

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 1-4982



**PARKER-HANNIFIN CORPORATION**

(Exact name of registrant as specified in its charter)

OHIO  
(State or other jurisdiction of  
incorporation or organization)

34-0451060  
(IRS Employer  
Identification No.)

6035 Parkland Blvd., Cleveland, Ohio  
(Address of principal executive offices)

44124-4141  
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of Common Shares outstanding at September 30, 2009 160,691,446

## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,	
	2009	2008
Net sales	\$ 2,237,165	\$ 3,064,688
Cost of sales	<u>1,800,945</u>	<u>2,337,222</u>
Gross profit	436,220	727,466
Selling, general and administrative expenses	301,843	332,683
Interest expense	25,723	28,096
Other (income) expense, net	<u>(5,375)</u>	<u>8,299</u>
Income before income taxes	114,029	358,388
Income taxes	<u>40,059</u>	<u>106,553</u>
Net income	73,970	251,835
Less: Noncontrolling interest in subsidiaries' earnings	477	1,659
Net income attributable to common shareholders	<u>\$ 73,493</u>	<u>\$ 250,176</u>
Earnings per share attributable to common shareholders:		
Basic	\$ .46	\$ 1.52
Diluted	\$ .45	\$ 1.50
Cash dividends per common share	\$ .25	\$ .25

See accompanying notes to consolidated financial statements.

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

	<u>(Unaudited)</u> <u>September 30,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 189,849	\$ 187,611
Accounts receivable, net	1,452,494	1,417,305
Inventories:		
Finished products	528,316	514,495
Work in process	580,468	581,266
Raw materials	157,535	158,789
	<u>1,266,319</u>	<u>1,254,550</u>
Prepaid expenses	100,189	142,335
Deferred income taxes	124,640	121,980
Total current assets	3,133,491	3,123,781
Plant and equipment	4,810,205	4,705,060
Less accumulated depreciation	2,918,767	2,824,506
	1,891,438	1,880,554
Goodwill	2,964,321	2,903,077
Intangible assets, net	1,276,049	1,273,862
Other assets	671,874	674,628
Total assets	<u>\$ 9,937,173</u>	<u>\$ 9,855,902</u>
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	\$ 304,083	\$ 481,467
Accounts payable, trade	659,764	649,718
Accrued payrolls and other compensation	279,910	356,776
Accrued domestic and foreign taxes	152,262	113,107
Other accrued liabilities	439,318	404,686
Total current liabilities	1,835,337	2,005,754
Long-term debt	1,855,531	1,839,705
Pensions and other postretirement benefits	1,255,515	1,233,271
Deferred income taxes	187,907	183,457
Other liabilities	233,270	243,275
Total liabilities	5,367,560	5,505,462
<b>EQUITY</b>		
Shareholders' equity:		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	—	—
Common stock, \$.50 par value; authorized 600,000,000 shares; issued 181,046,128 shares at September 30 and June 30	90,523	90,523
Additional capital	614,247	588,201
Retained earnings	5,747,734	5,722,038
Accumulated other comprehensive (loss)	(696,200)	(843,019)
Treasury shares, at cost; 20,354,682 shares at September 30 and 20,557,537 at June 30	(1,274,320)	(1,289,544)
Total shareholders' equity	4,481,984	4,268,199
Noncontrolling interests	87,629	82,241
Total equity	<u>4,569,613</u>	<u>4,350,440</u>
Total liabilities and equity	<u>\$ 9,937,173</u>	<u>\$ 9,855,902</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	September 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 73,970	\$ 251,835
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	64,165	64,057
Amortization	28,798	22,109
Stock compensation	26,436	20,655
Deferred income taxes	(16,011)	7,622
Foreign currency transaction (gain) loss	(4,096)	1,159
(Gain) loss on sale of plant and equipment	(2,194)	765
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(2,682)	118,791
Inventories	17,863	(89,651)
Prepaid expenses	42,962	5,783
Other assets	25,690	8,305
Accounts payable, trade	110	(83,240)
Accrued payrolls and other compensation	(82,069)	(75,045)
Accrued domestic and foreign taxes	29,760	59,149
Other accrued liabilities	35,792	3,849
Pensions and other postretirement benefits	25,177	15,588
Other liabilities	(3,618)	(24,384)
Net cash provided by operating activities	260,053	307,347
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions (less acquired cash of \$119 in 2008)		(12,088)
Capital expenditures	(30,099)	(98,273)
Proceeds from sale of plant and equipment	4,422	7,437
Other	(1,334)	(8,004)
Net cash (used in) investing activities	(27,011)	(110,928)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	2,868	532
(Payments for) common shares	(5,000)	(413,959)
Tax benefit from share-based compensation	886	2,837
(Payments of) proceeds from notes payable, net	(190,983)	564,580
Proceeds from long-term borrowings	679	3,265
(Payments of) long-term borrowings	(6,975)	(6,287)
Dividends	(40,171)	(41,109)
Net cash (used in) provided by financing activities	(238,696)	109,859
Effect of exchange rate changes on cash	7,892	(23,999)
Net increase in cash and cash equivalents	2,238	282,279
Cash and cash equivalents at beginning of year	187,611	326,048
Cash and cash equivalents at end of period	<u>\$ 189,849</u>	<u>\$ 608,327</u>

See accompanying notes to consolidated financial statements.

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

The Company operates in three reportable business segments: Industrial, Aerospace and Climate & Industrial Controls. The Industrial Segment is the largest and includes a significant portion of international operations.

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

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

Climate & Industrial Controls - This segment manufactures motion-control systems and components for use primarily in the refrigeration and air conditioning and transportation industries.

	Three Months Ended	
	September 30,	
	2009	2008
Net sales		
Industrial:		
North America	\$ 783,085	\$ 1,107,077
International	850,250	1,223,192
Aerospace	416,856	478,473
Climate & Industrial Controls	186,974	255,946
<b>Total</b>	<b>\$ 2,237,165</b>	<b>\$ 3,064,688</b>
Segment operating income		
Industrial:		
North America	\$ 76,171	\$ 160,486
International	61,823	202,952
Aerospace	53,146	68,148
Climate & Industrial Controls	10,497	15,499
Total segment operating income	201,637	447,085
Corporate general and administrative expenses	26,302	40,374
Income from operations before interest expense and other	175,335	406,711
Interest expense	25,723	28,096
Other expense	35,583	20,227
<b>Income before income taxes</b>	<b>\$ 114,029</b>	<b>\$ 358,388</b>

**PARKER-HANNIFIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Dollars in thousands, except per share amounts**

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1. Management representation

In the opinion of the management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2009, the results of operations for the three months ended September 30, 2009 and 2008 and cash flows for the three months then ended. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2009 Annual Report on Form 10-K. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year. Certain prior period amounts have been reclassified to conform to the current year presentation. These include the adoption of new accounting rules regarding noncontrolling interests.

The Company has evaluated for disclosure subsequent events that have occurred up to November 3, 2009, the date of the filing of the Company's Form 10-Q for the quarter ended September 30, 2009.

2. New accounting pronouncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board's (FASB) new guidance regarding business combinations. This guidance changed the accounting for business combinations both during the period of acquisition and in subsequent periods. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations during the quarter ended September 30, 2009.

In December 2008, the FASB issued new guidance requiring detailed disclosures regarding the investment strategies, fair value measurements, and concentrations of risk of plan assets of a defined benefit pension or other postretirement plan. This guidance is effective for fiscal years ending after December 31, 2009, and the Company has not yet determined the impact it will have on the Company's retirement benefits disclosures.

3. Product warranty

In the ordinary course of business, the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual as of September 30, 2009 and June 30, 2009 is immaterial to the financial position of the Company and the change in the accrual for both the current-year quarter and prior-year quarter was immaterial to the Company's results of operations and cash flows.

4. Earnings per share

The following table presents a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three months ended September 30, 2009 and 2008.

	Three Months Ended September 30,	
	2009	2008
<u>Numerator:</u>		
Net income attributable to common shareholders	\$ 73,493	\$ 250,176
<u>Denominator:</u>		
Basic - weighted average common shares	160,629,291	164,415,418
Increase in weighted average from dilutive effect of equity-based awards	1,411,494	2,497,798
Diluted - weighted average common shares, assuming exercise of equity-based awards	<u>162,040,785</u>	<u>166,913,216</u>
Basic earnings per share	\$ .46	\$ 1.52
Diluted earnings per share	\$ .45	\$ 1.50

At September 30, 2009 and 2008, 10,031,236 and 3,645,525 common shares, respectively, subject to equity-based awards were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

5. Share repurchase program

The Company has a program to repurchase its common shares. Under the program, the Company is authorized to repurchase an amount of common shares each fiscal year equal to the greater of 7.5 million shares or five percent of the shares outstanding as of the end of the prior fiscal year. Repurchases are funded primarily from operating cash flows and commercial paper borrowings, and the shares are initially held as treasury stock. The Company repurchased 105,930 shares of its common stock at an average price of \$47.20 during the three-month period ended September 30, 2009 under this program.

6. Business realignment charges

During the first quarter of fiscal 2010, the Company recorded a \$19.3 million charge for the costs to structure its businesses in light of current and anticipated customer demand. The charge primarily consists of severance costs related to plant closures as well as general work force reductions implemented by various operating units throughout the world. The Company believes the realignment actions will positively impact future results of operations but will have no material effect on liquidity and sources and uses of capital. The Industrial Segment recognized \$17.0 million of the total charge primarily for severance costs related to approximately 820 employees and the Climate & Industrial Controls Segment recognized \$2.3 million of the total charge primarily for severance costs related to approximately 235 employees. The charge is presented primarily in the Cost of sales caption in the Consolidated Statement of Income for the three months ended September 30, 2009. As of September 30, 2009, approximately \$5.9 million in severance payments have been made with the remaining payments expected to be made by June 30, 2010.

6. Business realignment charges, continued

Additional charges to be recognized in future periods related to these specific actions are not expected to be significant. Business realignment charges were not material for the first quarter of fiscal 2009.

7. Equity

Effective July 1, 2009, the Company adopted the FASB's new guidance regarding the accounting for noncontrolling interests. The new rules require the recognition of a noncontrolling interest as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest is included in Net income on the face of the Consolidated Statement of Income.

Changes in equity for the three months ended September 30, 2008 and September 30, 2009 are as follows:

	Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance July 1, 2008	\$ 5,251,553	\$ 78,589	\$5,330,142
Net income	250,176	1,659	251,835
Other comprehensive income:			
Foreign currency translation	(360,495)	(168)	(360,663)
Retirement benefits plan activity	8,000		8,000
Net unrealized (loss)	(1,400)		(1,400)
Total comprehensive income	(353,895)	(168)	(354,063)
Dividends paid	(41,109)		(41,109)
Stock incentive plan activity	30,994		30,994
Shares purchased at cost	(413,959)		(413,959)
Purchase of subsidiary shares		(825)	(825)
Retirement benefits plan activity	12,858		12,858
Balance September 30, 2008	<u>\$4,736,618</u>	<u>\$ 79,255</u>	<u>\$4,815,873</u>
Balance July 1, 2009	\$ 4,268,199	\$ 82,241	\$4,350,440
Net income	73,493	477	73,970
Other comprehensive income:			
Foreign currency translation	137,968	4,911	142,879
Retirement benefits plan activity	8,887		8,887
Net unrealized (loss)	(36)		(36)
Total comprehensive income	146,819	4,911	151,730
Dividends paid	(40,171)		(40,171)
Stock incentive plan activity	29,575		29,575
Shares purchased at cost	(5,000)		(5,000)
Retirement benefits plan activity	9,069		9,069
Balance September 30, 2009	<u>\$4,481,984</u>	<u>\$ 87,629</u>	<u>\$4,569,613</u>



7. Equity, continued

With regards to other comprehensive income for shareholders' equity, foreign currency translation is net of taxes of \$9,995 and \$20,938 for the three months ended September 30, 2009 and September 30, 2008, respectively. Retirement benefits plan activity is net of taxes of \$5,022 and \$4,775 for the three months ended September 30, 2009 and September 30, 2008, respectively. Net unrealized (loss) relates to marketable equity securities and cash flow hedging and is net of tax of \$20 and \$865 for the three months ended September 30, 2009 and September 30, 2008, respectively.

8. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2009 are as follows:

	Industrial Segment	Aerospace Segment	Climate & Industrial Controls Segment	Total
Balance June 30, 2009	\$ 2,496,449	\$ 98,709	\$ 307,919	\$ 2,903,077
Acquisitions				
Foreign currency translation	55,854	16	1,975	57,845
Goodwill adjustments	3,399			3,399
Balance September 30, 2009	<u>\$ 2,555,702</u>	<u>\$ 98,725</u>	<u>\$ 309,894</u>	<u>\$ 2,964,321</u>

"Goodwill adjustments" primarily represented final adjustments to the purchase price allocation during the twelve-month period subsequent to the acquisition date and primarily involved the valuation of income tax liabilities.

Goodwill is tested for impairment on an annual basis, as of December 31, and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may not exceed its fair value. No such events or circumstances occurred during the three months ended September 30, 2009.

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

	September 30, 2009		June 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 122,207	\$ 45,167	\$ 119,811	\$ 42,188
Trademarks	292,738	70,220	287,691	62,926
Customer lists and other	1,180,889	204,398	1,154,713	183,239
Total	<u>\$ 1,595,834</u>	<u>\$ 319,785</u>	<u>\$ 1,562,215</u>	<u>\$ 288,353</u>

8. Goodwill and intangible assets, continued

Total intangible amortization expense for the three months ended September 30, 2009 was \$28,055. The estimated amortization expense for the five years ending June 30, 2010 through 2014 is \$112,096, \$107,318, \$94,627, \$86,247 and \$84,655, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their carrying value. No such events or circumstances occurred during the three months ended September 30, 2009.

9. Retirement benefits

Net periodic pension cost recognized included the following components:

	Three Months Ended September 30,	
	2009	2008
Service cost	\$ 19,067	\$ 17,649
Interest cost	43,207	41,796
Expected return on plan assets	(43,332)	(46,551)
Amortization of prior service cost	3,155	3,339
Amortization of net actuarial loss	15,507	9,637
Amortization of initial net obligation (asset)	6	(16)
Net periodic benefit cost	<u>\$ 37,610</u>	<u>\$ 25,854</u>

Postretirement benefit cost recognized included the following components:

	Three Months Ended September 30,	
	2009	2008
Service cost	\$ 151	\$ 380
Interest cost	926	1,425
Net amortization and deferral and other	(114)	(185)
Net periodic benefit cost	<u>\$ 963</u>	<u>\$ 1,620</u>

10. Income taxes

As of September 30, 2009, the Company had gross unrecognized tax benefits of \$150,129. The total amount of unrecognized benefits that, if recognized, would affect the effective tax rate was \$127,263. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, was \$12,801.

The Company and its subsidiaries file income tax returns in the United States and various state and foreign jurisdictions. In the normal course of business, the Company's tax returns are subject to examination by taxing authorities throughout the world. The Company is no longer subject to examinations of its federal income tax returns by the Internal Revenue Service (IRS) for fiscal years through 2005. All significant state and local and foreign tax returns have been examined for fiscal years through 2001. The Company believes that it is reasonably possible that within the next 12 months the IRS examination for fiscal years 2006 and 2007 will be settled. The Company anticipates that within the next 12 months the total amount of unrecognized tax benefits related to income inclusion items, loss deductions and loss carryforwards may be reduced by an amount up to \$64 million due to the settlement of examinations and the expiration of statutes of limitation.

11. Fair value measurement

On July 1, 2009, the Company adopted the FASB's new guidance relating to fair value measurements of nonfinancial assets and nonfinancial liabilities. The adoption of this provision did not have a material effect on the Company's financial position or results of operations.

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 of Cash and cash equivalents, Investments and Notes payable approximate fair value. The carrying value of Long-term debt (excluding leases) was \$1,912,541 and \$1,889,844 at September 30, 2009 and June 30, 2009, respectively, and was estimated to have a fair value of \$1,997,106 and \$1,899,246 at September 30, 2009 and June 30, 2009, respectively. The fair value of 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.

