

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 March 31, 1997

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 March 31, 1997 74,462,462

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 March 31,		Nine Months Ended March 31,	
	1997	1996	1997	1996
Net sales	\$ 1,047,100	\$ 931,356	\$ 2,976,015	\$ 2,594,786
Cost of sales	800,578	707,927	2,316,399	1,995,017
Gross profit	246,522	223,429	659,616	599,769
Selling, general and administrative expenses	115,747	106,504	349,734	305,412
Income from operations	130,775	116,925	309,882	294,357
Other income (deductions):				
Interest expense	(11,819)	(8,359)	(36,075)	(23,588)
Interest and other income, net	664	1,161	7,795	6,849
	(11,155)	(7,198)	(28,280)	(16,739)
Income before income taxes	119,620	109,727	281,602	277,618
Income taxes	41,656	40,599	99,969	102,719
Net income	\$ 77,964	\$ 69,128	\$ 181,633	\$ 174,899
Earnings per share	\$ 1.05	\$ .93	\$ 2.44	\$ 2.36
Cash dividends per common share	\$ .20	\$ .18	\$ .56	\$ .54

See accompanying notes to consolidated financial statements.

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

	March 31, 1997	June 30, 1996
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 45,946	\$ 63,953
Accounts receivable, net	597,217	538,645
Inventories:		
Finished products	322,739	332,213
Work in process	268,435	269,934
Raw materials	105,070	105,078
	696,244	707,225
Prepaid expenses	14,539	16,031
Deferred income taxes	90,147	76,270
Total current assets	1,444,093	1,402,124
Plant and equipment	2,111,547	2,048,293
Less accumulated depreciation	1,130,840	1,056,516
	980,707	991,777
Excess cost of investments over net assets acquired	292,908	320,152
Investments and other assets	189,089	173,071
Total assets	\$ 2,906,797	\$ 2,887,124
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	\$ 124,190	\$ 173,789
Accounts payable, trade	197,999	236,871
Accrued liabilities	328,856	306,504
Accrued domestic and foreign taxes	47,983	49,718
Total current liabilities	699,028	766,882
Long-term debt	421,677	439,797
Pensions and other postretirement benefits	249,867	253,616
Deferred income taxes	25,343	24,683
Other liabilities	21,998	18,188
Total liabilities	1,417,913	1,503,166
<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 74,520,076 shares at March 31 and 74,291,917 shares at June 30	37,260	37,146
Additional capital	168,681	165,259
Retained earnings	1,300,798	1,160,828
Currency translation adjustment	(15,261)	20,725
	1,491,478	1,383,958
Less treasury shares, at cost: 57,614 shares at March 31	(2,594)	--
Total shareholders' equity	1,488,884	1,383,958
Total liabilities and shareholders' equity	\$ 2,906,797	\$ 2,887,124

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended March 31,	
	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 181,633	\$ 174,899
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	113,374	94,769
Amortization	18,151	8,210
Deferred income taxes	(11,730)	(8,822)
Foreign currency transaction loss	1,323	780
(Gain) loss on sale of plant and equipment	(10,405)	750
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(46,305)	(8,321)
Inventories	6,483	(17,634)
Prepaid expenses	1,514	1,385
Other assets	(9,003)	(9,136)
Accounts payable, trade	(37,917)	(39,952)
Accrued liabilities	30,051	(1,932)
Accrued domestic and foreign taxes	201	11,043
Pensions and other postretirement benefits	1,720	(1,789)
Other liabilities	3,563	5,190
Net cash provided by operating activities	<u>242,653</u>	<u>209,440</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions (excluding cash of \$917 in 1997 and \$19,437 in 1996)	(27,424)	(166,975)
Capital expenditures	(124,524)	(147,236)
Proceeds from sale of plant and equipment	9,417	8,386
Other	(7,620)	(3,193)
Net cash used in investing activities	<u>(150,151)</u>	<u>(309,018)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Payments) proceeds from common share activity	(3,156)	1,025
(Payments) proceeds from notes payable, net	(41,460)	78,156
Proceeds from long-term borrowings	1,994	67,013
Payments of long-term borrowings	(23,817)	(5,252)
Dividends	(41,663)	(40,029)
Net cash (used in) provided by financing activities	<u>(108,102)</u>	<u>100,913</u>
Effect of exchange rate changes on cash	(2,407)	(1,230)
Net (decrease) increase in cash and cash equivalents	<u>(18,007)</u>	<u>105</u>
Cash and cash equivalents at beginning of year	63,953	63,830
Cash and cash equivalents at end of period	<u>\$ 45,946</u> =====	<u>\$ 63,935</u> =====

