are included in Net income.

Financial Instruments - The Company's financial instruments consist primarily of investments in cash, cash equivalents and long-term investments as well as obligations under notes payable and long-term debt. Due to their short-term nature, the carrying values for Cash and cash equivalents, Investments and other assets and Notes payable approximate fair value. See Note 9 for fair value of long-term debt.

The Company enters into forward exchange contracts (forward contracts) and costless collar contracts 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.

Gains or losses on forward contracts that hedge specific transactions are recognized in Net income, offsetting the underlying foreign currency gains or losses. Gains or losses on costless collar contracts are recognized in Net income when the spot rate of the contract falls outside the collar range.

In addition, the Company's foreign locations in the ordinary course of business enter into financial guarantees through financial institutions which enable customers to be reimbursed in the event of nonperformance by the Company.

The total carrying and fair value of open forward exchange and costless collar contracts and any risk to the Company as a result of the arrangements described above is not material.

Stock Awards - On July 1, 2005, the Company adopted the provisions of FASB Statement No. 123 (revised 2004) and elected to use the modified prospective transition method. The modified prospective transition method requires that compensation cost be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been rendered as of the date of adoption and requires that prior periods not be restated. Prior to the adoption of FASB Statement No. 123 (revised 2004), the Company used the intrinsic-value based method to account for stock awards and made no charges against earnings with respect to awards granted. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested stock awards using the non-substantive vesting period approach:

	2005	2004
Net income, as reported	$ 604,692	$ 345,783
Add: Stock-based employee compensation included in reported net income, net of tax	10,139	7,691
Deduct: Total stock-based employee compensation expense determined under fair value method, net of tax	28,609	28,300
Pro forma net income	$ 586,222	$ 325,174
Earnings per share:		
Basic:		
as reported	$ 5.09	$ 2.94
pro forma	$ 4.93	$ 2.76
Diluted:		
as reported	$ 5.02	$ 2.91
pro forma	$ 4.87	$ 2.73

Recent Accounting Pronouncement - In July 2006 the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 is effective as of the beginning of fiscal years that start after December 15, 2006. The Company has not yet determined the effect on the Company's financial position or results of operations of complying with the provisions of FIN 48.

Reclassifications and Revisions - Certain prior period amounts have been reclassified to conform to the current-year presentation. In order to bring the Consolidated Statement of Cash Flows presentation in compliance with FASB Statement No. 95, the Company revised the Consolidated Statement of Cash Flows for the year ended June 30, 2005 and 2004 to separately disclose the operating, investing and financing portions of the cash flows attributable to discontinued operations. The Company had previously reported these amounts on a combined basis. The revision resulted in a decrease in net cash provided by operating activities of $11 million and an increase in net cash used in investing activities of $2 million for the year ended June 30, 2005. For the year ended June 30, 2004, the revision resulted in an increase in net cash provided by operating activities of $25 million and an increase in net cash used in investing activities of $2 million.

2. Acquisitions and Divestitures

Acquisitions – In August 2005, the Company acquired SSD, a manufacturer of AC and DC drives, as well as servo drives, motors and systems for leading original equipment manufacturers, end users, and integrators in automated industrial process applications. In November 2005, the Company completed its purchase of domnick hunter group, plc. The domnick hunter group specializes in the design and manufacture of filtration, separation, and purification products and technologies for a wide range of markets. In December 2005, the Company completed its acquisition of Kenmore International, a manufacturer and distributor of components for global refrigeration and air conditioning markets. Aggregate annual sales for these and 10 other businesses acquired during fiscal 2006, for their most recent fiscal year prior to acquisition, were approximately $983 million. Total purchase price for all acquisitions acquired during fiscal 2006 was approximately $878 million in cash and $231 million in assumed debt.

In October 2004, the Company completed the acquisition of the Sporlan Valve Company (Sporlan). Sporlan is a manufacturer of refrigeration and air conditioning components, controls and systems. In November 2004, the Company acquired Acadia Elastomers Corporation, a producer of sealing solutions. Annual sales for these businesses and eight other businesses acquired during fiscal 2005, for their most recent fiscal year prior to acquisition, were approximately $410 million. Total purchase price for all businesses acquired during fiscal 2005 was approximately $580 million in cash.

In February 2004, the Company completed the acquisition of Denison International plc (Denison). Denison is an industrial manufacturer and service provider for highly engineered hydraulic fluid power systems and components. Annual sales for this business and four other businesses acquired during fiscal 2004, for their most recent fiscal year prior to acquisition, were approximately $188 million. Total purchase price for all businesses acquired during fiscal 2004 was approximately $264 million in cash.

All acquisitions were accounted for by the purchase method, and results of operations for all acquisitions are included as of the respective dates of acquisition. The purchase price allocation for acquisitions in 2006, 2005 and 2004 are presented below. Some of the 2006 purchase price allocations are preliminary and may require subsequent adjustment.

	2006	2005	2004
Assets acquired:			
Accounts receivable	**$ 223,658**	$ 51,333	$ 49,556
Inventories	**161,434**	58,513	51,192
Prepaid expenses	**11,561**	2,703	2,675
Deferred income taxes	**4,780**	1,919	(4,462)
Plant and equipment	**179,803**	104,358	50,860
Intangible and other assets	**257,062**	154,674	54,519
Goodwill	**597,205**	274,995	78,192
	1,435,503	648,495	282,532
Liabilities assumed:			
Notes payable	**1,674**	8,819	3,466
Accounts payable	**132,733**	26,301	12,139
Accrued payrolls	**10,954**	8,209	8,037
Accrued taxes	**10,268**	433	4,542
Other accrued liabilities	**76,321**	15,127	17,593
Long-term debt	**229,463**	6,415	2,402
Pensions and other postretirement benefits	**16,833**	7,239	18,583
Deferred income taxes	**67,644**	17,383	11,681
Other liabilities	**53,632**		3,775
	599,522	89,926	82,218
Net assets acquired	**$ 835,981**	$ 558,569	$ 200,314

Divestitures – In August 2005, the Company divested a business unit which manufactured custom-engineered buildings. In December 2004, the Company divested a business unit which developed and manufactured chemical car care products and maintenance equipment. These businesses were part of the Other Segment for segment reporting purposes. The following results of operations for these business units have been presented as discontinued operations for all periods presented:

	2006	2005	2004
Net sales	**$ 21,672**	$ 201,776	$ 219,311
Earnings before income taxes	**1,517**	24,538	21,112
Net income	**1,131**	18,979	$ 13,698
Gain on disposal, net of taxes	**$ 33,760**	$ 52,547	

The gain on disposal is net of taxes of $4,602 in 2006 and $16,914 in 2005. The net assets of discontinued operations as of June 30, 2005 primarily consisted of $15,605 of accounts receivable, $13,917 of inventory, $72,787 in goodwill, $10,569 of plant and equipment, net, $15,206 of accounts payable, $7,978 of accrued taxes and $5,138 of other liabilities.

In December 2005, the Company completed the divestiture of its Thermoplastics division. In June 2004, the Company completed the divestiture of its Zenith Pump (Zenith) division. Thermoplastics and Zenith were part of the Industrial Segment for segment reporting purposes. In February 2004, the Company completed the divestiture of Wynn's Industrie, an industrial lubricants unit of the Wynn's Specialty Chemicals business. Wynn's Industrie was part of the Other Segment for segment reporting purposes. The divestitures resulted in a loss of $11,018 ($9,770 after-tax or $.08 per share) and a gain of $11,070 ($6,223 after-tax or $.05 per share) in 2006 and 2004, respectively, and are reflected in Loss (gain) on disposal of assets in the Consolidated Statement of Income. The results of operations and net assets of the divested businesses were immaterial to the consolidated results of operations and financial position of the Company.

3. Charges Related to Business Realignment

In 2006, the Company recorded a $19,367 charge ($12,042 after-tax or $.10 per share) for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to severance costs attributable to approximately 690 employees in the Industrial Segment, 340 employees in the Climate & Industrial Controls Segment and 5 employees in the Aerospace Segment. A portion of the severance costs have been paid with the remaining payments expected to be made by June 30, 2007. Of the pre-tax amount, $15,673 relates to the Industrial Segment, $3,621 relates to the Climate & Industrial Controls Segment and $73 relates to the Aerospace Segment. The business realignment costs are presented primarily in the Cost of sales caption in the Consolidated Statement of Income for 2006. In 2006, the Company recorded a $4,793 charge resulting from the pending sale of plant and equipment at facilities that have been closed. This charge is presented in the Loss (gain) on disposal of assets caption in the Consolidated Statement of Income for 2006.