The fair value of financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2009 follows:

	<u>Total</u>	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets:</u>				
Available for sale securities	\$ 3,340	\$ 3,340	\$	\$
Derivatives	107		107	
<u>Liabilities:</u>				
Deferred compensation plans	107,858	107,858		
Derivatives	3,088		3,088	

The fair value of derivatives is calculated with a model that utilizes market observable inputs including both spot and forward prices for the same underlying currencies. Available for sale securities are measured at fair value using quoted market prices. The Company has established nonqualified deferred compensation programs which permit officers, directors and certain management employees to defer a portion of their compensation, on a pre-tax basis, until their termination of employment. Changes in the value of the compensation deferred under these programs are recognized based on the fair value of the participant's investment elections.

12. Contingencies

The Company is involved in various legal proceedings 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.

Parker ITR S.r.l. (Parker ITR), a subsidiary acquired on January 31, 2002, has been the subject of a number of lawsuits and regulatory investigations, which are more fully described in Part II, Item 1 of this Quarterly Report on Form 10-Q. Each of these lawsuits and regulatory investigations was also described in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009. The status of these lawsuits and regulatory investigations has not significantly changed since June 30, 2009. No additional accruals were recorded during the first quarter of fiscal 2010 relating to these lawsuits and regulatory investigations. The Company has made all required payments as of September 30, 2009 and has a remaining reserve of \$2.9 million for future losses relating to these matters. Legal expenses related to these matters are being expensed as incurred and were insignificant in the first quarter of fiscal 2010.

**PARKER-HANNIFIN CORPORATION**

**FORM 10-Q**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009  
AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 2008**

**OVERVIEW**

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

The Company's order rates provide a near-term perspective of the Company's outlook particularly when viewed in the context of prior and future order rates. The Company publishes its order rates on a quarterly basis. The lead time between the time an order is received and revenue is realized generally ranges from one day to 12 weeks for 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 as follows:

- Purchasing Managers Index (PMI) on manufacturing activity specific to regions around the world with respect to most mobile and industrial markets;
- Aircraft miles flown and revenue passenger miles for commercial aerospace markets and Department of Defense spending for military aerospace markets; and
- Housing starts with respect to the North American residential air conditioning market.

A PMI above 50 indicates that the manufacturing activity specific to a region around the world in the mobile and industrial markets is expanding. A PMI below 50 indicates the opposite. The PMI for the United States at the end of September 2009 was 52.6 and the PMI for the Eurozone countries at the end of September 2009 was 49.3. The PMI for the United States and the Eurozone countries have both sequentially increased from their June 2009 levels and the Company expects the sequential increase to continue in the short term, though beyond that period the PMI levels are difficult to predict.

With respect to the aerospace market, aircraft miles flown and revenue passenger miles have declined approximately four percent from their comparable fiscal 2009 levels. The Company anticipates that Department of Defense spending in fiscal 2010 will be about four percent higher than the 2009 level.

With respect to the North American residential air conditioning market, housing starts in September 2009 were approximately 28 percent lower than housing starts in September 2008. The Company anticipates the level of housing starts in fiscal 2010 will continue to be well below typical historical levels.

The Company also believes that there is a high negative correlation between interest rates and industrial manufacturing activity. Increases in interest rates typically have a negative impact on industrial production thereby lowering future order rates while decreases in interest rates typically have the opposite effect.

The Company remains focused on maintaining its financial strength through the current worldwide economic downturn by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash. The Company's Win Strategy initiatives relating to growth and margin improvement are designed to assist in meeting this challenge. The Company has implemented several additional initiatives, including workforce reductions, salary freezes, and short work weeks, to reduce costs in response to current worldwide economic conditions and the corresponding decline in the Company's order rates. The Company has also developed contingency plans to further control costs if economic conditions continue to deteriorate.

Despite the current economic conditions, the financial condition of the Company remains strong. The Company continues to generate substantial cash flows from operations, has controlled capital spending and has proactively managed working capital, with particular attention to collecting receivables from customers in financial difficulty. The Company has been able to borrow needed funds at affordable interest rates and currently has a debt to debt-equity ratio of 32.5 percent.

While current worldwide economic conditions necessitate that the Company concentrate its efforts on maintaining financial strength, the Company believes many opportunities for growth remain available. The Company will evaluate these opportunities as appropriate in the current environment in order to strongly position itself for when the economic recovery ultimately occurs. Major opportunities for growth are as follows:

- Leveraging the Company's broad product line with customers desiring to consolidate their vendor base and outsource system engineering;
- Marketing systems solutions for customer applications;
- Expanding the Company's business presence outside of North America;
- Introducing new products, including those resulting from the Company's innovation initiatives;
- Completing strategic acquisitions in a consolidating motion and control industry; and
- Expanding the Company's vast distribution network.

Although the Company did not complete any acquisitions during the first quarter of fiscal 2010, 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. Future business divestitures could have a negative effect on the Company's results of operations.

The discussion below is structured to separately discuss the Consolidated Statement of Income, Results by Business Segment, Balance Sheet and Statement of Cash Flows.

#### CONSOLIDATED STATEMENT OF INCOME

(in millions)	Three months ended	
	September 30,	
	2009	2008
Net sales	\$2,237.2	\$3,064.7
Gross profit	\$ 436.2	\$ 727.5
Gross profit margin	19.5%	23.7%
Selling, general and administrative expenses	\$ 301.8	\$ 332.7
Selling general and administrative expenses, as a percent of sales	13.5%	10.9%
Interest expense	\$ 25.7	\$ 28.1
Other (income) expense, net	\$ (5.4)	\$ 8.3
Effective tax rate	35.1%	29.7%
Net income	\$ 74.0	\$ 251.8
Net income, as a percent of sales	3.3%	8.2%

**Net sales** for the first quarter of fiscal 2010 decreased 27.0 percent over the prior-year first quarter reflecting lower volume experienced in all Segments, with the largest decline in net sales being experienced in the Industrial Segment. Acquisitions made in the last 12 months contributed approximately \$76 million in net sales and the effect of currency rate changes reduced net sales by \$46 million.

**Gross profit margin** decreased primarily due to the lower sales volume, resulting in manufacturing inefficiencies as well as higher business realignment charges recorded in the current-year quarter.

**Selling, general and administrative expenses** decreased primarily due to the lower sales volume as well as lower incentive compensation.

**Interest expense** for the current-year quarter decreased 8.4 percent from the prior-year first quarter primarily due to lower average debt outstanding in the current-year quarter as well as lower interest rates on commercial paper borrowings.

**Other (income) expense, net** in the current-year quarter included income of \$3.2 million related to the restructuring of our executive life insurance program. The prior-year quarter included a \$7.7 million expense related to an investment and a \$1.2 million expense related to a litigation settlement.

**Effective tax rate** for the current-year quarter was higher than the prior-year quarter primarily due to the recording of discrete tax items related to the settlement of tax audits. The Company expects the effective tax rate for fiscal 2010 to be approximately 30 percent.

## RESULTS BY BUSINESS SEGMENT

### Industrial Segment

(in millions)	Three months ended September 30,	
	2009	2008
Net sales		
North America	\$ 783.1	\$1,107.1
International	850.3	1,223.2
Operating income		
North America	76.2	160.5
International	\$ 61.8	\$ 203.0
Operating income, as a percent of sales		
North America	9.7%	14.5%
International	7.3%	16.6%
Backlog	\$1,310.7	\$1,590.2

The Industrial Segment operations experienced the following percentage changes in net sales in the current-year compared to the equivalent prior-year period:

	Three months ended September 30, 2009
Industrial North America – as reported	(29.3)%
Acquisitions	(1.8)%
Currency	0.7%
Industrial North America – without acquisitions and currency	(30.4)%
Industrial International – as reported	(30.5)%
Acquisitions	(4.6)%
Currency	2.6%
Industrial International – without acquisitions and currency	(32.5)%
Total Industrial Segment – as reported	(29.9)%
Acquisitions	(3.3)%
Currency	1.7%
Total Industrial Segment – without acquisitions and currency	(31.5)%

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The above presentation reconciles the percentage changes in net sales of the Industrial operations reported in accordance with U.S. GAAP to percentage changes in net sales adjusted to remove the effects of acquisitions made within the prior four fiscal quarters as well as the effects of currency exchange rates. The effects of acquisitions and currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage changes in net sales on a comparable basis from period to period.

Excluding the effects of acquisitions and currency exchange rates, the decrease in Industrial North American sales reflects lower demand experienced from distributors and end-users in virtually all markets, particularly in the construction equipment, heavy-duty truck, farm and agriculture equipment, and machine tool markets. The decline in Industrial International sales is primarily attributed to lower end-user demand experienced across most markets, with the largest decline in volume being experienced in Europe.

The decrease in both Industrial North American and Industrial International margins is primarily due to the lower sales volume, resulting in manufacturing inefficiencies as well as higher business realignment expenses in the current-year quarter.

Included in Industrial North American operating income are business realignment charges of \$4.7 million and \$0.9 million in the current-year quarter and prior-year quarter, respectively. Included in Industrial International operating income are business realignment charges of \$12.3 million and \$0.6 million in the current-year quarter and prior-year quarter, respectively. The business realignment expenses consist primarily of severance costs resulting from plant closures as well as general reductions in the work force. The Company anticipates realizing cost savings resulting from these severance costs of approximately \$14 million in fiscal 2010 and \$20 million in fiscal 2011. The amount of savings that is actually realized may be lower than expected if the Company needs to hire employees in the future as a result of an increase in end-user demand. The Company expects to continue to take the actions necessary to structure appropriately the operations of the Industrial Segment. Such actions may include the necessity to record additional business realignment charges in fiscal 2010, the timing and amount of which has not been finalized at this time.

The decrease in backlog from the prior-year quarter is primarily due to lower order rates in both the Industrial North American and Industrial International businesses. The increase in backlog from the June 30, 2009 amount of \$1,199.6 million is primarily due to higher order rates experienced in the Industrial International businesses compared with order rates in the fourth quarter of fiscal 2009. The Company anticipates Industrial North American sales for fiscal 2010 will decrease between 7.8 percent and 11.8 percent from the fiscal 2009 level and Industrial International sales for fiscal 2010 will decrease between 8.1 percent and 13.1 percent from the fiscal 2009 level. The lower sales levels in fiscal 2010 are primarily due to lower end-user demand expected in most markets. Industrial North American operating margins in fiscal 2010 are expected to range from 9.9 percent to 9.6 percent and Industrial International operating margins are expected to range from 6.7 percent to 6.2 percent. The lower Industrial International margin in fiscal 2010 primarily results from manufacturing inefficiencies.



## Aerospace Segment

(in millions)	Three months ended	
	September 30,	
	2009	2008
Net sales	\$ 416.9	\$ 478.5
Operating income	\$ 53.1	\$ 68.1
Operating income, as a percent of sales	12.7%	14.2%
Backlog	\$1,496.4	\$1,736.6

The decrease in net sales in the Aerospace Segment is primarily due to a decrease in both commercial original equipment manufacturer (OEM) and aftermarket volume partially offset by higher military OEM and aftermarket volume. The decline in margin was primarily due to the lower sales volume partially offset by lower engineering development and operating costs.

The decrease in backlog from the prior-year quarter and the June 30, 2009 amount of \$1,558.5 million was primarily due to lower order rates in the commercial OEM businesses. For fiscal 2010, sales are expected to decrease between 7.8 percent and 8.6 percent from the fiscal 2009 level primarily due to anticipated lower commercial OEM volume. Operating margins are expected to range from 11.4 percent to 11.0 percent. Further reductions in commercial aftermarket volume in future product mix and higher than expected new product development costs could result in lower margins.

## Climate & Industrial Controls Segment

(in millions)	Three months ended	
	September 30,	
	2009	2008
Net sales	\$187.0	\$255.9
Operating income	\$ 10.5	\$ 15.5
Operating income, as a percent of sales	5.6%	6.1%
Backlog	\$121.5	\$139.9

The decrease in sales in the Climate & Industrial Controls Segment is primarily due to lower end-user demand in the residential air conditioning, heavy-duty truck and automotive markets. Current-year quarter sales reflect higher volume resulting from various governmental incentive programs in the automotive market. The effect of exchange rates reduced net sales by \$6 million in the current-year quarter. Margins in the current-year quarter were lower than the prior-year level primarily due to the lower sales volume, resulting in manufacturing inefficiencies. Included in operating income are business realignment charges of \$2.3 million and \$0.6 million for the current-year quarter and prior-year quarter, respectively. The business realignment expenses primarily relate to severance costs resulting from plant closures. The Company expects to realize cost savings resulting from the severance costs incurred in connection with the plant closures of approximately \$2 million in fiscal 2010 and \$3 million in fiscal 2011. The amount of savings that is actually realized may be lower than expected if the Company needs to hire employees in the future as a result of an increase in end-user demand. The Company expects to continue to take the actions necessary to structure appropriately the operations of the Climate & Industrial Controls Segment. Such actions may include the necessity to record additional business realignment charges in fiscal 2010, the timing and amount of which has not been finalized at this time.

The decrease in backlog from the prior-year quarter and the June 30, 2009 amount of \$127.2 million is primarily due to lower orders in the residential air conditioning market. An increase in order rates in the automotive market in the current-year quarter helped to partially offset the backlog decline from June 30,

2009. For fiscal 2010, sales are expected to decrease between 10.5 percent and 12.9 percent from the fiscal 2009 level and operating margins are expected to range from 4.0 percent to 3.2 percent.

#### Corporate and Other

Corporate general and administrative expenses decreased to \$26.3 million in the current-year quarter compared to \$40.4 million in the prior-year quarter. As a percent of sales, corporate general and administrative expenses for the current-year quarter decreased to 1.2 percent compared to 1.3 percent in the prior-year quarter. The lower expense in the current-year quarter is primarily due to lower incentive compensation expenses.

**Other expense** (in the Business Segment Results) included the following:

(in millions)	Three months ended	
	September 30,	
	2009	2008
Expense (income)		
Currency transaction loss (gain)	\$ 2.9	\$ (7.4)
Stock compensation	23.1	20.7
Investment writedowns	0.6	7.7
Pensions	11.2	0.5
Other items, net	(2.2)	(1.3)
	\$ 35.6	\$ 20.2

The increase in pension expense in the current-year quarter primarily results from the use of a lower discount rate as well as a higher amount of actuarial losses being recognized as compared to the prior-year quarter.

#### BALANCE SHEET

(dollars in millions)	September 30, 2009	June 30, 2009
Accounts receivable	\$ 1,452.5	\$1,417.3
Inventories	1,266.3	1,254.6
Plant and equipment, net of accumulated depreciation	1,891.4	1,880.6
Goodwill	2,964.3	2,903.1
Intangible assets, net	1,276.0	1,273.9
Notes payable	304.1	481.5
Accounts payable, trade	659.8	649.7
Accrued payrolls and other compensation	279.9	356.8
Accrued domestic and foreign taxes	152.3	113.1
Shareholders' equity	4,482.0	4,268.2
Working capital	\$ 1,298.2	\$1,118.0
Current ratio	1.71	1.56

Accounts receivable are primarily receivables due from customers for sales of product (\$1,315 million at September 30, 2009 and \$1,280 million at June 30, 2009). Days sales outstanding relating to trade accounts receivable increased to 54 days from 53 days at June 30, 2009. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

Inventories increased primarily due to foreign currency rate changes. The Company continues to make a concerted effort to match inventory levels with current customer demand. Days supply of inventory was 77 days at September 30, 2009 and June 30, 2009.

Notes payable decreased since June 30, 2009 primarily due to payments made to reduce commercial paper borrowings.

Accounts payable, trade increased slightly from the June 30, 2009 balance as the Company continues to uphold a strong budgetary control environment in the current economic climate.

Accrued payrolls and other compensation decreased primarily due to the payment during the current-year quarter of incentive compensation amounts that had been accrued for as of June 30, 2009.

Accrued domestic and foreign taxes increased primarily due to the timing of tax payments.

Due to the weakening of the U.S. dollar, foreign currency translation adjustments resulted in an increase in Shareholders' equity of \$138 million during the current-year quarter. The translation adjustments primarily increased the balances of Accounts receivable, Inventories, Plant and equipment, Goodwill, Intangible assets, net and Long-term debt.

