

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, 1995

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, 1995 74,163,385

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,	
	1995	1994	1995	1994
Net sales	\$ 824,376	\$ 738,231	\$ 1,663,430	\$ 1,450,688
Cost of sales	641,481	572,862	1,287,090	1,123,389
Gross profit	<u>182,895</u>	<u>165,369</u>	<u>376,340</u>	<u>327,299</u>
Selling, general and administrative expenses	101,189	91,168	198,908	172,703
Income from operations	<u>81,706</u>	<u>74,201</u>	<u>177,432</u>	<u>154,596</u>
Other income (deductions):				
Interest expense	(7,241)	(7,654)	(15,229)	(14,878)
Interest and other income, net	2,355	148	5,688	336
	<u>(4,886)</u>	<u>(7,506)</u>	<u>(9,541)</u>	<u>(14,542)</u>
Income before income taxes	<u>76,820</u>	<u>66,695</u>	<u>167,891</u>	<u>140,054</u>
Income taxes	28,424	25,611	62,120	55,321
Net income	<u>\$ 48,396</u> =====	<u>\$ 41,084</u> =====	<u>\$ 105,771</u> =====	<u>\$ 84,733</u> =====
Earnings per share (A)	\$ .66	\$ .56	\$ 1.43	\$ 1.15
Cash dividends per common share (A)	\$ .180	\$ .167	\$ .360	\$ .334

(A) Fiscal 1995 per share amounts have been adjusted for the 3-shares-for-2 common stock split paid June 2, 1995.

See accompanying notes to consolidated financial statements.

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

	December 31, 1995 (Unaudited)	June 30, 1995
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 73,777	\$ 63,830
Accounts receivable, net	444,635	484,962
Inventories:		
Finished products	329,787	314,180
Work in process	220,461	201,386
Raw materials	104,774	110,340
	655,022	625,906
Prepaid expenses	13,625	14,994
Deferred income taxes	66,885	56,690
Total current assets	1,253,944	1,246,382
Plant and equipment	1,871,354	1,812,667
Less accumulated depreciation	1,029,794	996,896
	841,560	815,771
Other assets	244,672	240,056
Total assets	\$ 2,340,176	\$ 2,302,209
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	\$ 127,599	\$ 97,372
Accounts payable, trade	185,358	227,482
Accrued liabilities	259,922	280,891
Accrued domestic and foreign taxes	49,704	46,876
Total current liabilities	622,583	652,621
Long-term debt	234,644	237,157
Pensions and other postretirement benefits	181,337	188,292
Deferred income taxes	18,570	23,512
Other liabilities	9,493	9,113
Total liabilities	1,066,627	1,110,695
<b>SHAREHOLDERS' EQUITY</b>		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	--	--
Common stock, \$.50 par value; authorized 300,000,000 shares; issued 74,163,385 shares at December 31 and 74,002,402 shares at June 30	37,082	37,001
Additional capital	160,385	158,454
Retained earnings	1,053,580	974,486
Deferred compensation related to guarantee of ESOP debt	(6,895)	(13,468)
Currency translation adjustment	29,397	35,041
Total shareholders' equity	1,273,549	1,191,514
Total liabilities and shareholders' equity	\$ 2,340,176	\$ 2,302,209

See accompanying notes to consolidated financial statements.

