

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 December 31, 1993

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)

34-0451060  
(IRS Employer  
Identification No.)

17325 Euclid Avenue, Cleveland, Ohio  
(Address of principal executive offices)

44112  
(Zip Code)

Registrant's telephone number, including area code: (216) 531-3000

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

Yes  . No .

Number of Common Shares outstanding at December 31, 1993 48,696,276

The Exhibit Index appears on sequential page 12.

PARKER-HANNIFIN CORPORATION

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

PART I - FINANCIAL INFORMATION

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	1993	1992	1993	1992
Net sales	\$ 592,226	\$ 588,676	\$ 1,199,637	\$ 1,196,850
Cost of sales	485,145	475,860	979,199	968,702
Gross profit	107,081	112,816	220,438	228,148
Selling, general and administrative expenses	70,070	75,009	142,840	152,426
Provision for business restructuring activities	5,044	3,013	6,705	3,945
Income from operations	31,967	34,794	70,893	71,777
Other income (deductions):				
Interest expense	(10,206)	(11,837)	(21,817)	(23,232)
Interest and other income, net	1,222	1,103	3,171	1,790
	(8,984)	(10,734)	(18,646)	(21,442)
Income before income taxes and extraordinary item	22,983	24,060	52,247	50,335
Income taxes	8,922	9,384	22,121	19,631
Income before extraordinary item	14,061	14,676	30,126	30,704
Extraordinary item - extinguishment of debt	(4,207)		(4,207)	
Net income	\$ 9,854	\$ 14,676	\$ 25,919	\$ 30,704
Earnings per share before extraordinary item	\$ .29	\$ .30	\$ .62	\$ .63
Earnings per share	\$ .20	\$ .30	\$ .53	\$ .63
Cash dividends per common share	\$ .24	\$ .24	\$ .48	\$ .48

See accompanying notes to consolidated financial statements.

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

	December 31, 1993	June 30, 1993
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,756	\$ 159,985
Accounts receivable, net	327,195	354,338
Inventories:		

Finished products	237,071	236,160
Work in process	185,506	191,957
Raw materials	74,841	71,591
	497,418	499,708
Prepaid expenses	14,062	13,934
Deferred income taxes	34,159	28,478
Total current assets	902,590	1,056,443
Plant and equipment	1,598,398	1,569,349
Less accumulated depreciation	875,380	833,293
	723,018	736,056
Other assets	192,771	171,091
Total assets	\$ 1,818,379	\$ 1,963,590
LIABILITIES		
Current liabilities:		
Notes payable	\$ 83,352	\$ 86,641
Accounts payable, trade	110,264	125,127
Accrued liabilities	200,153	215,569
Accrued domestic and foreign taxes	31,119	40,917
Total current liabilities	424,888	468,254
Long-term debt	269,276	378,476
Pensions and other postretirement benefits	165,744	157,513
Deferred income taxes	14,794	17,349
Other liabilities	7,057	9,098
Total liabilities	881,759	1,030,690
SHAREHOLDERS' EQUITY		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued		
Common stock, \$.50 par value; authorized 150,000,000 shares; issued 49,265,074 shares at December 31 and 49,265,074 shares at June 30	24,633	24,633
Additional capital	163,882	164,430
Retained earnings	808,603	806,033
Deferred compensation related to guarantee of ESOP debt	(31,367)	(36,764)
Currency translation adjustment	(16,361)	(10,533)
	949,390	947,799
Less treasury shares, at cost: 568,798 shares at December 31 and 663,701 shares at June 30	(12,770)	(14,899)
Total shareholders' equity	936,620	932,900
Total liabilities and shareholders' equity	\$ 1,818,379	\$ 1,963,590

See accompanying notes to consolidated financial statements.