In 2005, the Company recorded a $14,263 charge ($8,900 after-tax or $.08 per share) for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to severance costs attributable to approximately 600 employees in the Industrial Segment. All severance payments have been made as of June 30, 2006. The business realignment costs are presented primarily in the Cost of sales caption in the Consolidated Statement of Income for 2005. A significant portion of the fiscal 2005 charge relates to the closure of a manufacturing facility in Hilden, Germany. The facility was acquired as part of the Denison International acquisition. The decision to close the facility resulted from the completion of the Company's acquisition integration analysis.

In 2004, the Company recorded a $14,143 charge ($9,476 after-tax or $.08 per share) for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to severance costs attributable to approximately 1,200 employees in the Industrial Segment, 90 employees in the Climate & Industrial Controls Segment and 5 employees in the Aerospace Segment. All severance payments have been made as of June 30, 2005. Of the pre-tax amount, $13,591 relates to the Industrial Segment, $443 relates to the Climate & Industrial Controls Segment and $109 relates to the Aerospace Segment. The business realignment costs are presented primarily in the Cost of sales caption in the Consolidated Statement of Income for 2004. In 2004, the Company recorded a $5,065 charge resulting from the pending sale of plant and equipment at facilities that have been closed. This charge is presented in the Loss (gain) on disposal of assets caption in the Consolidated Statement of Income for 2004.

4. Income Taxes

Income from continuing operations before income taxes was derived from the following sources:

	2006	2005	2004
United States	**$719,966**	$439,717	$295,362
Foreign	**179,992**	298,554	177,594
	$899,958	$738,271	$472,956

Income taxes include the following:

	2006	2005	2004
Federal	**$178,162**	$108,182	$ 74,527
Foreign	**112,968**	75,447	60,373
State and local	**21,100**	5,374	11,543
Deferred	**(50,548)**	16,102	(5,572)
	$261,682	$205,105	$140,871

A reconciliation of the Company's effective income tax rate to the statutory Federal rate follows:

	2006	2005	2004
Statutory Federal income tax rate	**35.0%**	35.0%	35.0%
State and local income taxes	**1.9**	.6	1.7
Export tax benefit	**(.9)**	(1.3)	(1.5)
Foreign tax rate difference	**(5.0)**	(3.5)	(1.8)
Cash surrender of life insurance	**(.5)**	(.4)	(.7)
Research tax credit	**(.5)**	(2.6)	
Capital loss		(.2)	(4.3)
Other	**(.9)**	.2	1.4
Effective income tax rate	**29.1%**	27.8%	29.8%

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of assets and liabilities. The differences comprising the net deferred taxes shown on the Consolidated Balance Sheet at June 30 were as follows:

	2006	2005
Postretirement benefits	**$ 145,712**	$ 215,042
Other liabilities and reserves	**86,431**	98,479
Long-term contracts	**9,813**	10,689
Stock-based compensation	**11,171**	
Operating loss carryforwards	**31,297**	38,868
Foreign tax credit carryforwards	**9,634**	
Unrealized currency exchange gains and losses	**13,807**	3,276
Valuation allowance	**(7,391)**	(32,238)
Depreciation and amortization	**(287,933)**	(221,893)
Inventory	**18,156**	14,763
Net deferred tax asset	**$ 30,697**	$ 126,986
Change in net deferred tax asset:		
Provision for deferred tax	**$ 50,548**	$ (16,102)
Items of other comprehensive income	**(69,191)**	97,319
Acquisitions and other	**(77,646)**	(10,251)
Total change in net deferred tax	**$ (96,289)**	$ 70,966

At June 30, 2006, the Company has recorded deferred tax assets of $31,297 resulting from $152,464 in loss carryforwards. A valuation allowance has been established due to the uncertainty of realizing certain operating loss carryforwards and items of other comprehensive income. Some of the operating loss carryforwards can be carried forward indefinitely and others can be carried forward from one to 19 years. The decrease in the valuation allowance in 2006 was primarily due to a change in the uncertainty of realizing certain operating loss carryforwards. A valuation allowance of $2,951 was recorded during the year attributable to various acquisitions. The recognition of any future tax benefit resulting from a reduction in this portion of the valuation allowance will reduce any goodwill related to the applicable acquisition remaining at the time of the reduction.

Provision has not been made for additional U.S. or foreign taxes on undistributed earnings of certain international operations as those earnings will continue to be reinvested. It is not practicable to estimate the additional taxes, including applicable foreign withholding taxes, that might be payable on the eventual remittance of such earnings.

Accumulated undistributed earnings of foreign operations reinvested in their operations amounted to $670,672, $546,740 and $364,864, at June 30, 2006, 2005 and 2004, respectively.

5. Earnings Per Share

Earnings per share have been computed according to SFAS No. 128, "Earnings per Share." Basic earnings per share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is computed using the weighted average number of common shares and common share equivalents outstanding during the year. Common share equivalents represent the dilutive effect of outstanding stock-based awards. The computation of income from continuing operations per share was as follows:

	2006	2005	2004
Numerator:			
Income from continuing operations	**$ 638,276**	$ 533,166	$ 332,085
Denominator:			
Basic - weighted average common shares	**119,211,192**	118,794,564	117,707,772
Increase in weighted average from dilutive effect of exercise of stock-based awards	**1,672,990**	1,654,442	1,298,696
Diluted - weighted average common shares, assuming exercise of stock-based awards	**120,884,182**	120,449,006	119,006,468
Basic earnings per share from continuing operations	**$ 5.35**	$ 4.49	$ 2.82
Diluted earnings per share from continuing operations	**$ 5.28**	$ 4.43	$ 2.79

For 2006, 2005 and 2004, 1.9 million, 0.2 million, and 0.3 million common shares, respectively, subject to stock-based awards were excluded from the computation of diluted earnings per share from continuing operations because the effect of their exercise would be anti-dilutive.

6. Inventories

Inventories valued on the last-in, first-out cost method were approximately 34% and 38%, respectively, of total inventories in 2006 and 2005. The current cost of these inventories exceeds their valuation determined on the LIFO basis by $193,270 in 2006 and $172,944 in 2005. Progress payments of $20,743 in 2006 and $17,978 in 2005 are netted against inventories.

7. Goodwill and Intangible Assets

The Company conducts an annual impairment test as required by FASB Statement No. 142. The Company uses a discounted cash flow analysis for purposes of estimating the fair value of a reporting unit. The annual impairment tests performed in 2006 and 2005 resulted in no impairment loss being recognized. The goodwill impairment test performed in 2004 resulted in an impairment charge of $1,033 ($682 after-tax or $.01 per share) and was recorded in the Industrial Segment. The impairment charge primarily resulted from declining market conditions and lower future growth potential relative to expectations at the acquisition date for the reporting unit involved.

The changes in the carrying amount of goodwill for the year ended June 30, 2006 are as follows:

	Industrial Segment	Aerospace Segment	Climate & Industrial Controls Segment	Total
Balance June 30, 2005	$1,028,660	$79,575	$ 262,789	$1,371,024
Acquisitions	557,157	8,048	32,000	597,205
Divestitures	(7,551)			(7,551)
Foreign currency translation	14,991	18	943	15,952
Goodwill adjustments	32,726	(98)	1,200	33,828
Balance June 30, 2006	**$1,625,983**	**$87,543**	**$ 296,932**	**$2,010,458**

"Goodwill adjustments" primarily represent adjustments to the purchase price allocation during the twelve-month period subsequent to the acquisition date and primarily involves the valuation of plant and equipment and intangible assets.

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

June 30,	2006		2005	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Patents	**$ 66,767**	**$ 22,289**	$ 48,973	$ 17,598
Trademarks	**133,576**	**13,289**	93,471	7,137
Customer lists and other	**351,366**	**45,036**	142,797	20,615
Total	**$ 551,709**	**$ 80,614**	$ 285,241	$ 45,350

Total intangible amortization expense in 2006, 2005 and 2004 was $33,544, $15,857 and $7,083, respectively. The estimated amortization expense for the five years ending June 30, 2007 through 2011 is $37,611, $34,614, $33,279, $32,828 and $29,718 respectively.