#### STATEMENT OF CASH FLOWS

(in millions)	Three months ended September 30,	
	2009	2008
Cash provided by (used in):		
Operating activities	\$ 260.0	\$ 307.3
Investing activities	(27.0)	(110.9)
Financing activities	(238.7)	109.9
Effect of exchange rates	7.9	(24.0)
Net increase in cash and cash equivalents	2.2	282.3

**Cash flows from operating activities** - The decrease in cash flow from operating activities is primarily due to lower Net income offset by an increase in cash provided from working capital. Cash flow from working capital increased due to lower inventory and accounts receivable levels offset by a decrease in accounts payable. The Company continues to manage working capital requirements, especially inventory.

**Cash flow used in investing activities** - Net cash used in investing activities decreased primarily due to no acquisition activity in the current-year quarter and decreased capital spending. Near-term economic uncertainties resulted in the Company reducing its acquisition activity and limiting capital expenditures.

**Cash flow used in financing activities** - In the prior year, the Company used its commercial paper borrowings to fund acquisition activity and share repurchases. The Company has been focused on repaying debt during the current-year quarter resulting in no acquisition activity and a significantly lower level of share repurchases.

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

Debt to Debt-Equity Ratio (in millions)	September 30, 2009	June 30, 2009
Debt	\$ 2,159.6	\$2,321.1
Debt & Shareholders' equity	\$ 6,641.6	\$6,589.4
Ratio	32.5%	35.2%

The Company has a line of credit totaling \$1,500 million through a multi-currency revolving credit agreement with a group of banks, of which \$1,260 million was available as of September 30, 2009. The credit agreement expires September 2012; however, the Company has the right to request a one-year

extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. A portion of 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 Ratings. These ratings are considered investment grade. The revolving credit agreement requires a facility fee of 4.5/100ths 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.

The Company's credit agreements and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the credit agreements 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 covenants provide that the ratio of secured debt to net tangible assets be less than 10 percent. As of September 30, 2009, 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 credit agreements and indentures.

The Company's principal sources of liquidity are its cash flows provided from operating activities and borrowings either from or directly supported by its line of credit. Current events in the credit markets have adversely impacted the lending ability of many financial institutions thereby restricting the availability of credit to many companies; however, the Company's ability to borrow has not been affected by the lack of credit availability and the Company does not foresee any impediments to borrow funds at affordable interest rates in the near future. While the economic outlook for the future remains uncertain, the Company's ability to generate cash from its operations and ability to borrow directly from its line of credit or sources directly supported by its line of credit should be sufficient to support working capital needs, planned growth, benefit plan funding, dividend payments and share repurchases in the near term.

## **CRITICAL ACCOUNTING POLICIES**

**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. For the Company, a reporting unit is one level below the operating segment level. Determining whether an impairment has occurred requires the valuation of the respective reporting unit, which the Company has consistently estimated using a discounted cash flow model. The Company believes that the use of a discounted cash flow model results in the most accurate calculation of a reporting unit's fair value since the market value for a reporting unit is not readily available. The discounted cash flow analysis requires several assumptions, including future sales growth and operating margin levels, as well as assumptions regarding future industry specific market conditions. Each reporting unit regularly prepares discrete operating forecasts and uses these forecasts as the basis for the assumptions used in the discounted cash flow analyses. The Company has consistently used a discount rate commensurate with its cost of capital, adjusted for inherent business risks and has consistently used a terminal growth factor of 2.5 percent. The Company also reconciles the estimated aggregate fair value of its reporting units as derived from the discounted cash flow analyses to the Company's overall market capitalization.

The Company continually monitors its reporting units for impairment indicators and updates assumptions used in the most recent calculation of the fair value of a reporting unit as appropriate. The results of the fiscal 2009 annual goodwill impairment test performed indicated that no goodwill impairment existed. However, eight reporting units with an aggregate goodwill balance of \$731.7 million had an estimated fair value that the Company determined was not significantly in excess of their carrying value from both a quantitative and qualitative perspective. The Company compared the actual sales growth to the planned sales growth for these eight reporting units for the three months ended September 30, 2009. Five of the eight reporting units, with an aggregate goodwill balance of \$434.3 million, experienced lower sales growth than what had been planned for the first quarter of fiscal 2010. The Company currently expects

the actual fiscal 2010 sales growth for all its reporting units, including the five reporting units whose sales growth was below their planned growth in the first quarter of fiscal 2010, will be at least equal to their planned fiscal 2010 sales growth. One reporting unit, with a goodwill balance of \$1.9 million, experienced a level of sales growth in the first quarter of fiscal 2010 that was below the planned sales growth by such a magnitude that if the same level of sales growth shortfall were to continue for the balance of fiscal 2010, the current fair value of the reporting unit may fall below its carrying value. The Company will continue to closely monitor the financial performance of this reporting unit during the second quarter of fiscal 2010.

If the current economic downturn worsens or the expected recovery is significantly delayed beyond what the Company anticipates, it is possible that the estimated fair value of certain reporting units could fall below their carrying value resulting in the necessity to conduct additional goodwill impairment tests.

Long-lived assets held for use, which primarily includes finite lived intangible assets and property, plant and equipment, are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition are less than their carrying value. The long-term nature of these assets requires the estimation of their cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test. During the first three months of fiscal 2010, there were no events or circumstances that indicated that the carrying value of the Company's long-lived assets were not recoverable.

#### **NEW ACCOUNTING PRONOUNCEMENTS**

In December 2008, the FASB issued new guidance requiring detailed disclosures regarding the investment strategies, fair value measurements, and concentrations of risk of plan assets of a defined benefit pension or other postretirement plan. This guidance is effective for fiscal years ending after December 31, 2009, and the Company has not yet determined the impact it will have on the Company's retirement benefits disclosures.

#### **FORWARD-LOOKING STATEMENTS**

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

Among other factors which may affect future performance are:

- changes in business relationships with and purchases by or from major customers, suppliers or distributors, 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,
- uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals,
- 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 inflation, deflation, interest rates and credit availability.

The Company makes these statements as of the date of this disclosure, and undertakes no obligation to update them.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company enters into forward exchange contracts and costless collar contracts, comprised of puts and calls, to reduce its exposure to fluctuations in both freely convertible and non-freely convertible foreign currencies. These contracts are with major financial institutions and the risk of loss is considered remote. None of these contracts were designated as hedging instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

The contracts are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Note 11 to the Consolidated Financial Statements. The gain or loss on the adjustment to fair value is reported in Net income. The total fair value and carrying amount 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.

### **ITEM 4. CONTROLS AND PROCEDURES**

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the first quarter of fiscal 2010. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective.

There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

**ITEM 1. Legal Proceedings.** Parker ITR S.r.l. (Parker ITR), a subsidiary acquired on January 31, 2002, has been the subject of a number of lawsuits and regulatory investigations since April 27, 2007, when a grand jury in the Southern District of Florida issued a subpoena to Parker ITR and the Company requiring the production of documents, in particular documents related to communications with competitors and customers related to Parker ITR's business unit that manufactures marine hose, typically used in oil transfer. The lawsuits and investigations relate to allegations that for a period of up to 21 years, the Parker ITR business unit that manufactures and sells marine hose conspired with competitors in unreasonable restraint of trade to artificially raise, fix, maintain or stabilize prices, rig bids and allocate markets and customers for marine oil and gas hose in the United States and in other jurisdictions.

On May 15, 2007, the European Commission issued its initial Request for Information to the Company and Parker ITR. On August 2, 2007, the Japan Fair Trade Commission (JFTC) requested that Parker ITR submit a report to the JFTC on specific topics related to its investigation of marine hose suppliers. Brazilian competition authorities and Korean competition authorities commenced their investigations on November 14, 2007 and January 17, 2008, respectively. The Australian Competition and Consumer Commission (ACCC) filed a statement of claim in the Federal Court of Australia on May 29, 2009 and named Parker ITR as a respondent. Parker ITR and the Company have cooperated with all of the regulatory authorities investigating the activities of the Parker ITR business unit that manufactures and sells marine hose and continue to cooperate with the investigations that remain ongoing.

In addition, during this time period, four class action lawsuits were filed in the Southern District of Florida: *Shipyards Supply LLC v. Bridgestone Corporation, et al*, filed May 17, 2007; *Expro Gulf Limited v. Bridgestone Corporation, et al*, filed June 6, 2007; *Bayside Rubber & Products, Inc. v. Trelleborg Industrie S.A., et al*, filed June 25, 2007; *Bayside Rubber & Products, Inc. v. Caleca, et al*, filed July 12, 2007; and one in the Southern District of New York: *Weeks Marine, Inc. v. Bridgestone Corporation, et al*, filed July 27, 2007. On September 12, 2008, the plaintiffs filed an amended consolidated class action complaint. Plaintiffs have since filed another amended consolidated complaint naming prior owners of the Parker ITR business unit that manufactures and sells marine hose. Plaintiffs generally seek treble damages, a permanent injunction, attorneys' fees, and pre-judgment and post-judgment interest.

The time period for the alleged illegal activities by Parker ITR's marine hose business unit varies by jurisdiction. In the United States, the Department of Justice, which initiated the April 2007 grand jury subpoenas, alleges that the challenged activities commenced in the United States in 1999 and ended May 2, 2007. The Department of Justice's investigation is ongoing and the Company and Parker ITR continue to cooperate.

In Brazil, Parker ITR filed a procedural defense in January 2008. The Brazilian competition authorities have not yet responded to Parker ITR's filing. The Brazilian competition authorities' investigation is ongoing and the Company and Parker ITR continue to cooperate. The Brazilian authorities appear to be investigating the period from 1999 through May 2007. Because the Brazilian competition authorities have not yet responded to Parker ITR's initial filing, the potential outcome of this investigation is uncertain and will depend on the resolution of numerous issues not yet addressed at the current preliminary stage of the investigation.

In Korea, the Korean Fair Trade Commission (KFTC) submitted several questionnaires to Parker ITR in connection with their investigation of Parker ITR's marine hose bidding activities in Korea from 1999 to May 2, 2007. Parker ITR responded to each questionnaire and cooperated with the KFTC. The KFTC issued its final report on July 2, 2009, which imposed a fine of KRW 42 million (which, as of July 31, 2009, was approximately \$34 thousand) on Parker ITR. Parker ITR has paid this fine.

The JFTC completed its investigation and issued an administrative order requiring Parker ITR to take certain actions, including passing a board resolution that prohibited the challenged conduct in the future and to send letters to Parker ITR's customers and competitors in Japan stating that Parker ITR would not engage in the challenged conduct in Japan in the future. Parker ITR has complied with the JFTC administrative order.

On January 28, 2009, the European Commission announced the results of its investigation of the alleged cartel activities. As part of its decision, the European Commission found that Parker ITR infringed Article 81 of the European Commission treaty from April 1986 to May 2, 2007 and fined Parker ITR 25.61 million euros. The European Commission also determined that the Company was jointly and severally responsible for 8.32 million euros of the total fine which related to the period from January 2002, when the Company acquired Parker ITR, to May 2, 2007, when the cartel activities ceased. Parker ITR and the Company filed an appeal to the Court of First Instance of the European Communities on April 10, 2009.

Counsel for Parker ITR accepted service related to the ACCC's statement of claim and hearings have been held in the matter. The ACCC appears to be investigating conduct for the period beginning as early as 1994 through 2007. Parker ITR continues to cooperate with the ACCC.

The Company and Parker ITR have reached a settlement of the class action litigation in the United States, which is subject to court approval. On August 4, 2009, the court granted plaintiff's motions for class certification and preliminary approval of the settlement agreement entered into by the Company and Parker ITR. On February 17, 2009, Parker ITR entered into a separate agreement to settle possible private causes of action outside the United States.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) *Unregistered Sales of Equity Securities.* Not applicable.
- (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
July 1, 2009 through July 31, 2009	39,800	\$ 43.55	39,800	9,623,640
August 1, 2009 through August 31, 2009	98,953(2)	\$ 48.17	34,500	9,589,140
September 1, 2009 through September 30, 2009	31,630	\$ 50.83	31,630	9,557,510
Total:	<u>170,383</u>	<u>\$ 47.59</u>	<u>105,930</u>	<u>9,557,510</u>



- (1) On August 16, 1990, the Company publicly announced that its Board of Directors authorized the repurchase by the Company of up to 3.0 million shares of its common stock. From time to time, the Board of Directors has adjusted the number of shares authorized for repurchase under this program. On January 28, 2009, the Finance Committee of the Board of Directors of the Company approved an increase in the number of shares authorized for repurchase under this program so that, beginning on such date, the aggregate number of shares authorized for repurchase was equal to 10 million. Subject to this overall limitation, each fiscal year the Company is authorized to repurchase an amount of common shares equal to the greater of 7.5 million shares or five percent of the shares outstanding as of the end of the prior fiscal year. There is no expiration date for this program.
- (2) Includes 64,453 shares surrendered to the Company by certain executive officers in order to satisfy tax withholding obligations on restricted stock issued under the Company's Long Term Incentive Awards

**ITEM 6. Exhibits.**

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

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10(a)	Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program.
10(b)	Parker-Hannifin Corporation Volume Incentive Plan incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission (the "Commission") on August 18, 2009 (Commission File No. 1-4982).
10(c)	Parker-Hannifin Corporation Claw-Back Policy incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 18, 2009 (Commission File No. 1-4982).
10(d)	Form of 2010 Notice of Stock Options with Tandem Stock Appreciation Rights for Executive Officers.
10(e)	Form of Notice of FY10 Target Incentive Bonus Award.
10(f)	Form of Notice of FY10 Target Incentive Bonus Award under the Parker-Hannifin Corporation Performance Bonus Plan.
10(g)	Form of Notice of 2010-11-12 Long Term Incentive Award under the Parker-Hannifin Corporation Performance Bonus Plan.
10(h)	Form of Notice of RONA Bonus Award under the Parker-Hannifin Corporation Performance Bonus Plan.
10(i)	Form of 2010 Notice of Issuance of Restricted Stock for Non-Employee Directors.
12	Computation of Ratio of Earnings to Fixed Charges as of September 30, 2009.

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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.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. *

\* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the quarters ended September 30, 2009 and 2008, (ii) Consolidated Balance Sheet at September 30, 2009 and June 30, 2009, (iii) Consolidated Statement of Cash Flows for the three months ended September 30, 2009 and 2008 and (iv) Notes to Consolidated Financial Statements for the three months ended September 30, 2009.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARKER-HANNIFIN CORPORATION  
(Registrant)

/s/ Timothy K. Pistell

Timothy K. Pistell

Executive Vice President - Finance and Administration  
and Chief Financial Officer

Date: November 3, 2009

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10(a)	Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program.
10(b)	Parker-Hannifin Corporation Volume Incentive Plan incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission (the "Commission") on August 18, 2009 (Commission File No. 1-4982).
10(c)	Parker-Hannifin Corporation Claw-Back Policy incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 18, 2009 (Commission File No. 1-4982).
10(d)	Form of 2010 Notice of Stock Options with Tandem Stock Appreciation Rights for Executive Officers.
10(e)	Form of Notice of FY10 Target Incentive Bonus Award.
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PARKER-HANNIFIN CORPORATION  
AMENDED AND RESTATED  
SUPPLEMENTAL EXECUTIVE  
RETIREMENT BENEFITS PROGRAM

Adopted: 07/21/2008

Effective: 07/21/2008

[Annotated for amendment(s) adopted through 07/31/09]

WHEREAS, by instrument effective as of January 1, 1980, this supplemental executive retirement benefits program (the "Program") was established for the benefit of certain employees of Parker-Hannifin Corporation and their beneficiaries; and

WHEREAS, the Program has been amended and restated from time to time; and

WHEREAS, the Human Resources and Compensation Committee (the "Committee") of the Board of Directors of the Company desires to amend and restate the terms, provisions, and conditions of the Program;

NOW, THEREFORE, the Program is hereby amended and restated in its entirety as of July 21, 2008 and such other dates as specified herein to reflect the requirements of the American Jobs Creation Act (the "Act") with respect to the terms and conditions applicable to amounts that are accrued and vested after December 31, 2004 and subject to Section 409A of the Code. All benefits accrued and vested under the Program prior to January 1, 2005 and any additional amounts that are not subject to Section 409A of the Code (the "Grandfathered Amounts") shall continue to be subject solely to the terms of the separate Program as in effect on December 31, 2004. The Program will be administered in a manner consistent with the Act and Section 409A of the Code and any Regulations or other guidance thereunder and any provision in the Program that is inconsistent with Section 409A of the Code shall be void and without effect. Notwithstanding anything else in the Program to the contrary, nothing shall be read to preclude the Program from using any transition rules permitted under the Act, provided that no action will be permitted with respect to the Grandfathered Amounts that will subject such amounts to Section 409A of the Code.