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

	Six Months Ended December 31,	
	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 105,771	\$ 84,733
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	63,969	55,516
Amortization	4,731	3,982
Deferred income taxes	(8,615)	(2,848)
Foreign currency transaction loss	751	83
(Gain) loss on sale of plant and equipment	(33)	511
Changes in assets and liabilities:		
Accounts receivable	37,897	9,614
Inventories	(28,384)	(31,724)
Prepaid expenses	1,094	2,806
Other assets	(7,292)	(6,588)
Accounts payable, trade	(41,819)	(23,050)
Accrued payrolls and other compensation	(20,919)	(8,825)
Accrued domestic and foreign taxes	2,894	(7,651)
Other accrued liabilities	5,706	(6,508)
Pensions and other postretirement benefits	(5,489)	7,899
Other liabilities	479	(1,553)
Net cash provided by operating activities	110,741	76,397
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions (excluding cash of \$68 in 1995 and \$5,146 in 1994)	(13,030)	(105,750)
Capital expenditures	(100,625)	(59,548)
Proceeds from sale of plant and equipment	7,649	8,937
Other	(3,468)	3,574
Net cash used in investing activities	(109,474)	(152,787)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from common share activity	28	6,998
Proceeds from notes payable, net	39,766	63,275
Proceeds from long-term borrowings	1,016	18,887
Payments of long-term borrowings	(5,011)	(26,721)
Dividends	(26,677)	(24,560)
Net cash provided by financing activities	9,122	37,879
Effect of exchange rate changes on cash	(442)	474
Net increase (decrease) in cash and cash equivalents	9,947	(38,037)
Cash and cash equivalents at beginning of year	63,830	81,590
Cash and cash equivalents at end of period	\$ 73,777	\$ 43,553

See accompanying notes to consolidated financial statements.

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 and fuel applications.

Results by Business Segment:

	Three Months Ended December 31,		Six Months Ended December 31,	
	1995	1994	1995	1994
Net sales, including intersegment sales				
Industrial:				
North America	\$ 462,576	\$ 422,225	\$ 936,649	\$ 840,059
International	227,405	190,689	457,168	360,840
Aerospace	134,563	125,532	269,894	250,100
Intersegment sales	(168)	(215)	(281)	(311)
<b>Total</b>	<u>\$ 824,376</u>	<u>\$ 738,231</u>	<u>\$ 1,663,430</u>	<u>\$ 1,450,688</u>
	=====	=====	=====	=====
Income from operations before corporate general and administrative expenses				
Industrial:				
North America	\$ 59,848	\$ 56,038	\$ 126,410	\$ 117,706
International	16,549	15,209	38,733	28,129
Aerospace	17,073	13,354	35,452	28,891
<b>Total</b>	<u>93,470</u>	<u>84,601</u>	<u>200,595</u>	<u>174,726</u>
Corporate general and administrative expenses	11,764	10,400	23,163	20,130
<b>Income from operations</b>	<u>\$ 81,706</u>	<u>\$ 74,201</u>	<u>\$ 177,432</u>	<u>\$ 154,596</u>
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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 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, 1995, the results of operations for the three and six months ended December 31, 1995 and 1994 and cash flows for the six months then ended.

2. Segment Reclassification

Fiscal 1995 results have been restated to reclassify an operating division from the Aerospace Segment to the Industrial Segment (North America) to be consistent with fiscal 1996 reporting. Existing business practices, distribution methods and internal organization more properly align this operating division with the Industrial Segment. The effect on both Segments is immaterial.

3. Earnings per share

Fiscal 1995 per share amounts have been adjusted for the 3-shares-for-2 common stock split paid June 2, 1995.

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.

4. Acquisitions

The Company has signed an agreement with Power Control Technologies, Inc. to purchase the aerospace assets of the Abex / NWL Division of Pneumo Abex Corporation for approximately \$193 million cash. Abex / NWL, headquartered in Kalamazoo, Michigan, is a major international producer of aerospace hydraulic actuation equipment, engine thrust-reverser actuators, hydraulic pumps, electrohydraulic servovalves, hydraulic systems, and electro-mechanical actuation equipment with annual sales of approximately \$200 million. The transaction is expected to be completed in March or April after shareholder approval and governmental review.

The Company also announced that it has signed a letter of intent to acquire VOAC Hydraulics of Boras, Sweden, a world leader in the manufacturing of mobile hydraulic equipment with calendar 1995 annual sales of approximately \$166 million. The transaction should be completed during the third quarter.

On July 31, 1995 the Company purchased the General Valve Corp. of Fairfield, New Jersey, a leading producer of miniature solenoid valves for high-technology applications for approximately 152,000 shares of common stock. Also on August 4, 1995 the Company purchased inventory and machinery from Teledyne Fluid Systems consisting of the Republic Valve product line, the Sprague double-diaphragm pump line and the Sprague airborne accumulator product line for approximately \$5.2 million in cash. Sales by these operations for their most recent fiscal year prior to acquisition approximated \$16.8 million. These acquisitions were accounted for by the purchase method.