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

	Six Months Ended December 31,	
	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 25,919	\$ 30,704
Adjustments to reconcile net income to net cash provided by operations:		
Net effect of extraordinary loss	4,207	
Depreciation	54,489	56,777
Amortization	2,624	2,112
Deferred income taxes	(16,381)	(6,245)

Foreign currency transaction loss (gain)	2,116	(374)
Gain on sale of plant and equipment	(62)	125
Provision for restructuring	(6,874)	502
Changes in assets and liabilities:		
Accounts receivable	17,474	21,024
Inventories	3,344	4,342
Prepaid expenses	(431)	1,970
Other assets	(3,712)	(1,014)
Accounts payable, trade	(11,841)	(6,176)
Accrued payrolls and other compensation	(18,049)	(19,020)
Accrued domestic and foreign taxes	(4,845)	2,661
Other accrued liabilities	15,814	5,289
Pensions and other postretirement benefits	8,756	8,575
Other liabilities	(2,029)	(2,028)
Net cash provided by operating activities	70,519	99,224
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions (excluding cash of \$2,095 in 1993)	(29,798)	
Capital expenditures	(41,554)	(43,129)
Proceeds from sale of plant and equipment	1,827	1,459
Proceeds from disposition of business	3,205	
Other	1,884	(1,212)
Net cash used in investing activities	(64,436)	(42,882)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of stock options	1,581	459
Proceeds from (payments of) notes payable, net	2,113	7,273
Proceeds from long-term borrowings	1,637	5,584
Payments of long-term borrowings	(110,179)	(10,060)
Extraordinary loss on early retirement of debt	(6,922)	
Dividends	(23,349)	(23,242)
Net cash used in financing activities	(135,119)	(19,986)
Effect of exchange rate changes on cash	(1,193)	(2,249)
Net increase in cash and cash equivalents	(130,229)	34,107
Cash and cash equivalents at beginning of year	159,985	100,053
Cash and cash equivalents at end of period	\$ 29,756	\$ 134,160

See accompanying notes to consolidated financial statements.

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

Parker operates in two industry segments: Industrial and Aerospace. The Industrial Segment is the largest and includes the International operations.

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

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

Results by Business Segment:

Three Months Ended		Six Months Ended	
December 31,		December 31,	
1993	1992	1993	1992

Net sales, including intersegment sales				
Industrial	\$ 457,987	\$ 440,943	\$ 922,765	\$ 893,222
Aerospace	134,297	147,806	277,020	303,793
Intersegment sales	(58)	(73)	(148)	(165)
Total	\$ 592,226	\$ 588,676	\$ 1,199,637	\$ 1,196,850
Income from operations before corporate general and administrative expenses				
Industrial	\$ 31,449	\$ 31,261	\$ 67,532	\$ 65,139
Aerospace	9,499	12,488	22,143	25,109
Total	40,948	43,749	89,675	90,248
Corporate general and administrative expenses	8,981	8,955	18,782	18,471
Income from operations	\$ 31,967	\$ 34,794	\$ 70,893	\$ 71,777

See accompanying notes to consolidated financial statements.

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PARKER-HANNIFIN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Dollars in thousands, except per share amounts

1. Management Representation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of December 31, 1993, the results of operations for the three and six months ended December 31, 1993 and 1992 and cash flows for the six months then ended.

2. Extraordinary Item

In November 1993 the Company early-retired \$100 million of 9.45 percent debentures due November 1997 through 2016. The resulting pre-payment premium and unamortized deferred debt costs were reported as an extraordinary charge.

3. Restatement

On June 30, 1993 the Company changed the reporting period for subsidiaries outside of North America to provide uniform reporting on a global basis. The following table compares the fiscal 1993 quarterly results if restated for the change to uniform reporting periods. For example, the Second Quarter was originally reported as the period September - November, but restated as the period October - December.

Fiscal 1993	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
As Reported:				
Net Sales	\$ 608,174	\$ 588,676	\$ 607,225	\$ 685,248
Net Income	16,028	14,676	14,934	19,418
Earnings per share	\$ .33	\$ .30	\$ .31	\$ .40
If Restated:				
Net Sales	\$ 609,287	\$ 567,016	\$ 621,843	\$ 640,376
Net Income	16,085	10,137	18,505	19,272
Earnings per share	\$ .33	\$ .21	\$ .38	\$ .40

4. Earnings per share

Primary earnings per share are computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Fully diluted earnings per share are not presented because such dilution is not material.

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5. Acquisitions

In November 1993 the Company acquired the Electro-pneumatic Division of Telemecanique of France, a leading European manufacturer of pneumatic products for industrial applications. In December 1993 the Company acquired the remaining 60 percent of LDI Pneutronics, which specializes in advanced-technology pneumatic valves and components for medical, semiconductor, and analytical instrumentation markets. The combined purchase price for the two businesses was \$31.9 million. Both acquisitions will be accounted for by the purchase method. Prior year sales for these operations exceeded \$51.5 million for the last fiscal year.