1. Definitions

Except as otherwise required by the context, the terms used in this Program shall have the meanings hereinafter set forth.

- (a) Actuarial Equivalent or Actuarially Equivalent: An amount that is the actuarial equivalent (within the meaning of Section 1.409A-2(b)(2)(ii) of the Regulations) of a value using the actuarial assumptions specified for the relevant purpose under the Consolidated Plan.
- (b) Actuarial Value: As defined in the PRP.

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- (c) **Affiliated Group:** The Company and all entities with which the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, provided that in applying Sections 1563(a)(1), (2), and (3) of the Code for purposes of determining an Affiliated Group of corporations under Section 414(b) of the Code, the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Sections 1563(a)(1), (2), and (3) of the Code, and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, “at least 50 percent” is used instead of “at least 80 percent” each place it appears in that regulation. Such term shall be interpreted in a manner consistent with the definition of “service recipient” contained in Section 409A of the Code.
- (d) **Beneficiary:** The person or persons or entity designated as such in accordance with Article 8 of the Program.
- (e) **Board:** The Board of Directors of the Company.
- (f) **Business Combination:** A merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company’s stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise.
- (g) **Change in Control:** The occurrence of one of the following events:
- (1) A change in ownership of the Company, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the stock of the Company. Notwithstanding the foregoing, if any one person or group is considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company or a change in the effective control of the Company (within the meaning of Section 1(g)(2) of this Program). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 50% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company’s acquisition such person becomes the beneficial owner of additional stock of the Company that increases the

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percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.

- (2) A change in effective control of the Company, which occurs on either of the following dates:
- (i) The date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the Company. Notwithstanding the foregoing, if any one person or group is considered to own 30% or more of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the effective control of the Company or a change in ownership of the Company (within the meaning of Section 1(g)(1) of this Program). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 30% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.
  - (ii) The date that a majority of the Company's board of directors is replaced during any 12-month period by directors whose appointment or election was not endorsed by a majority of the members of the board prior to the date of such appointment or election.
- (3) A change in the ownership of a substantial portion of the Company's assets, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets that have a total gross fair market value equal to or more than 65% of the total gross fair market value of all the assets of the Company immediately before such acquisition or acquisitions. The gross fair market value of assets shall be determined without regard to liabilities

associated with such assets. Notwithstanding the foregoing, a transfer of assets shall not result in a change in ownership of a substantial portion of the Company's assets if such transfer is to:

- (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;
- (ii) an entity 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company;
- (iii) a person or group (within the meaning of the Regulations under Section 409A of the Code) that owns, directly or indirectly, 50% or more of the total value or voting power of the stock of the Company; or
- (iv) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly by a person or group described in Section 1(g)(3)(iii) of this Program.

Notwithstanding Sections 1(g)(1), 1(g)(2)(i) and 1(g)(3) above, the consummation of a Business Combination shall not be deemed a Change in Control if, immediately following such Business Combination: (a) more than 50% of the total voting power of the Surviving Corporation or, if applicable, the Parent Corporation of such Surviving Corporation, is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination); and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination; (b) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation); and (c) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Company's Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, an acquisition of stock of the Company described in Section 1(g)(1) or 1(g)(2)(i) above shall not be deemed to be a Change in Control by virtue of any of the following situations: (a) an acquisition by the Company or any Subsidiary; (b) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (c) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; or (d) the acquisition of stock of the Company from the Company.

- (h) Change in Control Lump Sum Payment: The lump sum payment made upon a Change in Control as calculated under Section 4.03(b).



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- (i) Change in Control Severance Agreement: The agreement between an Eligible Executive and the Company that provides for certain benefits if the Eligible Executive's employment terminates following a Corporate Change Vesting Event; provided, that in the case of a former Participant who is receiving benefits under the Program, Change in Control Severance Agreement shall mean the change in control severance agreement that was in effect between the Participant and the Company at the time of his or her retirement.
  - (j) Code: The Internal Revenue Code of 1986, as amended, or any successor statute, and regulations and guidance issued thereunder.
  - (k) Committee: The Human Resources and Compensation Committee of the Board.
  - (l) Company: Parker-Hannifin Corporation, an Ohio corporation, its corporate successors, and the surviving corporation resulting from any merger of Parker-Hannifin Corporation with any other corporation or corporations.
  - (m) Company Voting Securities: Securities of the Company eligible to vote for the election of the Board.
  - (n) Consolidated Plan: The Parker-Hannifin Consolidated Pension Plan as it currently exists and as it may subsequently be amended.
  - (o) Contingent Annuitant: In the event of a Participant's election of an annuity (other than a single life annuity) under Section 4.02(c) or the Participant's deemed election of an annuity under Section 6.02(a), the person designated by such Participant or deemed designated by such Participant as a contingent annuitant.
  - (p) Corporate Change Vesting Event: The occurrence of one of the following events:
    - (1) any "person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding Company Voting Securities; provided, however, that the event described in this paragraph shall not be deemed to be a Corporate Change Vesting Event by virtue of any of the following situations:
      - (i) an acquisition by the Company or any Subsidiary;
      - (ii) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary;

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- (iii) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities;
  - (iv) a Non-Control transaction (as defined in paragraph (3));
  - (v) as pertains to a Participant, any acquisition by the Participant or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Participant (or any entity in which the Participant or a group of persons including the Participant, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or
  - (vi) the acquisition of Company Voting Securities from the Company, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (vi) does not constitute a Corporate Change Vesting Event under this paragraph (1);
- (2) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, that any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Company's shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (2), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;
- (3) the consummation of a Business Combination, unless:
- (i) immediately following such Business Combination:
    - (A) more than 50% of the total voting power of the Surviving Corporation resulting from such Business Combination or, if applicable, the Parent Corporation of such Surviving Corporation, is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to

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such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination;

- (B) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation); and
  - (C) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "Non-Control Transaction"); or
- (ii) the Business Combination is effected by means of the acquisition of Company Voting Securities from the Company, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Corporate Change Vesting Event under this paragraph (3); or
- (4) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries.

Notwithstanding the foregoing, a Corporate Change Vesting Event shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which, by reducing the number of Company Voting Securities outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Corporate Change Vesting Event would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Corporate Change Vesting Event shall then occur.

Notwithstanding anything in this Program to the contrary, if the Participant's employment is terminated prior to a Corporate Change Vesting Event, and the Participant reasonably demonstrates that such termination was at the request of a third party who has

indicated an intention or taken steps reasonably calculated to effect a Corporate Change Vesting Event, then for all purposes of this Program, the date immediately prior to the date of such termination of employment shall be deemed to be the date of a Corporate Change Vesting Event for such Participant.

- (q) Disability: The condition whereby a Participant is:
  - (1) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or
  - (2) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under the Executive Long-Term Disability Plan or any other accident and health plan covering employees of the Company.
- (r) Executive Long-Term Disability Plan: Parker-Hannifin Corporation Executive Long-Term Disability Plan, as it may be amended from time to time.
- (s) Highest Average Three-Year Compensation: One-third of the aggregate amount of compensation paid to a Participant from the Affiliated Group during the three calendar years of the Participant's employment which were the three highest years of annual compensation, including base salary, bonuses payable under the Company's Return on Net Assets (RONA) Plan (except to the extent determined by the Committee to be extraordinary) and Target Incentive Bonus Program, any amounts which would otherwise be paid as compensation during a calendar year but which are deferred by a Participant pursuant to any qualified or nonqualified deferred compensation program sponsored by the Affiliated Group, and any amounts that would otherwise be paid as compensation during a calendar year but which are deferred under Section 125, 127, or 129 of the Code, but excluding:
  - (1) any deferred compensation received during any such year but credited under the Program to the Participant for a prior year;
  - (2) any income realized due to the exercise of stock options or stock appreciation rights;
  - (3) any payments, in cash, deferred or otherwise, payable to the Participant under the Company's Long-Term Incentive bonus program, under any extraordinary bonus arrangements, under any severance agreement (other than as may be required under Section 4.03(b)), or as an executive perquisite; and

- (4) such items as fringe benefits includible in income as compensation for federal tax purposes, moving and educational reimbursement expenses, overseas allowances received by the Participant from the Affiliated Group, and any other irregular payments.
- (t) Life Expectancy: The expected remaining lifetime (to the nearest integer) based on the Mortality Table and the age at the nearest birthday of the Participant or Recipient at the date the Lump Sum Payment or Change in Control Lump Sum Payment is made (unless otherwise specified herein). If a joint and contingent survivor annuity has been elected, then Life Expectancy shall reflect the joint Life Expectancy of the Participant or Recipient and Contingent Annuitant.
- (u) Lump Sum Payment: The Lump Sum Payment provided in Section 4.02 with the amount determined as set forth in Section 4.03(a).
- (v) Mortality Table: For Participants who entered the Program before July 1, 2006, eighty percent (80%) of the 1983 Group Annuity Mortality factor (male only); for Participants who entered the Program after June 30, 2006, the “applicable mortality table” prescribed under Section 417(e) of the Code for qualified plans.
- (w) Normal Retirement Date: As defined in the Consolidated Plan.
- (x) Parent Corporation: The ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of a Surviving Corporation.
- (y) Participant: An employee of the Company designated to participate in the Program pursuant to Article 2 who has timely submitted a Participation Agreement to the Company, while so employed; provided, however, that any employee of the Company who, as of the date of a Corporate Change Vesting Event, has entered into a Change in Control Severance Agreement with the Company shall automatically be a Participant in the Plan.
- (z) Participation Agreement: An employee’s written or electronic agreement to participate in the Program and, to the extent permitted under Section 409A of the Code, initial election of the form of payment of retirement benefits pursuant to Section 4.02(a).
- (aa) Profit Sharing Account Balance: As defined in the Consolidated Plan.
- (bb) Program: The Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program set forth herein as it may subsequently be amended.
- (cc) PRP: The Parker-Hannifin Corporation Amended and Restated Pension Restoration Plan as it currently exists and as it may subsequently be amended.

- (dd) **Qualified Plan Death Benefit:** The death benefit payable to the surviving spouse under the Consolidated Plan (and/or any death benefit payable to a surviving spouse under any other defined benefit arrangement described in Sections 3.03(c), (d), or (h)), multiplied by a factor equal to 1 plus (0.025 multiplied by each year of Service less than 35 but equal to or greater than 15). Thus, the factor will range from 1.5 at 15 years of Service to 1 at 35 or more years of Service, as illustrated by the following examples:

<u>Years of Service</u>	<u>Factor</u>
35 or more	1.000
30	1.125
25	1.250
20	1.375
15	1.500

- (ee) **Recipient:** A retiree, Contingent Annuitant, or Beneficiary, who is currently receiving benefits or is entitled to receive benefits under the Program.
- (ff) **Regulations:** The regulations issued under Section 409A of the Code. Reference to any section of the Regulations shall be read to include any amendment or revision of such Regulation.
- (gg) **RIA Balance:** The total contributions to the Participant's Retirement Income Account under the Savings Plan (or any successor thereto) and the Participant's Nonqualified Retirement Income Account under the Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan (or any successor thereto), plus hypothetical earnings/losses calculated as if the accounts had been invested from the time of the first contribution 60% in the securities represented in the Standard & Poor's 500 Index (in the proportions represented therein) and 40% in the securities represented in the Lehman Brothers Intermediate Government/Corporate Bond Fund Index (in the proportions represented therein).
- (hh) **Savings Plan:** The Parker Retirement Savings Plan as it currently exists and as it may subsequently be amended.
- (ii) **Service:** Employment as an employee by any member of the Affiliated Group, as well as employment by a corporation, trade or business, that is now part of the Affiliated Group at a time prior to its becoming part of the Affiliated Group, but in such case only if and to the extent that the Committee shall so direct at any time prior to retirement. For purposes of determining a Participant's eligibility to receive a benefit hereunder, Service shall include any additional years credited to a Participant under Section 2.06.
- (jj) **Specified Employee:** A person designated from time to time as such by the

Committee pursuant to Section 409A(a)(2)(B)(i) of the Code and the Company's policy for determining specified employees.

- (kk) Specified Rate: The average of the daily closing On-The-Run Long Bond rates as displayed by the Bloomberg Professional Financial System at screen "GT 30 GVT" (or any successor screen), for the second full calendar month preceding the month in which a Participant's Termination of Employment occurs; provided that while 30-Year Treasury Bonds are issued by the U.S. Treasury, the Specified Rate shall be the monthly average annual yield of 30-Year United States Treasury Bonds for constant maturities as published by the Federal Reserve Bank during the month in which a Participant's Termination of Employment occurs and in effect on the first day of the month following such Participant's Termination of Employment. Notwithstanding the foregoing, for purposes of calculating a Change in Control Lump Sum Payment, the Specified Rate shall be the interest rate for immediate annuities of the Pension Benefit Guaranty Corporation (PBGC) in effect on the date of the Change in Control as set forth in Appendix B to Part 2619 of 29 Code of Federal Regulations, or any other successor or similar rate.
- (ll) Subsidiary: Any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity.
- (mm) Surviving Corporation: The corporation resulting from a Business Combination.
- (nn) Termination of Employment: A Participant's "separation from service" with the Affiliated Group, within the meaning of Section 1.409A-1(h) of the Regulations; provided, that in applying Section 1.409A-1(h)(ii) of the Regulations, a separation from service shall be deemed to occur if the Company and the Participant reasonably anticipate that the level of bona fide services the Participant will perform for the Affiliated Group after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Participant for the Affiliated Group (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Affiliated Group if the Participant has been providing services to the Affiliated Group for less than 36 months). In the event of a disposition of assets by the Company to an unrelated person, the Company reserves the discretion to specify (in accordance with Section 1.409A-1(h)(4) of the Regulations) whether a Participant, who would otherwise experience a separation from service with the Affiliated Group as part of the disposition of assets, will be considered to experience a separation from service for purposes of Section 1.409A-1(h) of the Regulations.

2. Participation

2.01 Participants. The Participants in the Program shall be:

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- (a) such officers and other key executives of the Company as shall be designated as Participants from time to time by the Committee, and who have submitted to the Company, within 30 days after such designation, a Participation Agreement evidencing agreement to the terms of the Program, including, but not limited to, the non-competition provisions of Article 7; and
  - (b) upon a Corporate Change Vesting Event, those individuals who have entered into a Change in Control Severance Agreement with the Company as of the date of such Corporate Change Vesting Event.

2.02 Designation of Participants. An individual may be designated a Participant by action of the Committee or in a written employment agreement approved by the Committee. Participation of each individual designated as a Participant shall be subject to the terms, conditions, and limitations set forth in the Program and to such other terms, conditions and limitations as the Committee may, in its discretion, impose upon the participation of any such individual at the time the individual is designated a Participant in the Program.

2.03 Continuation of Participation. Subject only to the provisions of Section 2.04 and Article 7, an individual designated as a Participant shall continue to be a Participant for the purpose of eligibility to receive the supplemental retirement benefits provided by the Program and his or her participation in the Program shall not be terminated; provided, however, that a Participant who terminates employment at a time when he or she is not eligible for a benefit under Article 3 shall cease to be a Participant in the Program.

2.04 Effect of Voluntary Termination of Employment. To be eligible for supplemental retirement benefits under the Program a Participant shall not voluntarily Terminate Employment with the Company without the consent of the Committee for a period, not exceeding 60 calendar months, set by the Committee at the time he is designated a Participant. If a Participant voluntarily Terminates his or her Employment within such period, his or her participation in the Program shall terminate, he or she shall cease to be a Participant and (subject to Section 3.02) shall forfeit all benefits under the Program. Notwithstanding the foregoing, for purposes of this Section 2.04, in no event shall an exercise by a Participant of his or her right to Terminate his or her Employment for "Good Reason" (as defined under any Change in Control Severance Agreement between the Participant and the Company) following a Corporate Change Vesting Event be deemed to be a voluntary Termination of Employment with the Company.