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 March 31,		Nine Months Ended March 31,	
	1997	1996	1997	1996
Net sales, including intersegment sales				
Industrial:				
North America	\$ 561,474	\$ 515,404	\$ 1,564,199	\$ 1,452,053
International	268,868	263,802	793,231	720,970
Aerospace	216,904	152,363	619,097	422,257
Intersegment sales	(146)	(213)	(512)	(494)
<b>Total</b>	<b>\$ 1,047,100</b>	<b>\$ 931,356</b>	<b>\$ 2,976,015</b>	<b>\$ 2,594,786</b>
	=====	=====	=====	=====
Income from operations before corporate general and administrative expenses				
Industrial:				
North America	\$ 92,168	\$ 79,101	\$ 227,193	\$ 205,511
International	22,943	23,125	45,062	61,858
Aerospace	28,147	26,349	74,386	61,801
<b>Total</b>	<b>143,258</b>	<b>128,575</b>	<b>346,641</b>	<b>329,170</b>
Corporate general and administrative expenses	12,483	11,650	36,759	34,813
<b>Income from operations</b>	<b>\$ 130,775</b>	<b>\$ 116,925</b>	<b>\$ 309,882</b>	<b>\$ 294,357</b>
	=====	=====	=====	=====

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 March 31, 1997, the results of operations for the three and nine months ended March 31, 1997 and 1996 and cash flows for the nine months then ended.

2. 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.

The Board of Directors has reaffirmed the repurchase, from time to time, of up to 2.8 million shares of the Company's common stock on the open market, at prevailing prices. The repurchase will be funded from operating cash flows and the shares will initially be held as treasury stock. During the three-month period ended March 31, 1997 the Company purchased 57,614 shares of its common stock at an average price of \$44.97 per share. Year-to-date the Company has purchased 159,614 shares at an average price of \$40.18 per share.

3. Acquisitions

On February 3, 1997, following receipt of Mexican government approval, the Company purchased Hydroflex S.A. de C.V, a leading Mexican manufacturer of hydraulic hose, fittings and adapters located in Toluca, Mexico for approximately \$9.2 million cash. Annual sales for this operation for the most recent year prior to acquisition were approximately \$11 million.

On September 5, 1996 the Company purchased the assets of the industrial hydraulic product line of Hydraulik-Ring AG, of Nurtigen, Germany, for approximately \$17 million cash. Annual sales for this operation for the most recent year prior to acquisition were approximately \$31 million.

Both acquisitions are being accounted for by the purchase method.

4. Contingencies

In November 1996 a jury verdict was rendered against the Company in connection with the termination of ASI Marine Industrial as a Company distributor. The verdict against the Company included \$1.6 million in compensatory damages and \$6.0 million in punitive damages. On appeal, the Company intends to seek a new trial on all issues and believes that substantial grounds exist for the punitive damages, at a minimum, to be reversed. In the opinion of management, the ultimate liability with respect to this litigation will not have a material adverse effect on the results of operations, cash flows or financial position of the Company.

PARKER-HANNIFIN CORPORATION

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

FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 1997  
AND COMPARABLE PERIODS ENDED MARCH 31, 1996

CONSOLIDATED STATEMENT OF INCOME

Net sales reached \$1.0 billion for the quarter, an increase of 12.4 percent for the third quarter and 14.7 percent for the nine-month period ended March 31, 1997. Without the effect of acquisitions the increases would have been 3.9 percent and 4.6 percent, respectively. The Aerospace operations continued to achieve significant gains, while the Industrial operations also accomplished strong growth during the quarter.

Income from operations was \$130.8 million for the current third quarter and \$309.9 million for the current nine months, an increase of 11.8 percent for the quarter and 5.3 percent for the nine months. As a percent of sales, Income from operations remained fairly steady for the quarter but decreased to 10.4 percent from 11.3 percent for the nine months. Cost of sales as a percent of sales increased to 76.5 percent from 76.0 percent for the quarter and 77.8 percent from 76.9 percent for the nine-month period. The decline in gross profit is partially due to lower margins achieved by newly acquired operations, but is also the result of lower volume, and therefore lower absorption of fixed costs, within certain businesses in Europe. Selling, general and administrative expenses, as a percent of sales, decreased to 11.1 percent from 11.4 percent for the quarter, but remained steady for the nine-month period.