8. Financing Arrangements

The Company has a line of credit totaling $1,025,000 through a multi-currency revolving credit agreement with a group of banks, all of which was available at June 30, 2006. The Company has the right, no more than once a year, to increase the facility amount, in minimum increments of $25 million up to a maximum of $1,250,000. The credit agreement expires September 2010, however, the Company has the right to request a one-year extension of the expiration date on an annual basis. The credit agreement supports the Company's commercial paper note program. The interest on borrowings is based upon the terms of each specific borrowing and is subject to market conditions. The revolving credit agreement requires a facility fee of up to 5/100ths of one percent of the commitment per annum at the Company's present rating level. The revolving credit agreement contains provisions that increase the facility fee of the credit agreement in the event the Company's credit ratings are lowered. A lowering of the Company's credit ratings would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings. It is the Company's policy to reduce the amount available for borrowing under the revolving credit agreement, on a dollar for dollar basis, by the amount of commercial paper notes outstanding.

The Company's revolving credit agreement and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the agreement for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At the Company's present rating level, the most restrictive covenant provides that the ratio of secured debt to net tangible assets be less than 10 percent. As of June 30, 2006, the ratio of secured debt to net tangible assets was less than one percent. The Company is in compliance with all covenants and expects to remain in compliance during the term of the agreement and indentures.

The Company has other lines of credit, primarily short-term, aggregating $413,727 from various foreign banks, of which $408,395 was available at June 30, 2006. Most of these agreements are renewed annually.

As of June 30, 2006, the Company has $775,000 available under its universal shelf registration statement.

The Company is authorized to sell up to $1,025,000 of short-term commercial paper notes, rated A-1 by Standard & Poor's, P-1 by Moody's and F-1 by Fitch, Inc. At June 30, 2006 and 2005, there were no commercial paper notes outstanding.

Short-term borrowings from foreign banks make up the balance of Notes payable. The balance and weighted average interest rate of the Notes payable at June 30, 2006 and 2005 were $6,056 and 3.8% and $12,016 and 2.8%, respectively.

9. Debt

June 30,	2006	2005
Domestic:		
Debentures		
7.30%, due 2011	**$ 100,000**	$ 100,000
Fixed rate medium-term notes		
6.55% to 7.39%, due 2007-2019	**195,000**	195,000
Fixed rate senior notes		
4.88%, due 2013	**225,000**	225,000
ESOP loan guarantee		
6.34%, due 2009	**30,878**	42,785
Variable rate demand bonds		
4.41%, due 2010-2025	**20,035**	20,035
Foreign:		
Bank loans, including revolving credit		
1.0% to 6.75%, due 2007-2020	**24,087**	11,976
Euro Notes		
6.25%, due 2006		363,060
Euro Bonds		
3.5%, due 2011	**255,840**	
4.125%, due 2016	**255,840**	
Other long-term debt, including capitalized leases	**18,764**	514
Total long-term debt	**1,125,444**	958,370
Less long-term debt payable within one year	**65,983**	19,946
Long-term debt, net	**$ 1,059,461**	$ 938,424

Included in Long-term debt in 2005 are $363 million of Euro Notes that were due in November 2005. The settlement of this obligation did not require the use of working capital in fiscal 2006 because the Company used the proceeds from the Euro Bonds issuance to retire the Euro Notes.

Principal amounts of Long-term debt payable in the five years ending June 30, 2007 through 2011 are $65,983, $49,631, $12,390, $46,154 and $355,960, respectively. The carrying value of the Company's Long-term debt (excluding leases) was $1,123,234 and $957,856 at June 30, 2006 and 2005, respectively, and was estimated to have a fair value of $1,060,512 and $1,007,406, at June 30, 2006 and 2005, respectively. The fair value of the Long-term debt was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. At the Company's present rating level, some of the debt agreements include a limitation on the Company's ratio of secured debt to net tangible assets.

ESOP Loan Guarantee - In 1999 the Company's Employee Stock Ownership Plan (ESOP) was leveraged when the ESOP Trust borrowed $112,000 and used the proceeds to purchase 3,055,413 shares of the Company's common stock from the Company's treasury. The loan is unconditionally guaranteed by the Company and therefore the unpaid balance of the borrowing is reflected on the Consolidated Balance Sheet as Long-term debt. A corresponding amount representing Unearned compensation is recorded as a deduction from Shareholders' equity.

Lease Commitments - Future minimum rental commitments as of June 30, 2006, under noncancelable operating leases, which expire at various dates, are as follows: 2007-$55,302; 2008-$40,863; 2009-$29,255; 2010-$16,280; 2011-$13,001 and after 2011-$45,595.

Rental expense in 2006, 2005 and 2004 was $76,828, $64,521 and $63,638, respectively.

10. Retirement Benefits

Pensions - The Company has noncontributory defined benefit pension plans covering eligible employees, including certain employees in foreign countries. Plans for most salaried employees provide pay-related benefits based on years of service. Plans for hourly employees generally provide benefits based on flat-dollar amounts and years of service. The Company uses a June 30 measurement date for a majority of its pension plans. The Company also has contractual arrangements with certain key employees which provide for supplemental retirement benefits. In general, the Company's policy is to fund these plans based on legal requirements, tax considerations, local practices and investment opportunities. The Company also sponsors defined contribution plans and participates in government-sponsored programs in certain foreign countries.

Pension cost for all plans was $158,702, $121,596 and $109,160 for 2006, 2005 and 2004, respectively. Pension cost for all defined benefit plans accounted for using SFAS No. 87, "Employers' Accounting for Pensions," was as follows:

	2006	2005	2004
Service cost	**$ 79,376**	$ 64,901	$ 67,103
Interest cost	**134,489**	129,609	119,770
Expected return on plan assets	**(148,300)**	(134,397)	(127,968)
Net amortization and deferral and other	**88,909**	58,274	47,025
Net periodic benefit cost	**$ 154,474**	$ 118,387	$ 105,930

Change in benefit obligation	2006	2005
Benefit obligation at beginning of year	**$2,593,744**	$2,177,110
Service cost	**79,376**	64,901
Interest cost	**134,489**	129,609
Actuarial (gain) loss	**(112,959)**	328,884
Benefits paid	**(105,825)**	(101,629)
Plan amendments	**6,833**	(7,694)
Acquisitions	**28,729**	7,199
Foreign currency translation and other	**35,763**	(4,636)
Benefit obligation at end of year	**$2,660,150**	$2,593,744
Change in plan assets		
Fair value of plan assets at beginning of year	**$1,749,810**	$1,624,503
Actual gain on plan assets	**225,987**	106,274
Employer contributions	**121,193**	105,385
Benefits paid	**(95,715)**	(91,513)
Acquisitions	**19,489**	8,158
Foreign currency translation and other	**27,574**	(2,997)
Fair value of plan assets at end of year	**$2,048,338**	$1,749,810
Funded status		
Plan assets (under) benefit obligation	**$ (611,812)**	$ (843,934)
Unrecognized net actuarial loss	**723,281**	984,702
Unrecognized prior service cost	**84,776**	88,062
Unrecognized initial net (asset) obligation	**(180)**	229
Net amount recognized	**$ 196,065**	$ 229,059

Amounts recognized on the Consolidated Balance Sheet	2006	2005
Prepaid benefit cost	**$ 344,987**	$ 366,675
Accrued benefit liability	**(680,326)**	(944,328)
Intangible asset	**86,071**	90,310
Accumulated other comprehensive loss	**445,333**	716,402
Net amount recognized	**$ 196,065**	$ 229,059

The accumulated benefit obligation for all defined benefit plans was $2,389,579 and $2,339,083 at June 30, 2006 and 2005, respectively. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $2,612,299, $2,348,100 and $1,998,469, respectively, at June 30, 2006, and $2,543,461, $2,294,486 and $1,701,537, respectively, at June 30, 2005.

If the accumulated benefit obligation exceeds the fair value of plan assets, accounting rules require that the Company recognize a liability that is at least equal to the unfunded accumulated benefit obligation. Accordingly, a minimum pension liability of $531,404 and $806,712 has been recognized at June 30, 2006 and 2005, respectively. The net of tax effect of recording the minimum pension liability on shareholders' equity was an increase of $167,008 in 2006 and a decrease of $154,377 in 2005. Under current accounting rules, the minimum pension liability could be reversed should the fair value of plan assets exceed the accumulated benefit obligation at the end of 2007.