2.05 13-Month Service Requirement. Notwithstanding any other provision of this Program and commencing with employees designated as Participants on and after January 1, 2009, a Participant shall not be eligible for supplemental retirement benefits under the Program unless the Participant remains employed by the Affiliated Group until the date that is 13 months after the date upon which he is designated as a Participant; provided, however, that the 13-month service requirement of this Section 2.05 shall be deemed to be satisfied upon the earlier of the Participant's death, Disability, or the occurrence of a Change in Control.

2.06 Additional Age and Service Credit and Compensation Amount. Notwithstanding any other provision of this Program, for purposes of determining the amount of any benefits



payable under Sections 3.03, 3.04, 4.02(e), 4.03, 4.04, 5.01 and 6.02 of this Program to any Participant who has entered into a Change in Control Severance Agreement with the Company, upon the date of a Corporate Change Vesting Event,

- (a) such Participant (but not a Recipient) shall be treated as having been employed, for purposes of determining age and service under this Program, for the lesser of:
  - (1) the duration of the "Termination Period", if any, under the Participant's Change in Control Severance Agreement; or
  - (2) the period of time remaining until Normal Retirement Date; and
- (b) such Participant's Highest Average Three-Year Compensation shall be the greater of:
  - (1) the amount that would otherwise be taken into account in determining the Participant's benefit under the Program; or
  - (2) the lump sum severance payment that would be made under Section 2(a)(ii) of the Participant's (but not the Recipient's) Change in Control Severance Agreement (as if he had been terminated immediately following the Corporate Change Vesting Event) divided by the multiple used under such section of the Change in Control Severance Agreement to determine severance pay.

3. Supplemental Retirement Benefits

3.01 Eligibility At or After Normal Retirement Date. Any provision of Section 2.04 to the contrary notwithstanding, provided that the 13-month service requirement of Section 2.05 is satisfied, any Participant with at least 120 [60 as of 04/22/09] calendar months of Service who Terminates his or her Employment with the Affiliated Group on or after his or her Normal Retirement Date shall be eligible for a monthly supplemental retirement benefit computed as set forth in Section 3.03.

3.02 Eligibility Prior to Normal Retirement Date. Provided that the 13-month service requirement of Section 2.05 is satisfied, any Participant with at least 120 [60 as of 04/22/09] calendar months of Service:

- (a) who Terminates his or her Employment with the Affiliated Group with the consent of the Committee after attainment of age 55; or
- (b) who is employed at the time of a Corporate Change Vesting Event; or
- (c) whose Employment with the Affiliated Group is Terminated by the Company for reasons other than for cause (as determined solely by the Committee) after attainment of age 55 but prior to the expiration of the requisite period of

employment established by the Committee with respect to the Participant pursuant to Section 2.04; or

- (d) who Terminates the Participant's Employment with the Affiliated Group prior to his or her Normal Retirement Date due to Disability or with entitlement to any benefits under the Executive Long-Term Disability Plan; or
- (e) who Terminates his or her Employment with the Affiliated Group after attainment of age 60 (and after completion of the requisite period of employment established by the Committee with respect to him or her pursuant to Section 2.04) but prior to his or her Normal Retirement Date; shall be eligible for a monthly supplemental retirement benefit as set forth in Section 3.04.

3.03 Amount of Normal Retirement Supplemental Benefit. The monthly supplemental retirement benefit payable to an eligible Participant at Normal Retirement Date shall be an amount equal to 1/12<sup>th</sup> of 55% of the Participant's Highest Average Three-Year Compensation, reduced by all of the following that are applicable:

- (a) in the case of a Participant who does not have at least 15 years of Service at the time of his or her retirement, .3055 percent for each calendar month the Participant's Service is less than 15 years;
- (b) the monthly single life Actuarial Equivalent of any benefit to which the Participant is entitled under the Consolidated Plan, including the single life monthly equivalent attributable to the Participant's Profit-Sharing Account Balance, determined as if the Profit-Sharing Account Balance had remained in the Consolidated Plan until retirement, whether or not such Profit-Sharing Account Balance has been transferred to the Savings Plan;
- (c) the monthly single life Actuarial Equivalent of any benefit to which the Participant is entitled under any other tax-qualified or other tax-favored defined benefit plan of the Company and which is attributable to contributions of the Company, unless benefit service for employment on which such benefit is based is credited to the Participant under the Consolidated Plan;
- (d) the monthly single life Actuarial Equivalent of any benefit to which the Participant is entitled under the PRP;
- (e) the monthly single life Actuarial Equivalent of any benefit attributable to the Participant's RIA Balance;
- (f) the monthly single life Actuarial Equivalent of any benefit attributable to any non-US defined benefit or defined contribution program where the program is the primary retirement program of the Participant and where the benefit is attributable solely to contributions of the Company and its Subsidiaries;

- (g) 50 percent of the monthly primary Social Security benefit, or 100 percent of the portion of any other state-provided retirement benefits which is attributable to contributions by the Company and its Subsidiaries, to which the Participant is entitled or would be entitled as of the earliest date following the Participant's Termination of Employment for which Social Security benefits or other state-provided retirement benefits would be payable (whether or not Social Security benefits or other state-provided retirement benefits are actually paid to the Participant at such time), with such reduction to begin at the earliest date after retirement for which Social Security benefits or other state-provided retirement benefits would be payable to the Participant;
- (h) the monthly single life Actuarial Equivalent of any benefit which the Participant is entitled to receive from any previous employer, provided that a contract between the Participant and the Company grants the Participant service for service with the previous employer and the contract states the amount to be offset; and
- (i) the excess, if any, of:
  - (1) the sum of:
    - (i) the monthly benefit determined after application of the foregoing provisions of this Section 3.03; and
    - (ii) the monthly long-term disability benefits to which the Participant is entitled under the Executive Disability Plan, over
  - (2) an amount equal to  $1/12^{\text{th}}$  of 66  $2/3\%$  of the Participant's compensation (as defined in the Executive Disability Plan).

Notwithstanding the foregoing provisions of this Section 3.03, if the Participant's PRP monthly benefit will commence to be paid 5 years later than the Participant's monthly supplemental retirement benefit under this Program in accordance with Section 3.3(b)(iii) of the PRP, then the amount of the Participant's monthly supplemental retirement benefit shall be the monthly single life actuarial equivalent (determined using the assumptions specified in this Program) of the excess of:

- (a) the present value (using the Specified Rate and Mortality Table in effect on the first day of the month following the Participant's Termination of Employment) of the amount of the monthly benefit determined under the foregoing provisions of this Section 3.03, disregarding Section 3.03(d), over
- (b) the Actuarial Value of the monthly benefit described in Section 3.03(d), discounted (using the Specified Rate in effect on the first day of the month following the Participant's Termination of Employment) from the scheduled date

of commencement of payment of the PRP benefit to the scheduled date of commencement of the monthly supplemental retirement benefit.

3.04 Amount of Early Retirement Supplemental Benefit. The monthly supplemental retirement benefit payable to a Participant who retires prior to Normal Retirement Date shall be an amount equal to 1/12th of 55 percent of the Highest Average Three-Year Compensation, reduced by all of the following that are applicable:

- (a) in the case of a Participant who does not have at least 15 years of Service at the time of his or her retirement, .3055 percent for each month that his or her Service is less than 15 years;
- (b) after applying Section 3.04(a) if applicable, .1515 percent for each of the first 60 months by which commencement of the benefit precedes Normal Retirement Date, and by .3030 percent for each additional month by which commencement of the benefit precedes Normal Retirement Date; provided, however, that if the Participant has at least 30 years of Service, and entitlement to payment is a result of a Change in Control, the .1515 shall be reduced to .07575, and the .3030 shall be reduced to .1515;
- (c) any amounts described in Sections 3.03(b)-(h); and
- (d) the excess, if any, of:
  - (1) the sum of:
    - (i) the monthly benefit determined after application of the foregoing provisions of this Section 3.04; and
    - (ii) the monthly long-term and short-term disability benefits to which the Participant is entitled under the Executive Disability Plan, over
  - (2) an amount equal to 1/12<sup>th</sup> of 66 2/3% of the Participant's compensation (as defined in the Executive Disability Plan).

Notwithstanding the foregoing provisions of this Section 3.04, if the Participant's PRP monthly benefit will commence to be paid 5 years later than the Participant's monthly supplemental retirement benefit under this Program in accordance with Section 3.3(b)(iii) of the PRP, then the amount of the Participant's monthly supplemental retirement benefit shall be the monthly single life actuarial equivalent (determined using the assumptions specified in this Program) of the excess of:

- (a) the present value (using the Specified Rate and Mortality Table in effect on the first day of the month following the Participant's Termination of Employment) of the amount of the monthly benefit determined under the foregoing provisions of this Section 3.04, disregarding Section 3.03(d), over

- (b) the Actuarial Value of the monthly benefit described in Section 3.03(d), discounted (using the Specified Rate in effect on the first day of the month following the Participant's Termination of Employment) from the scheduled date of commencement of payment of the PRP benefit to the scheduled date of commencement of the monthly supplemental retirement benefit.

3.05 Gross-Up Payment. Anything in this Program notwithstanding, in the event it shall be determined that any payment, distribution or acceleration of vesting of any benefit hereunder would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Participant with respect to such excise tax, then the Participant shall be entitled to receive an additional payment calculated as set forth in the Change in Control Severance Agreement with respect to such benefit hereunder; provided, however, that there shall be no duplication of such additional payment under this Program and the Change in Control Severance Agreement, and provided further that any such payment shall be made by the end of the calendar year after the Participant pays the excise tax (and interest or penalties incurred), or as otherwise required by Section 409A of the Code.

#### 4. Payment of Benefits

4.01 Commencement of Benefits. Subject to Sections 4.02 (a) through (f), supplemental retirement benefits shall be paid or commence to be paid to an eligible Participant as of the first day of the month following Termination of Employment and if applicable terminating with the month in which the death of such Participant occurs; provided, however, that supplemental retirement benefits shall be paid or commence to be paid to a Specified Employee on the first day of the seventh month following the Participant's Termination of Employment with the present value of a Lump Sum Payment referred to in Section 4.02(a) determined based on the Participant's age on the first day of the seventh month following the Participant's Termination of Employment and the actuarial assumptions in effect on the first day of the month following the Participant's Termination of Employment and in the case of payments made in the form of an annuity shall include any payments that would have been made between the Participant's Termination of Employment and the actual commencement of payment if the Participant had not been a Specified Employee. Notwithstanding the foregoing, to the extent required by Section 4.02(b), payment of a Participant's supplemental retirement benefit shall commence or be made on the date that is five years from the date payment would otherwise commence or be made under this Section 4.01.

#### 4.02 Payments Under Certain Situations

- (a) Initial Election of Payment Form. To the extent permitted by Section 1.409A-2(a)(5) of the Regulations, within 30 days of the time an individual is designated as a Participant under this Program, he may elect, on his or her initial Participation Agreement, to receive payment of his or her supplemental retirement benefit under this Program in the form of a single Lump Sum Payment, or in the form of a single life annuity. In the event that a Participant fails to make a valid

election, the Participant's supplemental retirement benefit under this Program shall be paid in the form of a single life annuity.

- (b) One-Time Change by Participant. In addition to any election pursuant to Section 4.02(c) or 4.02(d), a Participant shall be allowed a one-time election to change the form of payment of his or her supplemental retirement benefit; provided, however, that:
  - (1) any such election shall not be effective for at least 12 months following the date made; and
  - (2) as a result of any such election, payment shall be delayed for 5 years from the date the payment was scheduled to commence or to be made (taking into account any delay in payment or commencement of payment under Section 4.01 on account of a Participant's status as a Specified Employee).
- (c) Changes Between Actuarially Equivalent Forms of Annuity. A Participant may elect at any time prior to Termination of Employment to convert his or her supplemental retirement benefit payable as an annuity to any of the Actuarially Equivalent forms of annuity offered under the Consolidated Plan.
- (d) Transitional Rule. Notwithstanding any other elections under this Program and only to the extent permitted by the Company and transitional rules issued under Section 409A of the Code, through such date as specified by the Committee pursuant to transitional guidance issued under Section 409A of the Code, a Participant may make one or more elections as to time and form of payment of his or her supplemental retirement benefit under this Program, provided that:
  - (1) any such election(s) made during 2006 shall be available only for amounts that are payable after the 2006 calendar year and cannot accelerate any payment into the 2006 calendar year;
  - (2) any such election(s) made during 2007 shall be available only for amounts that are payable after the 2007 calendar year and cannot accelerate any payment into the 2007 calendar year; and
  - (3) any such election(s) made during 2008 shall be available only for amounts that are payable after the 2008 calendar year and cannot accelerate any payment into the 2008 calendar year. Any election(s) must be made by the date specified by the Committee consistent with guidance pursuant to Section 409A of the Code.
- (e) Payment Upon a Change in Control. 30 days after a Change in Control, in lieu of any other payments due with respect to benefits earned under the Program to the date of the Change in Control, each Participant and each Recipient shall receive a Change in Control Lump Sum Payment, as calculated under Section 4.03(b).

- (f) Special Rule Applicable to Specified Employees. If a Specified Employee dies after Termination of Employment but prior to commencement of benefits, the Specified Employee's Beneficiary shall receive a payment as of the first of the month following the Specified Employee's date of death equal to the aggregate of the monthly payments that would have been made to the Specified Employee in accordance with Section 4.01 but substituting the Specified Employee's date of death for the actual commencement of payment; provided however that if the Specified Employee's supplemental retirement benefit is payable in the form of a lump sum, such amount shall be calculated in accordance with Section 4.03 but substituting the Specified Employee's date of death for the first day of the seventh month following the Participant's Termination of Employment. Any additional amounts payable to the Specified Employee's Beneficiary shall be determined as of the Specified Employee's date of death in accordance with the form of payment applicable to the Specified Employee as of the Specified Employee's Termination of Employment.

4.03 Determination of the Lump Sum Payment

- (a) If the Participant is a Specified Employee immediately prior to Termination of Employment, the Lump Sum Payment referred to in Section 4.02(a) shall be equal to the sum of:
- (1) the aggregate monthly benefits the Participant would have received under the Single Life Annuity form of payment prior to the first day of the seventh month following the Participant's Termination of Employment if the Participant were not a Specified Employee; plus
  - (2) the excess of:
    - (i) the present value (using the Specified Rate and Mortality Table in effect on the first day of the month following the Participant's Termination of Employment), determined as of the first day of the seventh month following the Participant's Termination of Employment, of the monthly benefit determined under Section 3.03 or 3.04, as applicable, disregarding Section 3.03(d) and the monthly "add-on" benefit as set forth on Addendum XV of the Consolidated Plan (if applicable) included in Section 3.03(b), over
    - (ii) the sum of:
      - (A) the present value (as defined in the Consolidated Plan) of the "add-on" benefit set forth on Addendum XV of the Consolidated Plan if applicable) included in Section 3.03(b), plus

- (B) the Actuarial Value of the monthly benefit described in Section 3.03(d), provided that if the Participant's PRP benefit will be paid 5 years later than the Participant's SERP benefit in accordance with Section 3.3(b)(iii) of the PRP, the amount referred to in (B) above shall equal the lump sum Actuarial Value of the monthly benefit described in Section 3.03(d), discounted (using the Specified Rate in effect on the first day of the month following the Participant's Termination of Employment) from the scheduled date of payment of such benefit to the scheduled date of payment of the SERP Lump Sum Payment.

If the Participant is not a Specified Employee immediately prior to Termination of Employment, the Lump Sum Payment referred to in Section 4.02(a) shall be equal to the excess of: (1) the present value (using the Specified Rate and Mortality Table in effect on the first day of the month following the Participant's Termination of Employment) of the monthly benefit determined under Section 3.03 or 3.04, as applicable, disregarding Section 3.03(d) and the monthly "add-on" benefit as set forth on Addendum XV of the Consolidated Plan (if applicable) included in Section 3.03(b), over (2) the sum of (i) the present value (as defined in the Consolidated Plan) of the "add-on" benefit as set forth in Addendum XV of the Consolidated Plan (if applicable) included in Section 3.03(b) plus (ii) the Actuarial Value of the monthly benefit described in Section 3.03(d), provided that if the Participant's PRP benefit will be paid 5 years later than the Participant's SERP benefit in accordance with Section 3.3(b)(iii) of the PRP, the amount referred to in (ii) above shall equal the lump sum Actuarial Value of the monthly benefit described in Section 3.03(d), discounted (using the Specified Rate in effect on the first day of the month following the Participant's Termination of Employment) from the scheduled date of payment of such benefit to the scheduled date of payment of the SERP Lump Sum Payment.