Interest expense increased \$3.5 million for the quarter and \$12.5 million for the nine months ended March 31, 1997, compared to the same periods ended March 31, 1996, due to the increased borrowings incurred to complete acquisitions.

Interest and other income for the nine months ended March 31, 1997 includes \$17.1 million income from the sale of real estate in California. This income was substantially offset by \$13.3 million accrued for exit costs and charges for impaired assets related to the relocation of the corporate headquarters.

The effective tax rate for the year was reduced to 35.5 percent from 36.0 percent during the current quarter, resulting from an increased tax benefit based on the export of product manufactured in the U.S. The reduction from the prior-year tax rate of 37.0 percent is due to foreign tax-credit benefits and a reduction in the effective state-tax rate.

Net income increased 12.8 percent for the quarter and 3.9 percent for the nine months, compared to the prior year. As a percent of sales, Net income remained steady at 7.4 percent for the quarter, but decreased to 6.1 percent from 6.7 percent for the nine months.

Backlog increased to \$1.5 billion at March 31, 1997 compared to \$1.1 billion the prior year and \$1.3 billion at June 30, 1996. A majority of the increase in backlog over the prior year was due to acquisitions and growth within the Aerospace Segment.

The Company's performance in recent months has benefited from strong order-entry rates, a high level of capacity utilization in North America, and cost reductions in Europe and Latin America. With favorable market conditions, management anticipates further improvement in the results for the fourth quarter.



## 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 March 31,	
	Three Months	Nine Months
Industrial North America	8.9 %	7.7 %
Industrial International	1.9 %	10.0 %
Total Industrial	6.6 %	8.5%

Without the effect of acquisitions completed within the past 12 months, the fluctuations in Net sales would have been:

	Period ending March 31,	
	Three Months	Nine Months
Industrial North America	7.6 %	6.0 %
Industrial International	(8.1) %	(3.4) %
Total Industrial	2.3 %	2.9 %

Without the significant impact of changes in currency rates, but with the effect of acquisitions, volume for the Industrial International operations for the third quarter increased more than 10 percent and the nine-month increase was approximately 15 percent.

Operating income for the Industrial Segment increased 12.6 percent for the quarter and 1.8 percent for the nine months. Industrial North American Operating income increased 16.5 percent for the quarter and 10.6 percent for the nine months while Industrial International results were relatively flat for the quarter, and decreased 27.2 percent for the nine months. Without the effect of acquisitions the total Industrial Segment Operating income would have increased 10.5 percent for the quarter and 1.5 percent for the nine months. As a percent of sales, Industrial North American Operating income increased to 16.4 percent from 15.3 percent for the quarter and to 14.5 percent from 14.2 percent for the nine months. Industrial International Operating income decreased to 8.5 percent from 8.8 percent for the quarter, and to 5.7 percent from 8.6 percent for the nine months.

The North American Industrial markets remain healthy and are beginning to give indications of strong growth. Increasing demand by the factory automation, machine tool, and agricultural and construction equipment markets contributed to the Company's growth during the quarter. There has also been increasing demand for sealing products, and light-truck and automotive products. Higher capacity utilization resulting from the increased volume improved operating margins.

The weak demand in Europe is also beginning to show modest improvement as order trends are improving. Reduced overhead and better capacity utilization, along with further integration of the VOAC acquisition, resulted in improved operating margins for the quarter.

Total Industrial Segment backlog increased 7.7 percent compared to March 31, 1996 and 8.9 percent since June 30, 1996. These increases are primarily the result of internal growth within the North American operations.

AEROSPACE - Aerospace Segment Net sales were up 42.4 percent for the quarter and 46.6 percent for the nine months. Without the effect of the Abex acquisition the increases would have been 12.0 percent and 12.4 percent, respectively.

Operating income for the Aerospace Segment increased 6.8 percent for the quarter and 20.4 percent for the nine-month period. As a percent of sales Operating income declined to 13.0 percent from 17.3 percent for the quarter and to 12.0 percent from 14.6 percent for the nine-month period. The decline in margins from the prior year is primarily the result of lower margins contributed by the Abex operations which are still in the integration phase. In addition, the segment incurred an increase in long-term contract reserves related to several new contracts.