The Company expects to contribute approximately $135 million to its defined benefit pension plans in 2007. The majority of the expected contribution is discretionary. Estimated future benefit payments in the five years ending June 30, 2007 through 2011 are $108,616, $109,762, $116,417, $123,251 and $130,752, respectively and $783,341 in the aggregate for the five years ending June 30, 2012 through June 30, 2016.

The assumptions used to measure net periodic benefit cost for the Company's significant defined benefit plans are:

	2006	2005	2004
U.S. defined benefit plans			
Discount rate	**5.25%**	6.25%	6.25%
Average increase in compensation	**4.7%**	4.9%	4.9%
Expected return on plan assets	**8.75%**	8.25%	8.25%
Non-U.S. defined benefit plans			
Discount rate	**2 to 5.5%**	2 to 6.25%	2 to 6.75%
Average increase in compensation	**1 to 4%**	1 to 4%	1 to 3.5%
Expected return on plan assets	**1 to 7.75%**	1 to 7.75%	1 to 7.5%

The assumptions used to measure the benefit obligation for the Company's significant defined benefit plans are:

	2006	2005
U.S. defined benefit plans		
Discount rate	**6.0%**	5.25%
Average increase in compensation	**4.7%**	4.9%
Non-U.S. defined benefit plans		
Discount rate	**2.25 to 5.5%**	2 to 5.5%
Average increase in compensation	**1 to 4.25%**	1 to 4%

The discount rate assumption is based on current rates of high-quality long-term corporate bonds over the same estimated time period that benefit payments will be required to be made. The expected return on plan assets assumption is based on the weighted-average expected return of the various asset classes in the plans' portfolio. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance.

The weighted-average allocation of the majority of the assets related to defined benefit plans is as follows:

	2006	2005
Equity securities	**66%**	64%
Debt securities	**31%**	34%
Other	**3%**	2%
	100%	100%

The investment strategy for the defined benefit pension plan assets focuses on achieving prudent actuarial funding ratios while maintaining acceptable levels of risk. This strategy requires an investment portfolio that is broadly diversified across various asset classes and investment managers. The current weighted-average target asset allocation is 64% equity securities, 34% debt securities and 2% other. At June 30, 2006 and 2005, the plans' assets included Company stock with market values of $93,043 and $74,350, respectively.

Employee Savings Plan - The Company sponsors an employee stock ownership plan (ESOP) as part of its existing savings and investment 401(k) plan. The ESOP is available to eligible domestic employees. Parker Hannifin common stock is used to match contributions made by employees to the ESOP up to a maximum of 4.0 percent of an employee's annual compensation. A breakdown of shares held by the ESOP is as follows:

	2006	2005	2004
Allocated shares	**8,280,848**	9,558,612	9,453,916
Suspense shares	**704,094**	1,004,423	1,315,814
Total shares held by the ESOP	**8,984,942**	10,563,035	10,769,730
Fair value of suspense shares	**$ 54,638**	$ 62,284	$ 78,238

In 1999, the ESOP was leveraged and the loan was unconditionally guaranteed by the Company. The Company's matching contribution and dividends on the shares held by the ESOP are used to repay the loan, and shares are released from the suspense account as the principal and interest are paid. The unreleased portion of the shares in the ESOP suspense account is not considered outstanding for purposes of earnings per share computations. Company contributions to the ESOP, recorded as compensation and interest expense, were $47,533 in 2006, $40,396 in 2005 and $37,208 in 2004. Dividends earned by the suspense shares and interest income within the ESOP totaled $1,017 in 2006, $962 in 2005 and $1,245 in 2004.

In 2004, the Company added to the employee savings plan a new separate account called the retirement income account (RIA). The RIA replaces the defined benefit pension plan for new employees hired at locations that previously offered a salary-based formula under the pension plan. Employees who were already under the salary-based formula in the pension plan were given the choice to stay in the pension plan or participate in the RIA. The Company makes a contribution to the participant's RIA account each year, the amount of which is based on the participant's age and years of service. Participants do not contribute to the RIA. Company contributions to the RIA were $6,479 in 2006 and $2,258 in 2005.

In addition to shares within the ESOP, as of June 30, 2006 employees have elected to invest in 2,135,223 shares of common stock within the Company Stock Fund of the Parker Retirement Savings Plan.

Other Postretirement Benefits - The Company provides postretirement medical and life insurance benefits to certain retirees and eligible dependents. Most plans are contributory, with retiree contributions adjusted annually. The plans are unfunded and pay stated percentages of covered medically necessary expenses incurred by retirees, after subtracting payments by Medicare or other providers and after stated deductibles have been met. For most plans, the Company has established cost maximums to more effectively control future medical costs. The Company has reserved the right to change or eliminate these benefit plans.

Certain employees are covered under benefit provisions that include prescription drug coverage for Medicare eligible retirees. In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a plan sponsor subsidy based on a percentage of a beneficiary's annual prescription drug benefit, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare. The impact of the subsidy on the Company's other postretirement benefits was immaterial.

Postretirement benefit cost included the following components:

	2006	2005	2004
Service cost	**$2,059**	$1,885	$1,633
Interest cost	**5,559**	6,301	6,270
Net amortization and deferral	**261**	71	409
Net periodic benefit cost	**$7,879**	$8,257	$8,312

Change in benefit obligation	2006	2005
Benefit obligation at beginning of year	**$ 119,969**	$ 104,895
Service cost	**2,059**	1,885
Interest cost	**5,559**	6,301
Actuarial (gain) loss	**(17,763)**	11,348
Benefits paid	**(6,816)**	(6,908)
Acquisitions and other	**(1,763)**	2,448
Benefit obligation at end of year	**$ 101,245**	$ 119,969
Funded status		
Benefit obligation in excess of plan assets	**$(101,245)**	$(119,969)
Unrecognized net actuarial loss	**9,773**	28,417
Unrecognized prior service cost	**(3,788)**	(2,646)
Net amount recognized	**$ (95,260)**	$ (94,198)
Amounts recognized on the Consolidated Balance Sheet:		
Accrued benefit liability	**$ (95,260)**	$ (94,198)

The assumptions used to measure the net periodic benefit cost for postretirement benefit obligations are:

	2006	2005	2004
Discount rate	**5.25%**	6.25%	6.25%
Current medical cost trend rate	**10.4%**	9.8%	8.9%
Ultimate medical cost trend rate	**5%**	5%	5%
Medical cost trend rate decreases to ultimate in year	**2014**	2012	2010

The discount rate assumption used to measure the benefit obligation was 6.0% in 2006 and 5.25% in 2005.

Estimated future benefit payments for other postretirement benefits in the five years ending June 30, 2007 through 2011 are $7,086, $7,061, $6,984, $7,152 and $7,451, respectively and $37,669 in the aggregate for the five years ending June 30, 2012 through June 30, 2016.

A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	**$ 994**	**$ (791)**
Effect on postretirement benefit obligation	**$ 9,430**	**$ (7,812)**

Other - The Company has established nonqualified deferred compensation programs, which permit officers, directors and certain management employees annually to elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Company match, and earnings on the deferrals. Deferred compensation expense was $18,965, $13,622 and $20,006 in 2006, 2005 and 2004, respectively.

The Company has invested in corporate-owned life insurance policies to assist in meeting the obligation under these programs. The policies are held in a rabbi trust and are recorded as assets of the Company.