For purposes of this Section 4.03(a), present value for a Participant who entered the Program before July 1, 2006 shall be determined assuming that the Participant lives the number of years equal to his or her Life Expectancy on the date of his or her Termination of Employment (or, in the case of a Specified Employee, on the first day of the seventh month following the Participant's Termination of Employment). For purposes of this Section 4.03(a), Actuarial Value shall be determined as provided under the PRP.

- (b) The Change in Control Lump Sum Payment referred to in Section 4.02(c) shall be equal to the amount determined under Section 4.03(a) using the following assumptions:
- (1) present value is determined using the Specified Rate and Mortality Table;



- (2) for purposes of determining present value for a Participant who entered the Program before July 1, 2006, the Participant (or, if applicable, Recipient) lives the number of years equal to his or her Life Expectancy (calculated as of the date which includes any additional Service credited hereunder);
- (3) Actuarial Value shall be determined as provided under the PRP; and
- (4) with respect to any benefit to be deducted as an offset as described in Section 3.03(b) through (i), the Participant terminated employment with the Company on the date of the Change in Control and began to receive such benefits at the earliest date thereafter permitted under the applicable plan, agreement or statute.

4.04 Certain Matters Following a Lump Sum Payment

- (a) A Participant who has received a Change in Control Lump Sum Payment pursuant to Section 4.02(e) shall thereafter:
  - (1) while in the employ of the Company, continue to accrue benefits under the Program; and
  - (2) be eligible for further benefits under Section 4.01 or 4.02. The amount of such benefit shall be determined by:
    - (i) calculating the benefit that would be payable to the Participant if there had been no previous Change in Control Lump Sum Payment;
    - (ii) determining the present lump sum value of such benefit, using the Specified Rate and the Mortality Table and, for a Participant who entered the Program before July 1, 2006, assuming the Participant lives the number of years equal to his or her Life Expectancy on the date of the Participant's Termination of Employment;
    - (iii) determining the present lump sum value of the Change in Control Lump Sum Payment, assuming the Change in Control Lump Sum Payment had earned interest at the average Specified Rate in effect from the time of payment of the Change in Control Lump Sum Payment until the date of Termination of Employment;
    - (iv) reducing the amount determined in (ii) by the amount determined in (iii); and
    - (v) if applicable, converting the amount determined in (iv) to an Actuarially Equivalent single life only form of payment.

5. Disability Benefits

5.01 Amount. If a Participant suffers a Disability, the Company shall pay the supplemental retirement benefit described in Section 3.02 to the Participant; provided, however, that the provisions of Article 4 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of benefits pursuant to this Article 5.

5.02 Form of Disability Benefits. A Participant's disability benefit pursuant to this Article 5 shall be paid in the form of a single life annuity; provided, however, that if the Participant is married to a person who has been the Participant's spouse for at least one year immediately prior to the date of the Participant's Disability, the Participant's disability benefit shall be paid in the form of a joint and 100% survivor annuity.

5.03 Time of Payment of Disability Benefits. Payment of a Participant's disability benefit shall commence as of the first of the month following the Participant's Disability.

6. Death Benefits

6.01 Eligibility. If a Participant dies after completing 120 [60 as of 04/22/09] calendar months of Service (without regard to the requirements of Section 2.04) but prior to the Participant's Termination of Employment, his or her Beneficiary shall be eligible for a benefit under this Article 6.

6.02 Benefit Amount.

(a) The amount of the benefit payable under this Article 6 to a deceased Participant's Beneficiary shall be equal to the present value (using the Specified Rate and Mortality Table in effect on the first day of the month following the Participant's death) of the total monthly payments the Beneficiary would have received had the Participant retired on the day before his or her death after having effectively elected to receive payment in the form of a Joint and 100% Survivor Annuity under the Program, with his or her Beneficiary as Contingent Annuitant under such option; provided, that:

- (1) in lieu of the offset for the Participant's primary Social Security benefit under Section 3.03(g), the benefit to the Beneficiary shall be offset by 50% of the primary or survivor Social Security benefit to which the Beneficiary is entitled at the earliest date as of which such payments become payable; and
- (2) in lieu of the offset for the Consolidated Plan benefit set forth in Section 3.03(b) (and/or any other retirement benefit under any defined benefit arrangement described in Sections 3.03(c), (d), or (h)), the benefit to the Beneficiary shall be offset by the Qualified Plan Death Benefit. For purposes of this Section 6.02(a), present value for the Beneficiary of a

deceased Participant who entered the Program before July 1, 2006 shall be determined assuming that the Beneficiary lives the number of years equal to his or her Life Expectancy on the date of death of the Participant.

- (b) If the estate is the death beneficiary as a result of the Participant not having a Beneficiary, the Participant's estate shall receive a lump sum payment equal to the present value (using the Specified Rate and Mortality Table in effect on the first day of the month following the Participant's death) of the total monthly payments that would have been paid to the Participant assuming the Participant had not died but rather:
- (1) retired on the day before the date of his or her death (or the first day of the month following the time he would have reached age 55, if later);
  - (2) elected a 10-Year Certain Annuity; and
  - (3) received 120 monthly payments. For purposes of this Section 6.02(b), present value for the estate of a deceased Participant who entered the Program before July 1, 2006 shall be determined assuming that the Participant had lived the number of years equal to his or her Life Expectancy on the date of his or her death.
- (c) If the Participant dies before reaching the age that is ten years prior to the Participant's Normal Retirement Date, then the monthly payments used to determine the death benefit under Section 6.02(a) or Section 6.02(b), as applicable, shall be further reduced by .3030 for each month that the Participant's death preceded his or her Normal Retirement Date.

6.03 Benefit Payments. The benefit under this Article 6 shall be paid to the deceased Participant's Beneficiary, or, if no such Beneficiary, to the Participant's estate, in a single lump sum payment as of the first of the month following the date of the Participant's death, and the provisions of Article 4 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of benefits pursuant to this Article 6.

#### 7. Non-Competition

[7.01 Condition of Payment. Payment of supplemental retirement benefits under the Program shall be subject to the condition that the Participant or retiree-Recipient shall not have engaged in competition (as defined in Section 7.02) with the Company at any time prior to the date of such payment; ~~provided~~, however, that this Section 7.01 shall not apply to a Participant following his or her Termination of Employment if such Termination of Employment occurs after the date of a Corporate Change Vesting Event that occurs at the time the Participant is actively employed by the Affiliated Group.] [Superseded by 07/23/09 amendment, below].

[as of 07/23/09]:

7.01 Condition of Payment. In consideration of payment of supplemental retirement benefits under the Program, whether in the form of a lump-sum payment or installment payments, the Participant or retiree Recipient shall not engage in competition (as defined in Section 7.02) with the Company at any time during the five (5) year period after the date of Termination of Employment with the Company; provided, however, that this Section 7.01 shall not apply to a Participant following his or her Termination of Employment if such Termination of Employment occurs after the date of a Corporate Change Vesting Event that occurs at the time the Participant is actively employed by the Affiliated Group.

7.02 Competition. Competition for purposes of the Program shall mean assuming an ownership position or a consulting, management, employee or director position with a business engaged in the manufacture, processing, purchase or distribution of products of the type manufactured, processed or distributed by the Affiliated Group; provided, however, that in no event shall ownership of less than two percent of the outstanding capital stock entitled to vote for the election of directors of a corporation with a class of equity securities held of record by more than 500 persons in itself be deemed Competition; and provided further, that all of the following shall have taken place:

- (a) the Secretary of the Company shall have given written notice to the Participant or retiree-Recipient that, in the opinion of the Committee, the Participant or retiree-Recipient is engaged in Competition within the meaning of the foregoing provisions of this Section 7.02, specifying the details;
- (b) the Participant or retiree-Recipient shall have been given a reasonable opportunity, upon receipt of such notice, to appear before and to be heard by the Committee with respect to his or her views regarding the Committee's opinion that the Participant or retiree-Recipient engaged in Competition;
- (c) following any hearing pursuant to Section 7.02(b), the Secretary of the Company shall have given written notice to the Participant or retiree-Recipient that the Committee determined that the Participant or retiree-Recipient is engaged in Competition; and
- (d) the Participant or retiree-Recipient shall neither have ceased to engage in such Competition within thirty days from his or her receipt of notice of such determination nor diligently taken all reasonable steps to that end during such thirty-day period and thereafter.

8. Beneficiary Designation

The Participant shall have the right, at any time, to designate any person or persons as Beneficiary (both primary and contingent) to whom payment under the Plan shall be made in the event of the Participant's death. The Beneficiary designation shall be effective when it is

submitted in writing to the Committee during the Participant's lifetime on a form prescribed by the Committee.

The submission of a new Beneficiary designation shall cancel all prior Beneficiary designations. Any finalized divorce or marriage of a Participant subsequent to the date of a Beneficiary designation shall revoke such designation, unless in the case of divorce the previous spouse was not designated as Beneficiary and unless in the case of marriage the Participant's new spouse has previously been designated as Beneficiary. The spouse of a married Participant shall consent to any designation of a Beneficiary other than the spouse, and the spouse's consent shall be witnessed by a notary public.

If a Participant fails to designate a Beneficiary as provided above, or if the Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new designation, or if every person designated as Beneficiary predeceases the Participant or dies prior to complete distribution of the Participant's benefits, then the Committee shall direct the distribution of such benefits to the estate of the last to die of the Participant and the Beneficiaries.

9. General Provisions

9.01 Claims Procedure. The Company shall notify a Participant in writing, within ninety (90) days after his or her written application for benefits, of his or her eligibility or noneligibility for benefits under the Program. If the Company determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth:

- (a) the specific reasons for such denial;
- (b) a specific reference to the provisions of the Program on which the denial is based;
- (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed; and
- (d) an explanation of the Program's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have the claim reviewed. If the Company determines that there are special circumstances requiring additional time to make a decision, the Company shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional ninety-day period.

9.02 Review Procedure. If a Participant is determined by the Company not to be eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, the Participant shall have the opportunity to have such claim reviewed by the Company by filing a petition for review with the Company within sixty (60) days after receipt of the notice issued by the Company. The petition shall state the specific reasons which the Participant believes entitle him or her to benefits or to greater or different benefits. Within sixty (60) days after receipt by the Company of the petition, the Company shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Company in writing, and the

Participant (or counsel) shall have the right to review the pertinent documents. The Company shall notify the Participant of its decision in writing within the sixty-day period, stating specifically the basis of its decision, written in a manner calculated to be understood by the Participant and the specific provisions of the Program on which the decision is based. If the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Company, but notice of this deferral shall be given to the Participant. In the event of the death of the Participant, the same procedures shall apply to the Participant's Beneficiary.

9.03 ERISA Plan. The Program is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for "a select group of management or highly compensated employees" within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of Title I of ERISA.

9.04 Trust. The Company shall be responsible for the payment of all benefits under the Program. At its discretion, the Company may establish one or more grantor trusts for the purpose of providing for payment of benefits under the Program. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Company's creditors. Benefits paid to a Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Program.

9.05 Rights of Participants. Except as expressly provided in any grantor trust agreement established by the Company:

- (a) no Participant or Recipient shall have any right, title, or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations under the Program;
- (b) nothing contained in the Program shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, Recipient or any other person;
- (c) to the extent that any person acquires a right to receive payments from the Company under the Program, such right shall be no greater than the right of an unsecured general creditor of the Company; and
- (d) all payments to be made under the Program shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of amounts payable under the Program.

9.06 Administration. The Committee shall be responsible for the general administration of the Program and for carrying out the provisions thereof. Any act authorized, permitted or required to be taken by the Company under the Program may be taken by action of the Committee. Subject to the provisions of Section 9.01 relating to denial of claims and claims review procedure, any action taken by the Committee which is authorized, permitted or required

under the Program shall be final and binding upon the Company, all persons who have or who claim an interest under the Program, and all third parties dealing with the Company.

9.07 Program Non-Contractual. Nothing herein contained shall be construed as a commitment or agreement on the part of any person to continue his or her employment with the Company, and nothing herein contained shall be construed as a commitment on the part of the Company to continue the employment or the rate of compensation of any such person for any period, and all employees of the Company shall remain subject to discharge to the same extent as if the Program had never been put into effect.

9.08 Non-Alienation of Retirement Rights or Benefits. No right or benefit under the Program shall at any time be subject in any manner to alienation or encumbrances. If any person shall attempt to, or shall, alienate or in any way encumber his or her rights or benefits under the Program, or any part thereof, or if by reason of his or her bankruptcy or other event happening at any time any such benefits would otherwise be received by anyone else or would not be enjoyed by him or her, his or her interest in all such benefits shall automatically terminate and the same, at the discretion of the Company, shall be held or applied to or for the benefit of such person, his or her spouse, children, or other dependents as the Company may select.

9.09 Payment of Benefits to Others. If any person to whom a retirement benefit is payable is unable to care for his or her affairs because of illness or accident, any payment due (unless prior claim therefor shall have been made by a duly qualified guardian or legal representative) may be paid to the spouse, parent, brother, or sister, or any other individual deemed by the Company to be maintaining or responsible for the maintenance of such person. Any payment made in accordance with the provisions of this Section 9.09 shall be a complete discharge of any liability of the Program with respect to the retirement benefit so paid.

9.10 Notices. All notices provided for by the Program shall be in writing and shall be sufficiently given if and when mailed in the continental United States by registered or certified mail or personally delivered to the party entitled thereto at the address stated below or to such changed address as the addressee may have given by a similar notice:

To the Company:                   Attention: Secretary  
  Parker-Hannifin Corporation  
  6035 Parkland Blvd.  
  Cleveland, Ohio 44124-4141

To the Participant:               address of residence

Any such notice delivered in person shall be deemed to have been received on the date of delivery.

9.11 Amendment, Modification, Termination. The Program may at any time be terminated, or at any time or from time to time be amended or otherwise modified, prospectively, by the Board of Directors of the Company; provided, however, that no such termination, amendment or modification of the Program shall operate to:

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- (a) reduce or terminate the benefit of a Participant participating in the Program at the time of any such termination, amendment, or modification;
  - (b) terminate the participation of a Participant participating in the Program at the time of any such termination, amendment, or modification;
  - (c) increase the eligibility requirements applicable to a Participant participating in the Program at the time of any such termination, amendment or modification;
  - (d) terminate the Program, or reduce or terminate any benefit, or terminate the participation or any rights or benefits, after the occurrence of a Corporate Change Vesting Event, with respect to a Participant or Recipient who was a Participant or Recipient, or became a Participant or Recipient, at the time of the occurrence of such Corporate Change Vesting Event; or
  - (e) permit an acceleration of time of payment of a Participant's benefit under the Program, other than:
    - (1) as necessary to comply with a certificate of divestiture, as defined in Section 1043(b)(2) of the Code;
    - (2) as necessary to pay Federal Insurance Contribution ("FICA") taxes and any resulting federal, state, local or foreign income taxes attributable to amounts deferred under the Program, subject to the limitations of Section 1.409A-3(j)(4)(vi) of the Regulations;
    - (3) in the event the arrangement fails to meet the requirements of Section 409A of the Code with respect to one or more Participants, and then only in such amount as is included in income of such Participant(s) as a result of such failure;
    - (4) due to a termination of the Program that meets the requirements of Section 1.409A-3(j)(4)(ix) of the Regulations; or
    - (5) as otherwise may be permitted under Section 409A of the Code.

9.12 Applicable Law. Except to the extent preempted by ERISA or the Code, the laws of the State of Ohio shall govern the Program and any disputes arising thereunder.

9.13 Gender, Singular and Plural. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.



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9.14 Headings. All headings are for convenience only and shall not be used in interpreting any text to which they relate.

9.15 Off-sets for Foreign Currency Benefits To the extent that a Participant's supplemental retirement benefit under this Program is subject to reduction or off-set under the provisions of Section 3.03(a) through (i) or Section 3.04(a) through (d) for amounts that are to be paid over the Participant's life expectancy and which are denominated in a currency other than U.S. Dollars, then for purposes of determining the supplemental retirement benefit payable under this Program, such reduction or off-set amounts shall be converted to the U.S. Dollar equivalent based on the Foreign Exchange Rate. For purposes of this Program, the Foreign Exchange Rate means the fixed exchange rate derived from the two-point average of the Bid/Asked spread of the market implied forward exchange rates as calculated by Bloomberg's FRD function, or its successor function on the same or comparable financial information system, determined on a weighted average basis for the period beginning at the date of Separation from Service of the Participant and ending on a date estimated to be the Participant's date of death based upon the Mortality Table.