Current demand for Parker components and systems in both the commercial original equipment and spares markets is excellent and is expected to continue to grow during the fourth quarter. Backlog for the Aerospace Segment increased 56.3 percent from March 31, 1996, primarily as a result of the Abex acquisition, and increased 12.3 percent since June 30, 1996.

#### CONSOLIDATED BALANCE SHEET

Working capital increased to \$745.1 million at March 31, 1997 from \$635.2 million at June 30, 1996 with the ratio of current assets to current liabilities increasing slightly to 2.1 to 1. The increase was primarily due to an increase in Accounts receivable, net and decreases in Accounts payable, trade and Notes payable.

Accounts receivable were higher on March 31, 1997 than on June 30, 1996 primarily due to the higher level of sales volume within the Aerospace and North American Industrial operations. The March 31, 1997 Accounts receivable balance also includes a noncash receivable of \$21.5 million related to a transaction the Company entered into in December 1996 to sell real estate in California. The proceeds from the sale will be used in a Section 1031 tax-free exchange for the new corporate headquarters.

Inventories decreased \$11.0 million since June 30, 1996 with the majority of the reduction within the European Industrial operations. Months supply has been reduced for nearly all operations.

Accounts payable, trade decreased \$38.9 million since June 30, 1996 with the reduction occurring consistently throughout the operations. Accrued liabilities increased since June 30, 1996 primarily due to an increase in long-term contract reserves within the Aerospace operations.

The debt to debt-equity ratio decreased to 26.8 percent at March 31, 1997 from 30.7 percent at June 30, 1996 as a result of decreases in both Notes payable and Long-term debt.

#### CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash provided by operating activities increased \$33.2 million for the nine months ended March 31, 1997, compared to the same nine months in 1996. This increase is primarily due to a \$6.7 million increase in Net income and an increase of \$28.5 million in Depreciation and Amortization expenses. The principal working capital items - Accounts receivable, Inventories, and Accounts payable, trade - used cash of \$77.7 million in fiscal 1997 compared to \$65.9 million in fiscal 1996.

Net cash used in investing activities of \$150.2 million for the nine months ended March 31, 1997 was primarily for capital expenditures of \$124.5 million. Fiscal 1996 investing activities used cash of \$309.0 million, which included \$167.0 million for acquisitions and \$147.2 million for capital expenditures.

Financing activities used cash of \$108.1 million for the nine months ended March 31, 1997 primarily to reduce debt and pay dividends. The same period in 1996 provided cash of \$100.9 million as the Company increased debt to provide cash for acquisitions.

PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

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

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

Exhibit 11 - Computation of Earnings per Common Share

Exhibit 27 - Financial Data Schedule

(b) The Registrant filed a report on Form 8-K on February 4, 1997, as amended February 5, 1997, with respect to the declaration by the Board of Directors of a dividend of rights under a Shareholder Protection Rights Agreement.

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  
and Chief Financial Officer

Date: May 14, 1997

EXHIBIT INDEX

Exhibit No.	Description of Exhibit	Sequential Page
11	Computation of Earnings Per Common Share	13
27	Financial Data Schedule	14



## PARKER-HANNIFIN CORPORATION

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	1997	1996	1997	1996
Net income applicable to common shares	\$ 77,964 =====	\$ 69,128 =====	\$ 181,633 =====	\$ 174,899 =====
Weighted average common shares outstanding for the period	74,464,789	74,188,578	74,384,123	74,139,081
Increase in weighted average from dilutive effect of exercise of stock options	586,407	512,212	580,058	604,061
Weighted average common shares, assuming issuance of the above securities	75,051,196 =====	74,700,790 =====	74,964,181 =====	74,743,142 =====
Earnings per common share:				
Primary	\$ 1.05	\$ .93	\$ 2.44	\$ 2.36
Fully diluted (A)	\$ 1.04	\$ .93	\$ 2.42	\$ 2.34

(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.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PARKER-HANNIFIN CORPORATION'S REPORT ON FORM 10-Q FOR ITS QUARTERLY PERIOD ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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MAR-31-1997		
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1,444,093		
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699,028		
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2,976,015		
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36,075		
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	99,969	
181,633		
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	181,633	
	2.44	
	2.42	