11. Shareholders' Equity

	2006	2005	2004
Common Shares			
Balance July 1	**$ 60,219**	$ 59,856	$ 59,143
Shares issued under stock incentive plans (2006 – 246,615; 2005 – 726,224; 2004 – 1,425,321)	**123**	363	713
Balance June 30	**$ 60,342**	$ 60,219	$ 59,856
Additional Capital			
Balance July 1	**$ 478,219**	$ 451,891	$ 389,021
Stock option exercise activity	**(32,243)**	1,385	34,825
Stock-based compensation expense	**33,448**		
Tax benefit of stock options	**20,406**	16,520	13,627
Restricted stock issued	**603**	214	2,088
Shares related to ESOP	**10,436**	8,209	12,330
Balance June 30	**$ 510,869**	$ 478,219	$ 451,891
Retained Earnings			
Balance July 1	**$ 3,352,888**	$ 2,840,787	$ 2,584,268
Net income	**673,167**	604,692	345,783
Cash dividends paid on common shares, net of tax benefits	**(109,643)**	(92,591)	(89,264)
Balance June 30	**$ 3,916,412**	$ 3,352,888	$ 2,840,787
Unearned Compensation Related to ESOP			
Balance July 1	**$ (36,818)**	$ (48,868)	$ (63,418)
Unearned compensation related to ESOP debt guarantee	**11,009**	12,050	14,550
Balance June 30	**$ (25,809)**	$ (36,818)	$ (48,868)
Deferred Compensation Related to Stock Options			
Balance July 1 and June 30	**$ 2,347**	$ 2,347	$ 2,347
Accumulated Other Comprehensive Income (Loss)			
Balance July 1	**$ (470,964)**	$ (311,710)	$ (445,982)
Foreign currency translation (net of tax of: 2006 – $47,864; 2005 – $8,080; 2004 – $2,027)	**103,842**	13,138	34,487
Unrealized (loss) gain on marketable securities (net of tax of: 2006 – $5; 2005 – $6,451; 2004 – $4,979)	**(8)**	(10,706)	8,262
Realized (gain) loss on marketable securities (net of tax of: 2006 – $11; 2005 – $7; 2004 – $1,802)	**(18)**	9	(2,990)
Minimum pension liability (net of tax of: 2006 – $110,068; 2005 – $93,127; 2004 – $44,464)	**167,008**	(154,377)	94,513
Unrealized gain (loss) on cash flow hedges (net of tax of: 2006 – $3,096; 2005 – $4,410)	**5,161**	(7,318)	
Realized loss on cash flow hedges (net of tax of: 2006 – $96)	**160**		
Balance June 30	**$ (194,819)**	$ (470,964)	$ (311,710)
Common Stock in Treasury			
Balance July 1	**$ (45,744)**	$ (11,849)	$ (4,468)
Shares purchased at cost (2006 – 742,100; 2005 – 1,000,000; 2004 – 224,891)	**(52,409)**	(61,781)	(12,691)
Shares issued under stock incentive plans (2006 – 979,464; 2005 – 413,582; 2004 – 135,291)	**61,530**	23,779	6,021
Restricted stock issued (surrendered)	**8,484**	4,107	(711)
Balance June 30	**$ (28,139)**	$ (45,744)	$ (11,849)

Included in the 2006 tax amount for foreign currency translation adjustments is $38.8 million related to prior year deferred taxes associated with the retirement of the Euro Notes in November 2005.

Shares surrendered upon exercise of stock options: 2006 – 680,110; 2005 – 655,385; 2004 – 737,594.

Share Repurchases - The Company has a program to repurchase up to 5.0 million of the Company's common shares per year on the open market, at prevailing prices, including the systematic repurchase of up to $20 million in common shares each fiscal quarter. At June 30, 2006, the remaining authorization to repurchase was 9.67 million shares. Repurchases are primarily funded from operating cash flows, and the shares are initially held as treasury stock.

12. Stock Incentive Plans

Stock-Based Awards - The Company's stock incentive plans provide for the granting of nonqualified options and stock appreciation rights (SARs) to officers, directors and key employees of the Company. The nonqualified options allow the recipient to purchase shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date the stock-based awards are granted. Outstanding options and SARs are exercisable from one to three years after the date of grant and expire no more than ten years after grant. The Company satisfies stock option and SAR exercises by issuing common shares out of treasury, which have been repurchased pursuant to the Company's share repurchase program described in Note 11, or through the issuance of previously unissued common shares.

On July 1, 2005, the Company adopted the provisions of FASB Statement No. 123 (revised 2004) and elected to use the modified prospective transition method. The modified prospective transition method requires that compensation cost be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been rendered as of the date of adoption and requires that prior periods not be restated. Prior to the adoption of FASB Statement No. 123 (revised 2004), the Company used the intrinsic-value based method to account for stock-based awards and made no charges against earnings with respect to awards granted as the grant price equaled the market price of the underlying common shares on the date of grant. The adoption of FASB Statement No. 123 (revised 2004) reduced Income from continuing operations before income taxes in 2006 by $33,448 and reduced Net income in 2006 by $21,766 ($.18 per basic and diluted share). The adoption of FASB Statement No. 123 (revised 2004) had an immaterial effect on the Consolidated Statement of Cash Flows in 2006.

The Company derives a tax deduction measured by the excess of the market value over the grant price at the date stock-based awards are exercised. The related tax benefit is credited to Additional capital as the Company is currently in a windfall tax benefit position. The Company has elected to use the “short-cut method” to calculate the historical pool of windfall tax benefits upon adoption of FASB Statement No. 123 (revised 2004).

See Note 1 on page 13-22 for disclosure of pro forma information regarding Net income and Earnings per share as if the fair value based method had been applied to all outstanding and nonvested awards in 2005 and 2004.

The fair values for the significant stock-based awards granted in 2006, 2005 and 2004 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2006	2005	2004
Risk-free interest rate	**4.2%**	3.5%	3.4%
Expected life of award	**5.4 yrs**	4.2 yrs	4.4 yrs
Expected dividend yield of stock	**1.6%**	1.7%	1.7%
Expected volatility of stock	**33.1%**	32.7%	36.8%
Weighted-average fair value	**$ 21.29**	$ 14.97	$ 14.38

The expected life of the award was derived by referring to actual exercise experience. The expected volatility of stock was derived by referring to changes in the Company’s historical common stock prices over a timeframe similar to the expected life of the award. The Company has no reason to believe that future stock volatility is likely to materially differ from historical volatility.

Stock-based award activity during 2006 is as follows (aggregate intrinsic value in millions):

	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual term	Aggregate Intrinsic Value
Outstanding June 30, 2005	8,238,619	$ 45.35		
Granted	**1,585,769**	**66.70**		
Exercised	**(1,901,313)**	**42.58**		
Canceled	**(62,624)**	**55.95**		
Outstanding June 30, 2006	**7,860,451**	**$ 50.24**	**6.7 years**	**$ 215.4**
Exercisable June 30, 2006	**5,509,557**	**$ 44.97**	**5.9 years**	**$ 179.8**

A summary of the status and changes of shares subject to stock-based awards and the related average price per share follows:

	Number of Shares	Weighted Average Grant date Fair Value
Nonvested June 30, 2005	2,830,830	$ 14.73
Granted	**1,585,769**	**21.29**
Vested	**(2,021,919)**	**14.72**
Canceled	**(43,786)**	**17.58**
Nonvested June 30, 2006	**2,350,894**	**$ 19.14**

At June 30, 2006, $14,468 of expense with respect to nonvested stock-based awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 18 months. The total fair value of shares vested during 2006, 2005 and 2004 was $29,784, $31,597 and $31,139, respectively.

Information related to stock-based awards exercised during 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Net cash proceeds	**$52,879**	$37,453	$50,271
Intrinsic value	**47,401**	51,387	41,202
Income tax benefit	**20,516**	16,391	13,453

Restricted Stock - Restricted stock was issued under the Company's 2003 and 1993 Stock Incentive Program to certain key employees under the Company's 2002-03-04, 2001-02-03 and 2000-01-02 Long Term Incentive Plans (LTIP). Value of the payments was set at the market value of the Company's common stock on the date of issuance. Shares were earned and awarded, and an estimated value was accrued, based upon attainment of criteria specified in the LTIP over the cumulative years of each 3-year Plan. Plan participants are entitled to cash dividends and to vote their respective shares, but the shares are restricted as to transferability for three years following issuance.

Restricted Shares for LTIP Plan	2006	2005	2004
Number of shares issued	**136,922**	66,393	19,566
Average share value on date of issuance	**$ 65.65**	$ 60.52	$ 47.29
Total value	**$ 8,989**	$ 4,018	$ 925

Under the Company's 2004-05-06 LTIP a payout of shares of restricted stock from the Company's 2003 Stock Incentive Program will be issued to certain key employees in 2007. The balance of the 2004-05-06 LTIP payout will be made as deferred cash compensation (if elected by the participant) or in cash. The total payout, valued at $25,091 has been accrued over the three years of the plan.

In addition, non-employee members of the Board of Directors have been given the opportunity to receive all or a portion of their fees in the form of restricted stock. These shares vest ratably, on an annual basis, over the term of office of the director. In 2006, 2005 and 2004, 6,778, 3,132 and 9,382 shares, respectively, were issued in lieu of directors' fees. During 2006, 2,442 shares of the restricted stock was surrendered upon the death of a director.

At June 30, 2006, the Company had 15,912,427 common shares reserved for issuance in connection with its stock incentive plans.