TO: [Executive Name]

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

The Human Resources and Compensation Committee of the Board of Directors ("Committee") of Parker-Hannifin Corporation ("Company") has awarded you the following stock options ("Options") with tandem stock appreciation rights ("SARs") under the Company's 2003 Stock Incentive Plan ("Plan"):

Grant Date:	<b>XX/XX/XXXX</b>
No. of Shares to Which Options/SARs Apply:	
Grant Price:	<b>\$XX.XX</b>
Expiration Date:	<b>XX/XX/XXXX at 4:00 PM Eastern Time</b>

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

The grant price ("Grant Price") is equal to the Fair Market Value of one share of common stock in the company ("Share") on the Grant Date, which is the reported closing price on the New York Stock Exchange-Composite Transactions on the Grant Date.

Each Option entitles you to purchase one Share at the Grant Price. Each SAR entitles you to receive the increase in value between the Grant Price and the Fair Market Value at exercise ("Appreciation") of one Share in accordance with the terms of the Plan and rules of the Committee in effect at the time of exercise. Upon exercise of a SAR, the Appreciation will be paid to you in Shares having an equal value. The calculation of Appreciation is described in more detail below. The Company may elect, in its sole discretion, to pay the Appreciation in cash in lieu of Shares.

Your Award will expire at the date and time indicated above as Expiration Date unless an earlier lapse date ("Lapse Date") applies due to a change in your employment status, as provided in this Award.

**Calculation of SAR Appreciation.**

Appreciation is calculated by subtracting the Grant Price from the Fair Market Value of the Shares at exercise and multiplying the result by the number of SARs exercised. The number of Shares issued on exercise will be that number derived from dividing the Appreciation by the Fair Market Value at exercise per Share. Only whole Shares are issued, and the value of any

fractional Share will be credited to your federal income tax withholding, if applicable. You will not receive cash for the fractional portion eliminated by rounding.

**Vesting Schedule.**

Except as provided below, while you are an active full-time employee, this Award will vest in one-third increments (rounded to the nearest whole share) on each anniversary date of the grant, becoming fully vested on the third anniversary.

In the event of a Change in Control of the Company (as defined in the Plan), all of the Options/SARs granted in this Award will immediately vest and become exercisable.

If your continuous full-time employment is terminated prior to a scheduled vesting date as a result of your death, long-term disability, or retirement under the applicable retirement plan or Company policy, all unvested Options/SARs will continue to vest in accordance with the Vesting Schedule above.

Upon vesting, your SARs are exercisable in accordance with the terms of this Award and the Plan only while you are a full-time employee of the Company or one of its subsidiaries at any time until the Expiration Date or Lapse Date, as the case may be. Vested Options/SARs may also be exercised upon termination of your continuous full-time employment in accordance with the specific status change rules set forth below.

**Effect of Status Changes.**

If your continuous full-time employment is terminated prior to a vesting date for any reason other than death, long-term disability, or retirement under the applicable retirement plan or Company policy, then all unvested Options/SARs as of the date of termination will lapse and cannot be exercised.

If your continuous full-time employment is terminated for any reason (including death, long-term disability, or retirement), then vested Options/SARs are exercisable any time before the applicable Lapse Date shown below.

**Status Change – If your continuous full-time employment terminates due to:**

- (A) Long-Term Disability or Retirement
- (B) Death
- (C) Any Other Termination

**Lapse Date – Then the Options/SARs under this Award will lapse on:**

- The Expiration Date.
- The earlier of: (i) Two (2) years after your death or (ii) the Expiration Date.
- The earlier of: (i) Three (3) months from the date of termination or (ii) the Expiration Date.

**Exercise and Settlement Procedures.**

To exercise all or any portion of your vested Options/SARs, you must follow the exercise procedures in effect at the time of exercise. The exercise price may be paid in cash or, in the case of net settled exercises, by tendering Common Shares of the Company that you would

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otherwise receive upon exercise. If you elect to conduct a net settled exercise, you are instructing the Company to retain Common Shares from the Option to satisfy the exercise price and to cancel the corresponding number of shares in the underlying Option. The Common Shares tendered will be valued at the market price for the Common Shares on the New York Stock Exchange at the time of exercise.

Upon exercise of your Options/SARs, the Company will instruct its stock transfer agent to issue the net number of Shares you are entitled to receive. If any portion of the Award is exercised as SARs, the Company may, in its sole discretion, elect to settle the exercise in cash in lieu of Shares.

**Automatic Self-Exercise Prior to Expiration.**

Any vested Options/SARs under this Award that have a net Appreciation (after all applicable withholding taxes) but remain unexercised on the business day preceding the Expiration Date will automatically self-exercise on the Expiration Date to prevent forfeiture.

**Compensation and Payment of Income Withholding Taxes**

If you are a U.S. citizen, you do not recognize taxable income upon receipt of this Award. In certain foreign countries, however, you may be taxed, and you should review the taxation with the local country Financial Service Manager. In the year in which you exercise Options or SARs, the difference between the Grant Price and the Fair Market Value at exercise of the Options or the Appreciation on the SARs will be reported as additional compensation and will be subject to applicable income and employment taxes. Parker will report the additional income on your W-2 and will observe all applicable tax withholding requirements at the time of exercise. For U.S. citizens, withholding may include federal, state and local income tax, FICA, Medicare, or other statutorily-required taxes ("Taxes"). All Taxes must be paid at the time of exercise by surrendering a portion of the Shares received in settlement except where transferred Options are exercised by a transferee, in which case the Taxes must be paid in cash by you. In the event the Company elects to settle the exercise in cash, the Taxes due upon exercise will be deducted from the cash settlement prior to payment.

**Tax Withholding Calculation.**

The Company will withhold for Taxes the number of Shares having an aggregate value based on the Fair Market Value at exercise at least equal to the amount required to be withheld by law. If the value of the withheld Shares exceeds the withholding tax amount due, the excess (which will be less than the value of one Share) will be credited to federal income tax withholding.

**Reloadability.**

If you exercise your Award as Options and tender shares to satisfy the Option cost, you will receive one (1) restorative or "reload" grant of SARs ("Reload SARs") effective on the exercise date equivalent to the number of Shares surrendered to satisfy the Option cost. The Reload SARs will have a Grant Price equal to the Fair Market Value of the Shares on the exercise date as set forth by the Plan and the rules of the Committee. Currently, the Fair Market

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Value of the Reload SARs is the reported closing price of the Shares on the New York Stock Exchange—Composite Transactions on the exercise date. Except as otherwise set forth in this Award, no Reload SARs may be exercised (a) prior to the completion of one (1) year of continuous full-time employment following the exercise date; and (b) unless you have retained the Shares resulting from the Option exercise (less a sufficient number of Shares to satisfy withholding tax obligations) for a period of one (1) year from the exercise date. All other terms and conditions of the Reload SARs will be identical to those initially granted in this Award, including, without limitation, the original Expiration Date.

**Transferability.**

Your Options/SARs are not transferable or assignable during your life except to (a) your spouse, children or their lineal descendants (“Immediate Family Members”), (b) one or more trusts for the benefit of you and/or one or more of your Immediate Family Members; or (c) a partnership or limited liability company in which you or your Immediate Family Members are the only partners or members; provided, however, in each case that you (i) submit a completed Stock Option/SAR Assignment Form to the Stock Incentive Plan Administrator or comply with other procedures in effect at the time of the transfer and (ii) do not receive any consideration for the transfer. All transferred Options/SARs remain subject to the terms and conditions of this Award and the Plan (except that such transferred Options/SARs are not transferable by the transferee during life).

**Detrimental Activity.**

If you engage in any Detrimental Activity (as defined in the Plan), the Committee may at any time and in its sole discretion cancel and revoke all or any portion of your unexercised Options/SARs or require repayment to the Company of any compensation received (in the form of cash or Shares) from your exercise of any portion of the Options/SARs. The Plan defines Detrimental Activity as any activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Company or a subsidiary, including without limitation (i) rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Company; (ii) disclosure to anyone outside of the Company, or the use for any purpose other than the Company’s business, of confidential information or material related to the Company, whether acquired during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) violation of the Company’s Code of Ethics.

**Consent to Use Data.**

By acknowledging the terms of this Award, you hereby consent to the cross-border collection, use and disclosure by the Company and its subsidiaries of certain personal data required solely for the purpose of the administration and exercise of this Award. Disclosure of personal data shall be limited to your name, gender, address, telephone number, date of birth, date of hire, position, grade, supervisor, country of residence and country of employment. All personal data shall be treated as highly confidential and shall not be used for any purpose other than Stock Incentive Plan administration.

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**Notification of Change in Personal Data.**

If your address or contact information changes while any portion of this Award remains unexercised, the Company must be notified in order to administer this grant. Notification of such changes should be provided to the Company as follows:

- **Domestic Participants** (employees who are on the U.S. or Canadian payroll system):
  - Active employees: Update your address and contact information directly through your Personal Profile section in the Employee Self-Service site.
  - Retired, terminated, or family member of deceased participant: Contact the Benefits Service Center at 1-800-992-5564.
- **International Participants** (employees who are not on U.S. or Canadian payroll system):
  - Active, retired, terminated, or family member of deceased participant: Contact your country Human Resources Manager.

**Prospectus Notification.**

A Memorandum describing the terms of the 2003 Stock Incentive Program which governs this Award (“Prospectus”) and the most recent Annual Report and Proxy Statement issued by Parker-Hannifin Corporation are available for your review on the UBS One Source Web site. You have the right to receive a printed copy of the Prospectus upon request by either calling the Stock Incentive Plan Administrator at 216-896-2950 or by sending your written request to Parker’s Legal Department.

**All Terms Subject to the Plan.**

This Award and all rights under this Award are at all times subject to all other terms, conditions and provisions of the Plan (and any rules or procedures adopted under the Plan by the Committee). All capitalized terms shall have the meaning ascribed to such terms in the Plan. In the event of a conflict between the terms of the Plan and this Award, the terms of the Plan control.

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

**Your Action Items. Please take the following actions, as appropriate:**

- **Accept** the terms and conditions of this notice of Award by clicking on the “Accept” button below.

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- **Inform the Company of any change in address or contact information.** Refer, if necessary, to the section titled "Notification of Change in Personal Data" for instructions on how to provide notification to the Company.

Sincerely yours,

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



TO: [Executive Name]

[Notification Date]

**NOTICE OF FY10  
TARGET INCENTIVE BONUS AWARD**

On [HRCC Approval Date], the Human Resources and Compensation Committee of the Board of Directors (“Committee”) of Parker-Hannifin Corporation (“Company”) granted you a Target Incentive Bonus Award (“Award”) in the target amount of \$[Target Award] (“Target Amount”). Your Award is subject to the following terms and conditions:

- Your payout under this Award will be based upon the Company’s actual operating cash flow less capital expenditures (free cash flow) expressed as a percent of the Company’s sales (“FCF Margin”) for fiscal year [Fiscal Year] (“Performance Period”). Discretionary pension contributions by the Company are not included in the calculation of the FCF Margin. You will receive a payout equal to 100% of your Target Amount if the Company achieves an FCF Margin of 6.5% for the Performance Period. If the Company’s FCF Margin is above or below 6.5% for the Performance Period, your payout will be a percentage of the Target Amount or the interpolated percentage between percentages in the table below. The minimum threshold for any payout under the Award is 4% FCF Margin during the Performance Period and the maximum is 9% FCF Margin.

FY[ ]										
FCF Margin:	< 4.00%	4.00%	4.83%	5.67%	6.50%	7.13%	7.75%	8.38%	9.00%	
Payout %:	0%	25%	50%	75%	100%	125%	150%	175%	200%	

- The payout earned under the Award will be paid to you in installments in March, June and August of [Fiscal Year].
- If your employment is terminated for cause, you will forfeit your Award. If your employment is terminated for any other reason, such as death, disability or retirement, during the Performance Period or you otherwise have not served in an eligible position during the full Performance Period, you will be entitled to receive a portion of the Payout based on the number of full months served during the Performance Period.



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4. Your payout will be paid in cash, or you may elect to receive the Payout in the form of a credit to your Executive Deferral Plan (“EDP”) account in accordance with the terms of the EDP and rules established by the Committee or the Company, as the case may be, by filing a timely election under the EDP.
  5. Your payout will be made following certification of the calculation of the FCF Margin by the Committee at the end of the Performance Period. The Committee may reduce your payout in its sole discretion.

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

Sincerely yours,

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

Receipt Acknowledged and Agreed:

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[Executive Name]

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



TO: [Executive Name]

[Notification Date]

**NOTICE OF FY10  
TARGET INCENTIVE BONUS AWARD  
UNDER PERFORMANCE BONUS PLAN**

On [HRCC Approval Date], the Human Resources and Compensation Committee of the Board of Directors (“Committee”) of Parker-Hannifin Corporation (“Company”) granted you a Target Incentive Bonus Award (“Award”) under the Company’s Performance Bonus Plan (“Plan”). Payments made under the Plan are intended to qualify as “performance-based compensation” for purposes of Section 162(m) of the Internal Revenue Code of 1986 and Section 1.162-27 of the Treasury Regulations promulgated thereunder. Your Award is in the target amount of \$[Target Award] (“Target Amount”), subject to the following terms and conditions:

- Your payout under this Award will be based upon the Company’s actual operating cash flow less capital expenditures (free cash flow) expressed as a percent of the Company’s sales (“FCF Margin”) for fiscal year [Fiscal Year] (“Performance Period”). Discretionary pension contributions by the Company are not included in the calculation of the FCF Margin. You will receive a payout equal to 100% of your Target Amount if the Company achieves an FCF Margin of 6.5% for the Performance Period. If the Company’s FCF Margin is above or below 6.5% for the Performance Period, your payout will be a percentage of the Target Amount or the interpolated percentage between percentages in the table below. The minimum threshold for any payout under the Award is 4% FCF Margin during the Performance Period and the maximum is 9% FCF Margin.

FY[ ]										
FCF Margin:	< 4.00%	4.00%	4.83%	5.67%	6.50%	7.13%	7.75%	8.38%	9.00%	
Payout %:	0%	25%	50%	75%	100%	125%	150%	175%	200%	

- If you retire (at or after age 60, or earlier with the consent of the Committee), die or become disabled during the Performance Period or otherwise have not served in an eligible position during the full Performance Period, you will be entitled to receive a portion of the Payout based on the number of full months served during the Performance Period. Termination of your employment during the Performance Period for any reason other than death, disability or retirement at or after age 60, or earlier with the consent of the Committee, will result in forfeiture of your Award.

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3. Your payout will be paid in cash, or you may elect to receive the payout in the form of a credit to your Executive Deferral Plan (“EDP”) account in accordance with the terms of the EDP and rules established by the Committee or the Company, as the case may be, by filing a timely election under the EDP.
  4. Your payout will be made following certification of the calculation of the FCF Margin by the Committee at the end of the Performance Period. The Committee may reduce your payout in its sole discretion.
  5. Your Award is subject to all terms, conditions and provisions of the Plan. In the event of any conflict between the terms of the Bonus Plan and the Award, the Plan will control.

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

Sincerely yours,

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

Receipt Acknowledged and Agreed:

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[Executive Name]

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



TO: [Executive Name]

**NOTICE OF 2010-11-12  
LONG TERM INCENTIVE PERFORMANCE (LTIP) AWARD  
UNDER PERFORMANCE BONUS PLAN**

The Human Resources and Compensation Committee of the Board of Directors (“Committee”) of Parker-Hannifin Corporation (“Company”) has granted you a Long Term Incentive Performance (“LTIP”) Award (“Award”) under the Company’s Performance Bonus Plan (the “Plan”) as follows:

<b>Grant Date:</b>	[Grant Date]
<b>Performance Period:</b>	2010-2011-2012 (stated in fiscal years)
<b>Target Shares Granted:</b>	[Target Award]
<b>Performance Multiplier:</b>	As determined at the end of the Performance Period as provided below.