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, 1995  
 AND COMPARABLE PERIODS ENDED DECEMBER 31, 1994

CONSOLIDATED STATEMENT OF INCOME

Net sales increased 11.7 percent for the second quarter and 14.7 percent for the six-month period ended December 31, 1995. Without the effect of acquisitions the increases would have been 7.3 percent and 8.8 percent, respectively. These increases, although less than were experienced during fiscal 1995, are the result of market-share gains as well as the worldwide growth of the industrial markets.

Income from operations was \$81.7 million for the current second quarter and \$177.4 million for the current six months, an increase of 10.1 percent for the quarter and 14.8 percent for the six months. As a percent of sales, Income from operations decreased to 9.9 percent from 10.1 percent for the quarter and remained at 10.7 percent for the six months. Cost of sales as a percent of sales increased to 77.8 percent from 77.6 percent for the quarter and remained at 77.4 percent for the six-month period. The decline in gross profit for the quarter is primarily due to the mix of products sold. Selling, general and administrative expenses, as a percent of sales, remained fairly steady for both the three and six month periods.

The effective income tax rate for the current quarter and first half was 37.0 percent compared to rates of 38.4 percent and 39.5 percent, respectively for fiscal 1995. The lower rate in fiscal 1996 is due to the continuing benefit realized from the use of net operating loss carry-forwards and a change in the geographic mix of earnings.

Net income increased 17.8 percent for the quarter and 24.8 percent for the half, as compared to the prior year. As a percent of sales, Net income increased to 5.9 percent from 5.6 percent for the quarter and to 6.4 percent from 5.8 percent for the six months.

Backlog increased to \$1,023.8 million at December 31, 1995 as compared to \$950.2 million the prior year, but was down slightly from \$1,025.7 million at June 30, 1995. The increase in backlog over the prior year was partially due to acquisitions, but was primarily due to increased volume for both the Industrial and Aerospace Segments.

BUSINESS SEGMENT INFORMATION BY INDUSTRY

INDUSTRIAL - The Industrial Segment operations achieved the following Net sales increases in the current year when compared to the equivalent prior-year period:

	Period ending December 31,	
	Three Months	Six Months
Industrial North America	9.6 %	11.5 %
Industrial International	19.3 %	26.7 %
Total Industrial	12.6 %	16.1 %

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EXHIBIT INDEX

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## 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,	
	1995	1994 (A)	1995	1994 (A)
Net income applicable to common shares	\$ 48,396	\$ 41,084	\$ 105,771	\$ 84,733
	=====	=====	=====	=====
Weighted average common shares outstanding for the period	74,157,805	73,692,056	74,114,333	73,572,656
Increase in weighted average from dilutive effect of exercise of stock options	488,250	567,329	649,986	536,192
	-----	-----	-----	-----
Weighted average common shares, assuming issuance of the above securities	74,646,055	74,259,385	74,764,319	74,108,848
	=====	=====	=====	=====
Earnings per common share:				
Primary	\$ .66	\$ .56	\$ 1.43	\$ 1.15
Fully diluted (B)	\$ .64	\$ .55	\$ 1.41	\$ 1.14

(A) Weighted average shares and earnings per share have been restated for the 3-shares-for-2 common stock split paid June 2, 1995.

(B) 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.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PARKER-HANNIFIN CORPORATION'S REPORT ON FORM 10-Q FOR ITS QUARTERLY PERIOD ENDED DECEMBER 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	DEC-31-1995	
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		396,595
		6,458
		655,022
	1,253,944	
		1,871,354
		1,029,794
		2,340,176
	622,583	
		248,689
		37,082
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		1,236,467
2,340,176		
		1,663,430
	1,663,430	
		1,287,090
		1,287,090
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		1,194
	15,229	
		167,891
		62,120
	105,771	
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		105,771
		1.43
		1.41