In December 1992, the company purchased the assets of Gromelle S.A., a manufacturer of hydraulic and pneumatic quick couplings in Annemasse, France. In August 1993, a French Court of Appeals rescinded the purchase and on September 1 control of the operations was returned to an administrator. On November 9, 1993 the Court of Appeals accepted a purchase proposal submitted by another party and ordered the return of the purchase price to the Company. The effects of this transaction are not material to the Company's consolidated financial statements and were reported as a disposition of business in fiscal 1994.

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PARKER-HANNIFIN CORPORATION  
FORM 10-Q  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1993  
AND COMPARABLE PERIODS ENDED DECEMBER 31, 1992

CONSOLIDATED STATEMENT OF INCOME

Net sales remained nearly level, increasing only 0.6 percent for the second quarter and 0.2 percent for the first half of fiscal 1994. If Net sales for fiscal 1993 were restated to report consistent periods (July through December) for subsidiaries outside of North America, results would have shown an increase of 4.4 percent for the quarter and 2.0 percent for the half. The improvement in sales was due to continuing increases in the North American Industrial markets which were offset by the continuing recession in Europe and ongoing declines in the Aerospace business.

Income before the extraordinary item decreased slightly for the quarter and for the six months. Improvements in North American Industrial margins were more than offset by the losses incurred by the International Industrial businesses. This decrease was also due to a higher current year provision for business restructuring, primarily involving the European operations, and a higher current year effective tax rate. Income taxes for the period ended September 30, 1993 included a cumulative charge of \$1.6 million for tax law changes in Germany and the United States. The decreases to income were partially offset by an insurance recovery for previously expensed environmental costs.

If Income before the extraordinary item is compared to equivalent reporting periods for fiscal 1993 (July through December), the results would have shown an increase of 38.7 percent for the quarter and 14.9 percent for the half. The difference between the reported results and the restated comparison reflect the losses incurred by operations outside of North America in the month of December.

Net income decreased 32.9 percent for the quarter and 15.6 percent for the half. An extraordinary charge of \$4,207 was recorded in the second quarter of fiscal 1994 for the early-retirement of \$100 million of 9.45 percent debentures.

Income from operations as a percent of sales decreased to 5.4 percent from 5.9 percent for the quarter and to 5.9 percent from 6.0 percent for the six months. Cost of sales, as a percent of sales, increased

slightly to 81.9 percent from 80.8 percent for the quarter and to 81.6 percent from 80.9 percent for the six months. The effects of lower production levels in relation to fixed costs continues to cause lower margins for the International operations. Selling, general and administrative expenses, as a percent of sales, decreased to 11.8 percent from 12.7 percent for the quarter and to 11.9 percent from 12.7 percent for the six months. Prior years' restructuring efforts have contributed to this decrease.

Interest expense decreased 13.8 percent for the quarter and 6.1 percent for the six months, primarily due to lower borrowings.

Backlog declined to \$824.4 million at December 31, 1993 as compared to \$953.7 million the prior year. Backlog at June 30, 1993 was \$856.5 million. The continuing decline is due to lower Aerospace orders.

#### BUSINESS SEGMENT INFORMATION BY INDUSTRY

Net sales of the Industrial Segment increased 3.9 percent for the second quarter, and 3.3 percent for the six month period. Without the effect of currency rate changes, sales would have increased 6.6 percent for the quarter and 7.0 percent for the half. North American Industrial sales were up substantially for the quarter and the half, while sales were down for the International Industrial business.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating income for the Industrial Segment was up 0.6 percent for the quarter and 3.7 percent for the six months. Earnings in North America were up substantially for the quarter and the half, while the International business recorded a loss for both the quarter and the half. Benefits are being realized in North America as a result of prior years' restructuring activities and increased volume, while restructuring charges continue to be recorded by the International operations and lower production levels are not covering fixed costs. Operating income as a percent of sales decreased to 6.9 percent from 7.1 percent for the second quarter, and remained steady at 7.3 percent for the six months.

Management expects these trends to continue through the second half. The Industrial business in North America is expected to continue to grow. Improvement is not expected in the International business until the overseas economies improve. Industrial Segment backlog increased 11.4 percent compared to a year ago and 9.1 percent since June 30, 1993.