13. Shareholders’ Protection Rights Agreement

The Board of Directors of the Company declared a dividend of one Right for each share of Common Stock outstanding on February 17, 1997 in relation to the Company’s Shareholder Protection Rights Agreement. As of June 30, 2006, 120,315,195 shares of Common Stock were reserved for issuance under this Agreement. Under certain conditions involving acquisition of or an offer for 15 percent or more of the Company’s Common Stock, all holders of Rights, except an acquiring entity, would be entitled to purchase, at an exercise price of $100, a value of $200 of Common Stock of the Company or an acquiring entity, or at the option of the Board, to exchange each Right for one share of Common Stock. The Rights remain in existence until February 17, 2007, unless earlier redeemed (at one cent per Right), exercised or exchanged under the terms of the agreement. In the event of an unfriendly business combination attempt, the Rights will cause substantial dilution to the person attempting the business combination. The Rights should not interfere with any merger or other business combination that is in the best interest of the Company and its shareholders since the Rights may be redeemed.

14. Research and Development

Research and development costs amounted to $203,702 in 2006, $164,229 in 2005 and $141,988 in 2004. These amounts include both costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts amounted to $37,532 in 2006, $34,757 in 2005 and $48,013 in 2004. These costs are included in the total research and development cost for each of the respective years.

15. Contingencies

The Company is involved in various litigation arising in the normal course of business, including proceedings based on product liability claims, workers’ compensation claims and alleged violations of various environmental laws. The Company is self-insured in the United States for health care, workers’ compensation, general liability and product liability up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for liabilities. While the outcome of pending proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings will not have a material adverse effect on the Company’s liquidity, financial condition or results of operations.

Environmental - The Company is currently responsible for environmental remediation at 34 manufacturing facilities presently or formerly operated by the Company and has been named as a “potentially responsible party,” along with other companies, at two off-site waste disposal facilities and three regional sites.

As of June 30, 2006, the Company has a reserve of $18,374 for environmental matters, which are probable and reasonably estimable. This reserve is recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company’s liability in proportion to other responsible parties. This reserve is net of $3,419 for discounting, primarily at a 4.5 percent discount rate, a portion of the costs at 31 locations to operate and maintain remediation treatment systems as well as gauge treatment system effectiveness through monitoring and sampling over periods up to 30 years.

The Company’s estimated total liability for the above mentioned sites ranges from a minimum of $18,374 to a maximum of $71,872. The largest range for any one site is approximately $8.3 million. The actual costs to be incurred by the Company will be dependent on final determination of remedial action required, negotiations with federal and state agencies, changes in regulatory requirements and technology innovation, the effectiveness of remedial technologies employed, the ability of other responsible parties to pay, and any insurance or third party recoveries.

16. Quarterly Information (Unaudited)

2006 (a)	1st	2nd	3rd	4th	Total
Net sales	**$ 2,113,551**	**$ 2,157,537**	**$ 2,498,068**	**$ 2,616,732**	**$ 9,385,888**
Gross profit	**457,798**	**451,854**	**545,877**	**562,741**	**2,018,270**
Income from continuing operations	**143,848**	**129,024**	**177,523**	**187,881**	**638,276**
Net income	**172,732**	**129,024**	**177,523**	**193,888**	**673,167**
Diluted earnings per share from continuing operations	**1.19**	**1.07**	**1.46**	**1.55**	**5.28**
Net diluted earnings per share	**1.43**	**1.07**	**1.46**	**1.59**	**5.57**

2005 (b)	1st	2nd	3rd	4th	Total
Net sales	$ 1,877,915	$ 1,905,931	$ 2,112,462	$ 2,172,497	$ 8,068,805
Gross profit	400,221	389,026	423,658	464,423	1,677,328
Income from continuing operations	126,036	110,413	140,646	156,071	533,166
Net income	132,783	171,127	139,370	161,412	604,692
Diluted earnings per share from continuing operations	1.05	.91	1.16	1.30	4.43
Net diluted earnings per share	1.11	1.41	1.15	1.34	5.02

Earnings per share amounts are computed independently for each of the quarters presented, therefore, the sum of the quarterly earnings per share amounts may not equal the total computed for the year.

(a) Income from continuing operations for the first quarter includes a $2,770 charge ($1,731 after-tax or $.01 per diluted share) related to business realignment costs. Income from continuing operations for the second quarter includes a $3,914 charge ($2,442 after-tax or $.02 per diluted share) related to business realignment costs. Income from continuing operations for the third quarter includes a $5,117 charge ($3,193 after-tax or $.03 per diluted share) related to business realignment costs. Income from continuing operations for the fourth quarter includes a $7,566 charge ($4,676 after-tax or $.04 per diluted share) related to business realignment costs. Net income for the first quarter includes an after-tax gain of $27,753 ($.23 per diluted share) related to the divestiture of a business. Net income for the fourth quarter includes an after-tax gain of $6,007 ($.04 per diluted share) resulting from additional accounting adjustments related to the gain on the divestiture of a business.

(b) Income from continuing operations for the first quarter includes a $1,459 charge ($910 after-tax or $.01 per diluted share) related to business realignment costs. Income from continuing operations for the second quarter includes a $1,056 charge ($659 after-tax or $.01 per diluted share) related to business realignment costs. Income from continuing operations for the third quarter includes a $6,267 charge ($3,911 after-tax or $.03 per diluted share) related to business realignment costs. Income from continuing operations for the fourth quarter includes a $5,481 charge ($3,420 after-tax or $.03 per diluted share) related to business realignment costs. Net income for the second quarter includes an after-tax gain of $55,352 ($.47 per diluted share) related to the divestiture of a business. Net income for the third quarter includes an after-tax loss of $2,805 ($.03 per diluted share) resulting from additional accounting adjustments related to the gain on the divestiture of a business.

17. Stock Prices and Dividends (Unaudited)

(In dollars)	1st	2nd	3rd	4th	Full Year
2006					
High	**$68.65**	**$70.55**	**$83.39**	**$86.99**	**$ 86.99**
Low	**60.31**	**60.73**	**65.16**	**71.14**	**60.31**
Dividends	**.230**	**.230**	**.230**	**.230**	**.920**
2005					
High	$59.42	$78.42	$76.23	$62.98	$ 78.42
Low	53.14	58.65	59.12	56.80	53.14
Dividends	.190	.190	.200	.200	.780
2004					
High	$50.85	$59.80	$61.00	$59.96	$ 61.00
Low	40.76	44.57	53.50	51.73	40.76
Dividends	.190	.190	.190	.190	.760

Common Stock Listing: New York Stock Exchange, Stock Symbol PH

Management's Report On Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2006. We have excluded 13 entities from our evaluation of internal control over financial reporting as of June 30, 2006 because the entities were acquired in purchase business combinations during the year ended June 30, 2006. On a combined basis, the entities represent approximately 8.0% of total assets and 5.5% of total revenues as of and for the fiscal year ended June 30, 2006. In making this assessment, we used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." We concluded that based on our assessment, the Company's internal control over financial reporting was effective as of June 30, 2006.

Our assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Donald E. Washkewicz	/s/ Timothy K. Pistell
Chairman and Chief Executive Officer	Executive Vice President – Finance and Administration and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Parker Hannifin Corporation:

We have completed integrated audits of Parker Hannifin Corporation's 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of June 30, 2006 and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1), present fairly, in all material respects, the financial position of Parker Hannifin Corporation and its subsidiaries (the "Company") at June 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(1), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in fiscal 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of June 30, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management’s Report on Internal Control Over Financial Reporting, management has excluded 13 entities from its assessment of internal control over financial reporting as of June 30, 2006 because they were acquired by the Company in purchase business combinations during the year ended June 30, 2006. We have also excluded these 13 entities from our audit of internal control over financial reporting. The excluded entities are wholly-owned subsidiaries whose total assets and total revenues represent 8.0% and 5.5%, respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2006.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
August 16, 2006