Your Award provides an incentive compensation opportunity based on the Company’s long-term performance against its peers, as provided below.

Target Shares Granted

Your Target Shares Granted is based on your grade level at the initial Grant Date and your expected service in your position through the end of the Performance Period. In the event of a change in your grade level, or termination of your employment with the Company, during the Performance Period, your Target Shares Granted will be adjusted in accordance with pre-established Committee policy to reflect a new Target Shares amount based on your new grade level or termination as the case may be.

Company Performance & Shares Attained

The number of Shares actually earned upon completion of the Performance Period (“Shares Attained”) will be based on your Target Shares Granted (adjusted as provided herein) and the applicable payout percentage (“Performance Multiplier”), in accordance with the Company’s performance in comparison to the Company’s peer group as listed on the attached **Exhibit A** (“Peers” or “Peer Group”) for the following weighted performance measures (“Performance Measures”) during the Performance Period:

<u>Performance Measure</u>	<u>Weight</u>
Revenue Growth	20%
Earnings Per Share (EPS) Growth	40%
Average Return on Invested Capital (ROIC)	40%

Each Performance Measure is calculated for each of the Company and the Peers by reference to sales and income from continuing operations and is computed under, or reconciled to, U.S. Generally Accepted Accounting Principals (“U.S. GAAP”). The number of Shares earned at the end of the Performance Period is determined based on a sliding scale with the maximum payout at 200% of Target and the minimum payout at 0% of Target.

To earn 100% of your Target Shares allocable to each Weighted Performance Measure, the Company must rank in the 50<sup>th</sup> percentile among the Peers. Percentile rankings above or below the 50<sup>th</sup> percentile for the Performance Period among the Peers will result in a lesser or greater number of Shares Attained for that Performance Measure in accordance with the following table, or the interpolated percentage between the percentages in the table below:

Percentile Ranking:	£35	42.5	50	62.5	75
Performance Multiplier:	0%	50%	100%	150%	200%

#### Peer Group Adjustments

Certain events affecting Peer group performance data will result in changes to the Peer Group, as follows:

- (1) Peers that do not publish stand-alone financial results for the entire Performance Period as a result of going private, acquisition, or any similar transaction will be removed from the Peer Group for all comparisons.
- (2) Peers that merge during the Performance Period will remain in the Peer Group only if they are the surviving entity of the merger.
- (3) Peers that have publicly announced the need to restate financial statements for any portion of the Performance Period, but have not yet published such restatement, will be removed from the Peer Group for any Performance Measure in which its published result is better than the Company’s result.
- (4) Peers that have not published financial statements for the entire Performance Period due to the publicly announced need to restate financial statements will be removed from the Peer Group for all comparisons.
- (5) Peers that have a negative EPS for the base year of a Performance Period will continue to be included in the Peer Group rankings but will be placed at the bottom position(s) for the Annual EPS Growth Performance Measure.
- (6) Peers that have a negative EPS for the final year of a Performance Period will continue to be included in the Peer Group rankings and will be ranked in accordance with their relative change in EPS from the base year.
- (7) Peers that publish financial statements for any portion of the Performance Period under International Financial Reporting Standards (“IFRS”) without reconciliation to U.S. GAAP will continue to be included in the Peer Group rankings, but will be placed at the bottom positions for all Performance Measures.

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#### Payout of Your Award

Payments made pursuant to the Plan and this Award are intended to qualify as “performance-based compensation” for purposes of Section 162(m) of the Internal Revenue Code of 1986 and Section 1.162-27 of the Treasury Regulations.

All amounts earned under your Award will be paid in the form of common shares of stock in the Company (“Shares”) to be issued as of the date the Committee certifies performance results and authorizes payment of your Award. Subject to approval by shareholders of the Company of the Parker-Hannifin Corporation 2009 Omnibus Stock Incentive Plan (“2009 SIP”), any Shares issued pursuant to this Award shall be issued under, and subject to, the 2009 SIP and the terms and conditions of this Award as an “Unrestricted Stock Award” (as defined in the 2009 SIP). Absent the approval by shareholders of the Company of the 2009 Plan, any Shares issued pursuant to this Award shall be issued under, and subject to, the Parker-Hannifin Corporation 2003 Stock Incentive Plan (“2003 SIP”).

Except as otherwise provided below, you will receive notification of the number of Shares Attained from this Award within 30 days following certification by the Committee of the calculation of the Performance Measures, and you will receive the Shares Attained after the end of the Performance Period, but in no event later than two and one-half months from the end of the Performance Period. The Committee may not increase your Shares Attained above the number determined under the terms of this Award. However, the Committee may, in its discretion, reduce the number of Shares Attained.

#### Additional Terms & Conditions

1. Restricted Stock. If the Shares Attained are paid to you in the form of Restricted Stock under the 2003 SIP, the Shares will be subject to the terms and conditions imposed by the Committee upon issuance.
2. Change in Employment Status. If your employment is terminated for cause, you will forfeit your Award. If your employment is terminated for any other reason, such as death, disability or retirement, during the Performance Period or you otherwise have not served in an eligible position during the full Performance Period, you will be entitled to receive a portion of the payout based on the number of full months served during the Performance Period.
3. Change in Control of the Company. In the event of a “Change in Control” (as defined in the 2009 SIP or 2003 SIP, as applicable) of the Company during the Performance Period, you will receive full payment of the Award within fifteen (15) days following the date of the Change in Control in Shares equal to the greater of (a) the Target Shares Granted; or (b) the number of Shares that would have been issued as Shares Attained had the Company’s percentile ranking among the Peers for each of the Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the date of the Change in Control continued throughout the Performance Period at the same level. Notwithstanding the foregoing, in the event a Change in Control is deemed to occur during the Performance Period under the 2009 SIP or 2003 SIP, as applicable, as a result of your termination of employment prior to a Change in Control at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (“Anticipatory Termination”), you will receive full payment of the Award within 30 days following certification of the calculation of the

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Performance Measures by the Committee in Shares equal to Shares Attained based on Company performance through the end of the Performance Period; provided, however, that if a Change in Control occurs after such Anticipatory Termination and prior to such payment, you will receive full payment of the Award within fifteen (15) days following such Change in Control in Shares equal to the greater of (a) the Target Shares Granted, (b) the number of Shares that would have been issued as Shares Attained had the Company's percentile ranking among the Peers for each of the Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the date of the Anticipatory Termination continued throughout the Performance Period at the same level, or (c) the number of Shares that would have been issued as Shares Attained had the Company's percentile ranking among the Peers for each of the Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the date of the subsequent Change in Control continued throughout the Performance Period at the same level.

4. Terms of Other Plans Govern. Your Award is subject to all terms, conditions and provisions of the Plan, the 2009 SIP or 2003 SIP, as applicable, and this Award. In the event of any conflict between their respective terms, conditions and provisions the Plan shall control.

Please acknowledge receipt of this Award, and indicate your agreement with its terms, by clicking on the "OK" button below.

Sincerely yours,

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

[For acceptance on the UBS One Source Website.]

**LONG TERM INCENTIVE PERFORMANCE (LTIP) AWARD  
UNDER PERFORMANCE BONUS PLAN**

**EXHIBIT A**  
**PEER GROUP**

Caterpillar Inc.  
Cooper Industries, Ltd.  
Cummins Inc.  
Danaher Corporation  
Deere & Company  
Dover Corporation  
Eaton Corporation  
Emerson Electric Co.  
Flowserve Corporation  
Goodrich Corporation  
Honeywell International Inc.  
Illinois Tool Works Inc.  
Ingersoll-Rand Company Limited  
ITT Industries, Inc.  
Johnson Controls, Inc.  
Pall Corporation  
Rockwell Automation, Inc.  
SPX Corporation  
Textron Inc.





TO: [Executive Name]

[Notification Date]

**NOTICE OF [Fiscal Year]  
RETURN ON NET ASSETS ("RONA") BONUS AWARD  
UNDER PERFORMANCE BONUS PLAN**

On [HRCC Approval Date], the Human Resources and Compensation Committee of the Board of Directors ("Committee") of Parker-Hannifin Corporation ("Company") granted you a RONA Bonus Award for fiscal year [Fiscal Year] under the Company's Performance Bonus Plan ("Plan"). RONA bonuses paid under the Plan are intended to qualify as "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code of 1986 and Section 1.162-27 of the Treasury Regulations.

Your maximum RONA Bonus Award is in the amount of [PBP Shares] RONA Shares and is subject to the terms of the Plan and the following terms and conditions:

1. Each RONA Share represents a percentage of your Base Pay earned during [Fiscal Year] ("RONA %").
2. The RONA % is determined as follows:

a) **Earnings ÷ Average Assets = Return on Assets (ROA)**

b) *If ROA is ≤ 35%: ROA x 0.1786 = RONA%*

*—or—*

*if ROA is > 35%: 6.25% + ((ROA—35%) x 0.08928) = RONA%*

where:

Earnings = the Company's Segment Operating Income for [Fiscal Year];

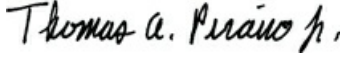
Average Assets = the average of the Company's RONA Assets at the beginning of [Fiscal Year] and at the end of each of the fiscal quarters of [Fiscal Year]; and

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

3. Your RONA Bonus will be paid following certification of the calculation of the RONA% and payout by the Committee at the end of the Performance Period. The Committee may reduce the amount of your RONA Bonus in its sole discretion. Historically, the Committee has adjusted payouts to reach an appropriate level commensurate with final amounts paid to other executive Officers under the general RONA program.
4. Your RONA Bonus earned for [Fiscal Year] under this Award is calculated as follows:  
**(Base Pay for [Fiscal Year] x RONA %) x # RONA Shares = [Fiscal Year] RONA Bonus payout**
5. If your employment with the Company is terminated for any reason other than retirement (at or after age 60, or earlier with the consent of the Committee), death or long-term disability during [Fiscal Year], you will forfeit your RONA Bonus Award.
6. Your RONA Bonus will be paid in cash, or you may elect to receive it in the form of a credit to your Executive Deferral Plan ("EDP") account in accordance with the terms of the EDP and rules established by the Committee or the Company, as the case may be by filing a timely election under the EDP.
7. In the event of any conflict between the terms of the Plan and your Award, the Plan will control.

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

Sincerely yours,



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

Receipt Acknowledged and Agreed:

\_\_\_\_\_  
[Executive Name]

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



Parker Hannifin Corporation  
6035 Parkland Boulevard  
Cleveland, OH 44124-4141

TO: [Director's Name]

#### NOTICE OF ISSUANCE OF RESTRICTED STOCK

On August 12, 2009, the Human Resources and Compensation Committee of the Board of Directors ("Committee") of Parker-Hannifin Corporation ("Company") authorized a grant to you of restricted shares of Parker-Hannifin Corporation Common Stock ("Shares") pursuant to the 2004 Non-Employee Directors' Stock Incentive Plan ("Plan") and subject to the following terms and conditions:

1. Shares will be issued as of October 1, 2009.
2. Ownership of the Shares vest (i.e., become unrestricted) on September 30, 2010.
3. The Shares cannot be sold or otherwise transferred or assigned until they vest.
4. Except as otherwise provided in this Notice, in the event you cease to be Director of the Company for any reason prior to September 30, 2010, including, without limitation, your retirement, death, disability, voluntary or involuntary removal from the Board of Directors or a "change in control" of the Company (as defined in the Plan), a pro rata portion of your unvested Shares will vest immediately, based upon the ratio of the number of months you actually served as a Director to the total number of months in the vesting period, and all remaining unvested Shares will be forfeited.
5. Certificates representing the Shares will not be issued during the vesting period. Rather, the Shares will be issued in an uncertificated book entry format at the transfer agent.
6. Shares will earn non-refundable dividends during the vesting period, payable directly to you.
7. Upon the earlier of vesting or your eligibility for retirement, the value of the Shares will become taxable income to you. In the event the Company is liable to remit withholding taxes on your behalf, you will be obligated to immediately pay the Company for all withholding taxes payable by the Company at such time.
8. If you engage in any Detrimental Activity (as defined in the Plan), the Committee may at any time revoke this award by either canceling the Shares (whether unvested or vested) or, if vested Shares have been disposed of, by requiring repayment to the Company in cash of the fair market value (as defined in the Plan) of the liquidated shares as of the

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date the Committee revokes the award. The Company may set off any repayment in cancelled Shares or in cash against any amounts that may be owed by the Company to you, whether as director fees, deferred compensation, or in the form of any other benefit for any other reason. Detrimental Activity, as defined in the Plan, means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Company or a subsidiary, including, without limitation, (i) rendering services to an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Company; (ii) disclosing to anyone outside of the Company, or using for any purpose other than the Company's business, confidential information or material related to the Company, whether acquired by you during or after your service as a Director of the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) violation of the Company's Code of Ethics.

9. By acknowledging of the terms and conditions of this award, you hereby consent to the cross-border collection, use and disclosure by the Company of certain personal data required solely for the purpose of the administration and exercise of this grant. Disclosure of personal data shall be limited to your name, gender, address, telephone number, date of birth, position, and country of residence. All personal data shall be treated as highly confidential and shall not be used for any purpose other than Plan administration.
10. To the extent not otherwise specified above, the issuance of the Shares is subject to the terms and conditions of the Plan.

Please confirm your receipt of this Notice and indicate your acknowledgment and agreement to the terms specified herein by clicking on the "Accept" button below.

Sincerely yours,

Donald E. Washkewicz  
Chairman of the Board, Chief Executive Officer and President

*[An electronic version of this restricted stock grant letter will be viewable on the UBS One Source Web site on October 8, 2009 for your on-line acceptance.]*

**PARKER-HANNIFIN CORPORATION**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
(In thousands)

	Three months Ended September 30,		Fiscal Year Ended June 30,				
	2009	2008	2009	2008	2007	2006	2005
<b><u>EARNINGS</u></b>							
Income from continuing operations before income taxes and noncontrolling interests	\$114,029	\$358,388	\$683,083	\$1,334,572	\$1,166,463	\$ 901,490	\$740,127
<b>Adjustments:</b>							
Interest on indebtedness, exclusive of capitalized interest and interest on ESOP loan guarantee	24,989	27,496	109,911	96,572	80,053	71,100	62,482
Amortization of deferred loan costs	734	583	2,143	1,793	1,511	1,888	1,457
Portion of rents representative of interest factor	10,460	8,845	41,839	35,378	29,000	25,609	21,507
(Income) loss of equity investees	(73)	(182)	(1,529)	2,596	1,059	(161)	(1,935)
Amortization of previously capitalized interest	65	65	262	278	282	304	280
Income as adjusted	<u>\$150,204</u>	<u>\$395,195</u>	<u>\$835,709</u>	<u>\$1,471,189</u>	<u>\$1,278,368</u>	<u>\$1,000,230</u>	<u>\$823,918</u>
<b><u>FIXED CHARGES</u></b>							
Interest on indebtedness, exclusive of capitalized interest and interest on ESOP loan guarantee	\$ 24,989	\$ 27,496	\$109,911	\$ 96,572	\$ 80,053	\$ 71,100	\$ 62,482
Capitalized interest					436	178	
Amortization of deferred loan costs	734	583	2,143	1,793	1,511	1,888	1,457
Portion of rents representative of interest factor	10,460	8,845	41,839	35,378	29,000	25,609	21,507
Fixed charges	<u>\$ 36,183</u>	<u>\$ 36,924</u>	<u>\$153,893</u>	<u>\$ 133,743</u>	<u>\$ 111,000</u>	<u>\$ 98,775</u>	<u>\$ 85,446</u>
<b><u>RATIO OF EARNINGS TO FIXED CHARGES</u></b>							
	4.15x	10.70x	5.43x	11.00x	11.52x	10.13x	9.64x

## CERTIFICATIONS

I, Donald E. Washkewicz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: November 3, 2009

/s/ Donald E. Washkewicz

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Donald E. Washkewicz  
Chief Executive Officer

## CERTIFICATIONS

I, Timothy K. Pistell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: November 3, 2009

/s/ Timothy K. Pistell

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Timothy K. Pistell

Executive Vice President – Finance and  
Administration and Chief Financial Officer

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 Quarterly Report on Form 10-Q of Parker-Hannifin Corporation (the "Company") for the quarterly period ended September 30, 2009, 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: November 3, 2009

/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