Net sales of the Aerospace Segment were down 9.1 percent for the quarter and 8.8 percent for the six months. Operating income decreased 23.9 percent for the quarter and 11.8 percent for the six months. Operating income as a percent of sales decreased to 7.1 percent from 8.4 percent for the quarter and to 8.0 percent from 8.3 percent for the six months. The reduced level of military original equipment business combined with reduced aftermarket sales to the commercial airlines has lowered sales and production levels, causing margins to decline. The Segment continues to restructure to reflect this shift in business to current markets.

Management believes the Aerospace business is stabilizing and expects to maintain favorable margins despite the lower volume. Backlog for the Aerospace Segment decreased 22.5 percent compared to a year ago, and 9.2 percent since June 30, 1993.

#### CONSOLIDATED BALANCE SHEET

Working capital decreased to \$477.7 million at December 31, 1993 from \$588.2 million at June 30, 1993 primarily due to the reduction in cash as a result of the retirement of the \$100 million 9.45 percent debentures. The ratio of current assets to current liabilities decreased to 2.1 to 1 at December 31, 1993 from 2.3 to 1 at June 30, 1993.

Accounts receivable, net decreased \$27.1 million since June 30, 1993, \$11.6 million of which was due to changes in foreign exchange rates. Inventories have remained fairly steady since June 30, 1993.

The debt to debt-equity ratio, excluding the effect of the ESOP loan guarantee on both Long-term debt and Shareholders' equity, decreased to 24.9 percent at December 31, 1993 from 30.6 percent at June 30, 1993. The decrease is the result of the retirement of the \$100 million 9.45 percent debentures.

#### CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$70.5 million and \$99.2 million for the six months ended December 31, 1993 and 1992, respectively. Changes in the principal working capital items - Accounts receivable, Inventories, and Accounts payable, trade - provided cash of \$9.0 million in fiscal 1994 as compared to \$19.2 million in fiscal 1993. An increase in the Deferred income taxes asset and the reduction of the Deferred income taxes liability lowered cash provided by operating activities by \$10.1 million more in fiscal 1994 than in fiscal 1993.

Net cash used in investing activities increased to \$64.4 million from \$42.9 million for the six months ended December 31, 1993 and 1992 as a result of several acquisitions in fiscal 1994.

Net cash used in financing activities was \$135.1 million and \$20.0 million for the six months ended December 31, 1993 and 1992, respectively. This increase of \$115.1 million is due to the payments of long-term borrowings and the extraordinary loss for the early-retirement of debt.

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#### PARKER-HANNIFIN CORPORATION

#### PART II - OTHER INFORMATION

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

- (a) The following document is furnished as an exhibit and numbered pursuant to Item 601 of Regulation S-K:

Exhibit 11 - Statement regarding computation of per share earnings.

- (b) No reports on Form 8-K have been filed during the quarter for which this Report is filed.

#### SIGNATURE

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

PARKER-HANNIFIN CORPORATION  
(Registrant)

Michael J. Hiemstra  
Michael J. Hiemstra  
Vice President - Finance and Administration

Date: February 11, 1994

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EXHIBIT INDEX



Exhibit No.	Description of Exhibit	Sequential Page
11	Computation of Earnings Per Common Share	13

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EXHIBIT 11

PARKER-HANNIFIN CORPORATION

FORM 10-Q  
COMPUTATION OF EARNINGS PER COMMON SHARE  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	1993	1992	1993	1992
Net income applicable to common shares	\$ 9,854	\$ 14,676	\$ 25,919	\$ 30,704
Weighted average common shares outstanding for the period	48,671,373	48,429,079	48,643,784	48,420,706
Increase in weighted average from:				
Dilutive effect of exercise of stock options	262,733	95,880	233,678	118,077
Conversions of 4% convertible debentures	--	--	--	1,743
Weighted average common shares, assuming issuance of the above securities	48,934,106	48,524,959	48,877,462	48,540,526
Earnings per common share:				
Primary	\$ .20	\$ .30	\$ .53	\$ .63
Fully diluted (A)	\$ .20	\$ .30	\$ .53	\$ .63

[FN]

(A) This calculation is submitted in accordance with Regulation S-K Item 601(b)(11) although not required for income statement presentation because it results in dilution of less than 3 percent.

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