Five-Year Financial Summary

(Amounts in thousands, except per share information)	2006 (a)	2005	2004	2003	2002
Net sales	$9,385,888	$8,068,805	$6,887,596	$6,222,452	$6,149,122
Cost of sales	7,367,618	6,391,477	5,577,888	5,165,523	5,116,570
Selling, general and administrative expenses	1,036,646	860,278	765,570	687,455	686,485
Goodwill impairment loss			1,033		39,516
Interest expense	75,763	66,869	73,144	81,249	82,484
Income taxes	261,682	205,105	140,871	97,246	87,886
Income - continuing operations	638,276	533,166	332,085	189,362	130,150
Net income	673,167	604,692	345,783	196,272	130,150
Basic earnings per share - continuing operations	5.35	4.49	2.82	1.63	1.13
Diluted earnings per share - continuing operations	5.28	4.43	2.79	1.62	1.12
Basic earnings per share	5.65	5.09	2.94	1.69	1.13
Diluted earnings per share	$ 5.57	$ 5.02	$ 2.91	$ 1.68	$ 1.12
Average number of shares outstanding - Basic	119,211	118,795	117,708	116,382	115,409
Average number of shares outstanding - Diluted	120,884	120,449	119,006	116,895	116,061
Cash dividends per share	$ .920	$ .780	$ .760	$ .740	$ .720
Net income as a percent of net sales	7.2%	7.5%	5.0%	3.2%	2.1%
Return on average assets	9.0%	9.3%	5.7%	3.4%	2.3%
Return on average equity	17.8%	19.1%	12.6%	7.7%	5.1%
Book value per share	$ 35.46	$ 28.14	$ 25.24	$ 21.63	$ 22.26
Working capital	$1,457,873	$1,454,883	$1,260,036	$ 950,286	$ 875,781
Ratio of current assets to current liabilities	1.9	2.1	2.0	1.7	1.6
Plant and equipment, net	$1,693,794	$1,581,348	$1,574,988	$1,641,532	$1,696,965
Total assets	8,173,432	6,860,703	6,194,701	5,938,209	5,752,583
Long-term debt	1,059,461	938,424	953,796	966,332	1,088,883
Shareholders’ equity	$4,241,203	$3,340,147	$2,982,454	$2,520,911	$2,583,516
Debt to debt-equity percent	21.1%	22.5%	24.9%	35.6%	36.8%
Depreciation	$ 245,681	$ 245,206	$ 239,106	$ 246,267	$ 231,235
Capital expenditures	$ 198,113	$ 154,905	$ 138,291	$ 156,342	$ 206,564
Number of employees	57,073	50,019	47,433	46,787	48,176
Number of shareholders	57,986	54,632	54,683	51,154	53,001
Number of shares outstanding at year-end	119,611	118,689	118,168	116,526	116,051

(a) - Includes the effect of expensing stock-based compensation awards as required by SFAS No. 123R.

Exhibit (21)* to Report on Form 10-K for Fiscal Year Ended June 30, 2006 by Parker-Hannifin Corporation

Listed below, are the subsidiaries of the Company and their jurisdictions of organization. Except where otherwise noted, all of such subsidiaries are either directly or indirectly wholly-owned by the Company.

Name of Subsidiary	State/Country of Incorporation
UNITED STATES	
Alkid Corporation	California
Winco Enterprises Inc.	California
Dynamic Seals, Inc.	Delaware
Little Steamers, LLC	Delaware
NE Geese LLC	Delaware
Parker Hannifin Customer Support Inc.	Delaware
Parker Intangibles LLC	Delaware
Parker Italy (PH España Holding) LLC	Delaware
Parker Italy Holding LLC	Delaware
Parker-Hannifin International Corp.	Delaware
PH Astron Holding LLC	Delaware
PH Spain LLC	Delaware
SSD Drives Benefits Inc.	Delaware
265 Warwick LLC	Ohio
Parker Royalty Partnership	Ohio
INTERNATIONAL	
Parker Hannifin Argentina SAIC	Argentina
Denison Hydraulics Pty. Ltd.	Australia
domnick hunter Pty Limited	Australia
Parker Hannifin (Australia) Pty. Ltd.	Australia
Parker Hannifin Australia Assets Pty Limited	Australia
Parker Hannifin Australia Holding Pty Limited	Australia
Parker Hannifin Ges.m.b.H.	Austria
Advanced Products NV	Belgium
Parker Hannifin N.V./S.A.	Belgium
Parker Hannifin Bermuda L.P.	Bermuda
Parker Hannifin Indústria e Comércio Ltda.	Brazil
506655NB Inc.	Canada
domnick hunter Canada Holdings inc.	Canada
domnick hunter Canada inc.	Canada
Parker Canada (Limited Partner) Co.	Canada
Parker Canada Holding Co.	Canada
Parker Canada Investment Co.	Canada
Parker Canada Management Inc.	Canada
Parker Hannifin Canada	Canada

Name of Subsidiary	State/Country of Incorporation
Parker Ontario Limited Partnership	Canada
Xebec Inc.	Canada
Parker Hannifin Corp. Chile Limitada	Chile
domnick hunter Purification equipment (Shanghai) limited	China
ISR Rubber Products Co., Ltd.	China
Kenmore Refrigeration Components (WUXI) Co. Ltd.	China
Par Treasure Limited(1)	China
Parker Hannifin Fluid Power Systems & Components (Shanghai) Co., Ltd.	China
Parker Hannifin Management (Shanghai) Company, Ltd.	China
Parker Hannifin Motion & Control (Shanghai) Co. Ltd.	China
Parker Shenyang Rubber Products Co., Ltd.(2)	China
Parker Tejing Hydraulics (Tianjin) Co., Ltd.(3)	China
Shanghai Denison Hydraulics Components Limited	China
Shanghai Denison Hydraulics ENGG Ltd.(4)	China
dh group, sro	Czech Republic
Parker Hannifin Industrial s.r.o.	Czech Republic
Parker Hannifin s.r.o.	Czech Republic
dominck hunter Skandinavien A/S	Denmark
Parker Hannifin Danmark A/S	Denmark
Parker Hannifin Oy	Finland
Acofab SAS	France
Adecem SARL	France
domnick hunter France sas	France
Drives France Holdings SAS	France
Manufacture des Caoutchoucs et Thermoplastiques de L’Eure SARL	France
Parker Hannifin France Finance SAS	France
Parker Hannifin France Holding SAS	France
Parker Hannifin France SAS	France
Parker Hannifin SNC	France
SSD Parvex SAS	France
Zander France SARL	France
domnick hunter GmbH	Germany
Parker Hannifin GmbH & Co. KG	Germany
Parker Hannifin Holding GmbH	Germany
Parker Hannifin Management GmbH	Germany
Parker Hannifin Verwaltungs GmbH	Germany
SSD Drives GmbH	Germany
Zander Aufbereitungstechnick GmbH	Germany
Parker Hannifin (Gibraltar) Assets Ltd.	Gibraltar
Parker Hannifin (Gibraltar) Holding Ltd.	Gibraltar
Parker Hannifin (Gibraltar) Industries Ltd.	Gibraltar
Parker Hannifin (Gibraltar) Investments Ltd.	Gibraltar
Parker Hannifin (Gibraltar) Management Ltd.	Gibraltar
Parker Hannifin Hong Kong Limited	Hong Kong
Parker International Capital Management Hungary Ltd.	Hungary

Name of Subsidiary	State/Country of Incorporation
Annapurna Kenmore Tube Products Private Limited	India
Parker Markwel Industries Private Limited	India
Parker-Hannifin India Private Ltd.	India
Acadia International Insurance Limited	Ireland
Parker Sales (Ireland) Limited	Ireland
domnick hunter hiross SpA	Italy
Parker Calzoni S.r.l.	Italy
Parker Hannifin SpA	Italy
Parker Italy Holding S.r.l.	Italy
Parker ITR Srl	Italy
domnick hunter Kobe	Japan
Kuroda Pneumatics, Ltd.(5)	Japan
Parker Hannifin Japan Ltd.	Japan
Taiyo, Ltd.(6)	Japan
Parker Hannifin Climate & Industrial Controls, Ltd.	Korea
Parker Hannifin Connectors Ltd.	Korea
Parker Korea Ltd.	Korea
Parker Mobile Control Division Asia Co. Ltd.	Korea
Parker Hannifin (Bermuda) Holding Luxembourg SCS	Luxembourg
Parker Hannifin Global Capital Management S.a.r.l.	Luxembourg
Parker Hannifin Luxembourg Finance S.a.r.l.	Luxembourg
Parker Hannifin Luxembourg S.a.r.l.	Luxembourg
dh Malaysia Compressed Air Treatment Sdn. Bhd.	Malaysia
Parker Hannifin (Malaysia) Sdn Bhd	Malaysia
Parker Hannifin Malta Finance 1 Ltd.	Malta
Parker Hannifin Malta Finance 2 Ltd.	Malta
Parker Baja Servicios S.A. de C.V.	Mexico
Parker Brownsville Servicios S.A. de C.V.	Mexico
Parker Hannifin de Mexico S.A. de C.V.	Mexico
Parker Hannifin Holding, S. de R.L. de C.V.	Mexico
Parker Industrial S. de R.L. de C.V.	Mexico
Parker Servicios de Mexico S.A. de C.V.	Mexico
Parker Sistemas de Automatization S.A. de C.V.	Mexico
Parker Hannifin Namibia (Pty) Ltd.	Namibia
dh group benelux b.v.	Netherlands
Parker Denison BV	Netherlands
Parker Filtration and Separation BV	Netherlands
Parker Filtration B.V.	Netherlands
Parker Hannifin B.V.	Netherlands
Parker Hannifin Finance BV	Netherlands
Parker Hannifin Netherlands Holdings B.V.	Netherlands
Parker Hose BV	Netherlands
Parker Pneumatic BV	Netherlands
Parker Polyflex BV	Netherlands
Parker Hannifin (N.Z.) Limited	New Zealand
Parker Hannifin A/S	Norway

Name of Subsidiary	State/Country of Incorporation
dh group Polska Sp. Z.o.o.	Poland
Parker Hannifin sp. zoo	Poland
Parker Hannifin Portugal, Lda.	Portugal
Parker Hannifin LLC	Russia
domnick hunter group Pte Ltd	Singapore
Parker Hannifin Singapore Pte. Ltd.	Singapore
domnick hunter SA (pty) limited	South Africa
Parker-Hannifin (Africa) Pty. Ltd.	South Africa
Parker Hannifin (Espana) S.A.	Spain
Parker Hannifin Cartera Industrial, S.L.	Spain
Parker Hannifin Industries and Assets Holding SL	Spain
domnick hunter AB	Sweden
Parker Hannifin AB	Sweden
Parker Hannifin Förvaltnings AB	Sweden
Parker Lucifer SA	Switzerland
Parker Hannifin Taiwan Ltd.	Taiwan
Parker Hannifin (Thailand) Co., Ltd.	Thailand
Kenmore Refrigeration T. ISI Transfer Sanayi Ve Ticaret Anonim Sirketi	Turkey
Advanced Products UK Ltd.	United Kingdom
AFL Limited	United Kingdom
Alenco (Holdings) Ltd.	United Kingdom
Denison Financial Holdings Ltd.	United Kingdom
Denison Hydraulics UK Ltd.	United Kingdom
Denison International Ltd.	United Kingdom
domnick hunter Fabrication Limited	United Kingdom
domnick hunter Finance Limited	United Kingdom
domnick hunter group ltd.	United Kingdom
domnick hunter Iberica Limited	United Kingdom
domnick hunter Investments Limited	United Kingdom
domnick hunter limited	United Kingdom
domnick hunter Nihon Limited	United Kingdom
domnick hunter Overseas Limited	United Kingdom
domnick hunter Technologies Limited	United Kingdom
domnick hunter Trustees Limited	United Kingdom
Kenmore UK Ltd.	United Kingdom
Nitrox Limited	United Kingdom
Parker Hannifin (2004) Limited	United Kingdom
Parker Hannifin (Holdings) Ltd.	United Kingdom
Parker Hannifin (UK) Ltd.	United Kingdom
Parker Hannifin GB Ltd.	United Kingdom
Parker Hannifin Ltd.	United Kingdom
Parker Hannifin (RAC) Ltd.	United Kingdom
PH Trading Ltd.	United Kingdom

Name of Subsidiary	State/Country of Incorporation
PTI Technologies (UK) Limited	United Kingdom
SSD Drives Holdings 2 Ltd.	United Kingdom
SSD Drives Holdings 3 Ltd.	United Kingdom
SSD Drives Holdings 4 Ltd.	United Kingdom
SSD Drives Holdings 5 Ltd.	United Kingdom
SSD Drives Holdings Ltd.	United Kingdom
SSD Drives Ltd.	United Kingdom
Sterling Hydraulics Limited	United Kingdom
Tanlea Engineering Limited	United Kingdom
Ultra Hydraulics Ltd.	United Kingdom
Virginia KMP Ltd.	United Kingdom
Zander (UK) Limited	United Kingdom
Parker Hannifin de Venezuela, S.A.	Venezuela

(1) The Company owns 50% of such subsidiary’s equity capital.
(2) The Company owns 51% of such subsidiary’s equity capital.
(3) The Company owns 90% of such subsidiary’s equity capital.
(4) The Company owns 85% of such subsidiary’s equity capital.
(5) The Company owns 70% of such subsidiary’s equity capital.
(6) The Company owns 59% of such subsidiary’s equity capital.

All of the foregoing subsidiaries are included in the Company’s consolidated financial statements. In addition to the foregoing, the Company owns twenty-seven inactive or name holding companies.

* Numbered in accordance with Item 601 of Regulation S-K.

Exhibit 23

Exhibit (23) to Report
On Form 10-K for Fiscal
Year Ended June 30, 2006
By Parker-Hannifin Corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (Nos. 333-02761, 333-96453, 333-47955, 333-88206 and 333-82806) and Forms S-8 (Nos. 33-53193, 33-43938, 2-66732, 333-95477, 333-34542, 333-103181, 333-103633, 333-107691, 333-117761, 333-126957 and 333-130123) of Parker-Hannifin Corporation of our report dated August 16, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Cleveland, Ohio
September 6, 2006

Exhibit 24

Securities and Exchange Commission
Washington, D.C. 20549

Re: Parker-Hannifin Corporation

Commission File No. 1-4982
Annual Report on Form 10-K
Authorized Representatives

Gentlemen:

Parker-Hannifin Corporation (the "Company") is the issuer of Securities registered under Section 12(b) of the Securities Exchange Act of 1934 (the "Act"). Each of the persons signing his or her name below confirms, as of the date appearing opposite his or her signature, that each of the following "Authorized Representatives" is authorized on his or her behalf to sign and to submit to the Securities and Exchange Commission Annual Reports on Form 10-K and amendments thereto as required by the Act:

Authorized Representatives

Donald E. Washkewicz
Nickolas W. Vande Steeg
Timothy K. Pistell
Thomas A. Piraino, Jr.

Each person so signing also confirms the authority of each of the Authorized Representatives named above to do and perform, on his or her behalf, any and all acts and things requisite or necessary to assure compliance by the signing person with the Form 10-K filing requirements. The authority confirmed herein shall remain in effect as to each person signing his or her name below until such time as the Commission shall receive from such person a written communication terminating or modifying the authority.

	Date
/s/ D.E. Washkewicz Donald E. Washkewicz, Chairman of the Board of Directors and Principal Executive Officer	8/17/06
/s/ T.K. Pistell Timothy K. Pistell, Principal Financial Officer	8/17/06
/s/ Dana A. Dennis Dana A. Dennis Principal Accounting Officer	8/17/06
/s/ Duane E. Collins Duane E. Collins, Director	8/17/06
/s/ W.E. Kassling William E. Kassling, Director	8/17/06
/s/ R.J. Kohlhepp Robert J. Kohlhepp, Director	8/17/06
/s/ Peter W. Likins Peter W. Likins, Director	8/8/17
/s/ Giulio Mazzalupi Giulio Mazzalupi, Director	8/17/06
/s/ K-P Müller Klaus-Peter Müller, Director	8/17/06
/s/ Candy M. Obourn Candy M. Obourn, Director	8/17/06
/s/ Joseph M. Scaminace Joseph M. Scaminace, Director	8/17/06
/s/ Wolfgang R. Schmitt Wolfgang R. Schmitt, Director	8/17/06
/s/ Markos I. Tambakeras Markos I. Tambakeras, Director	8/17/06
/s/ NW Vande Steeg Nickolas W. Vande Steeg, Director	8/17/06

Exhibit 31(i)(a)

CERTIFICATIONS

I, Donald E. Washkewicz, certify that:

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

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

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

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

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: September 6, 2006

/s/ Donald E. Washkewicz

Donald E. Washkewicz
Chief Executive Officer

Exhibit 31(i)(b)

CERTIFICATIONS

I, Timothy K. Pistell, certify that:

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

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

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

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

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: September 6, 2006

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

Exhibit 32

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Parker-Hannifin Corporation (the “Company”) for the fiscal year ended June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

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

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

Dated: September 6, 2006

/s/ Donald E. Washkewicz
Name: Donald E. Washkewicz
Title: Chief Executive Officer

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