

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

FORM 10-K

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

For the fiscal year ended June 30, 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 No. 1-4982



PARKER-HANNIFIN CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
Incorporation or Organization)

34-0451060

(I.R.S. Employer Identification No.)

6035 Parkland Boulevard, Cleveland, Ohio

(Address of Principal Executive Offices)

44124-4141

(Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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.

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

The aggregate market value of the outstanding common stock held by non-affiliates of the Registrant as of December 31, 2008, excluding, for purpose of this computation only, stock holdings of the Registrant's Directors and Officers: \$6,775,712,802.

The number of Common Shares outstanding on July 31, 2009 was 160,517,563.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference:

- (1) Annual Report to Shareholders of the Company for the fiscal year ended June 30, 2009 is incorporated by reference into Parts I and II hereof.
 - (2) Definitive Proxy Statement for the Company's 2009 Annual Meeting of Shareholders to be held on October 28, 2009 is incorporated by reference into Part III hereof.
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FORM 10-K

Fiscal Year Ended June 30, 2009

PART I

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

The Company was incorporated in Ohio in 1938. Its principal executive offices are located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, telephone (216) 896-3000. As used in this Annual Report on Form 10-K, unless the context otherwise requires, the term "Company" or "Parker" refers to Parker-Hannifin Corporation and its subsidiaries.

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

The Board of Directors has adopted a written charter for each of the committees of the Board of Directors. These charters, as well as the Company's Code of Ethics, Guidelines on Corporate Governance Issues and Independence Standards for Directors, are posted and available on the Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Shareholders may request copies of these corporate governance documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

The Company's manufacturing, service, distribution and administrative facilities are located in 40 states and in 47 foreign countries. The Company's motion and control technologies and systems are used in the products of its three principal business segments: Industrial; Aerospace; and Climate & Industrial Controls. The products are sold as original and replacement equipment through product and distribution centers worldwide. The Company markets its products through direct-sales employees, independent distributors, sales representatives and builder/dealers. Parker products are supplied to approximately 452,000 customers in virtually every significant manufacturing, transportation and processing industry. For the fiscal year ended June 30, 2009, total net sales were \$10,309,015,127. Industrial Segment products accounted for 74%, Aerospace Segment products for 18%, and Climate & Industrial Controls Segment products for 8% of those net sales.

Markets

Motion and control technologies and systems are used throughout various industries in various applications. The approximately 452,000 customers who purchase the Company's products are found throughout virtually every significant manufacturing, transportation and processing industry. No single customer accounted for more than 3% of the Company's total net sales for the fiscal year ended June 30, 2009.

Industrial Segment. Sales of Industrial Segment products are made primarily to original equipment manufacturers and their replacement markets in all major manufacturing and processing industries. The major markets for the products of the Industrial Segment are listed below by Group:

Automation Group:	• Alternative energy	• Primary metals
	• Converting and packaging	• Robotics
	• Factory automation	• Safety and security
	• Food production machinery	• Semiconductor and electronics
	• Life sciences and medical	• Transportation and mobile
	• Material handling	
	• Paper machinery	
Filtration Group:	• Food and beverage	• Oil and gas
	• Industrial machinery	• Power generation
	• Life sciences	• Process
	• Marine	• Transportation
	• Mobile equipment	• Water
Fluid Connectors Group:	• Aerial lift	• Life sciences
	• Agriculture	• Marine
	• Bulk chemical handling	• Mining
	• Construction Machinery	• Mobile
	• Food and beverage	• Oil and gas
	• Fuel and gas delivery	• Renewable energy
	• Industrial machinery	• Transportation

**Hydraulics
Group:**

- Aerial lift
- Agriculture
- Construction machinery
- Forestry
- Industrial machinery
- Machine tool
- Marine
- Mining
- Oil and gas
- Power generation
- Renewable energy
- Truck hydraulics

**Instrumentation
Group:**

- Chemical and refining
- Food and beverage
- Medical and dental
- Microelectronics
- Oil and gas
- Power generation

Seal Group:

- Aerospace
- Chemical processing
- Consumer
- Energy, oil and gas
- Fluid power
- General industrial
- Information technology
- Life sciences
- Military
- Semiconductor
- Telecommunications
- Transportation

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

- Commercial transports
- Engines
- General and business aviation
- Helicopters
- Launch vehicles
- Military aircrafts
- Missiles and munitions
- Power generation
- Regional transports
- Unmanned aerial vehicles
- Aftermarket services

Climate & Industrial Controls Segment. Sales of Climate & Industrial Controls Segment products are made primarily to original equipment manufacturers and their replacement markets. The major markets for products of the Climate & Industrial Controls Segment are listed below:

- Agriculture
- Air conditioning
- Appliances
- Food and beverage
- Industrial and commercial refrigeration
- Industrial machinery
- Oil and gas
- Life sciences and medical
- Precision cooling
- Process
- Supermarkets
- Transportation

Principal Products and Methods of Distribution

Industrial Segment. The products produced by the Company's Industrial Segment consist of a broad range of motion and control technologies and systems, which are described below by Group:

Automation Group: pneumatic and electromechanical components and systems, including:

Pneumatic products:

- Air preparation units
- Pneumatic accessories
- Pneumatic actuators and grippers
- Pneumatic valves and controls
- Structural extrusions
- Vacuum generators, cups and sensors

Electromechanical products:

- AC/DC drives and systems
- Electric actuators, gantry robots and slides
- Human-machine interfaces
- Manifolds
- Rotary actuators
- Stepper motors, servo motors, drives and controls

Filtration Group: filters, systems and instruments to monitor and remove contaminants from fuel, air, oil, water and other liquids and gases, including:

- Analytical gas generators
- Compressed air and gas filters and dryers
- Condition monitoring devices
- Engine air, fuel and oil filtration and systems
- Hydraulic, lubrication and coolant filters
- Nitrogen, hydrogen and zero air generators
- Process, chemical, water and microfiltration filters
- Water desalinization and purification

Fluid Connectors Group: connectors which control, transmit and contain fluid, including:

- Connectors for low pressure fluid conveyance
- Deep sea umbilicals
- Diagnostic equipment
- Hose couplings
- Industrial hose
- Mooring systems and power cables
- PTFE hose and tubing
- Quick couplings
- Check valves
- Rubber and thermoplastic hose
- Tube fittings and adapters
- Tubing and plastic fittings

Hydraulics Group: hydraulic components and systems for builders and users of industrial and mobile machinery and equipment, including:

- Accumulators
- Cartridge valves
- Human machine interfaces
- Hybrid drives
- Hydraulic cylinders
- Hydraulic motors and pumps
- Hydraulic systems
- Hydraulic valves and controls
- Hydrostatic steering units
- Integrated hydraulic circuits
- Power take-off equipment
- Power units
- Rotary actuators
- Sensors

Instrumentation Group: high quality critical flow components for process instrumentation, healthcare and ultra-high-purity applications, including:

- Analytical sample conditioning products and systems
- Chemical injection fittings and valves
- Fluoropolymer chemical delivery fittings, valves and pumps
- High-purity gas delivery fittings, valves, regulators and digital flow controllers
- Process control fittings, valves, regulators and manifold valves
- Process control double block and bleeds
- Permanent no-weld tube fittings
- Precision industrial regulators and flow controllers
- Industrial mass flow meters/controllers

Seal Group: static and dynamic sealing devices, including:

- Dynamic seals
- Elastomeric o-rings
- Electromagnetic interference shielding
- Extruded and precision-cut fabricated elastomeric seals
- High-temperature metal seals
- Homogeneous and inserted elastomeric shapes
- Medical devices
- Medical seals and instruments
- Metal and plastic retained composite seals
- Thermal management products

Industrial Segment products include standard products, as well as custom products which are engineered and produced to original equipment manufacturers' specifications for application to a particular end product. Both standard and custom products are also used in the replacement of original motion and control products. Industrial Segment products are marketed primarily through field sales employees and approximately 10,000 independent distributor locations.

Aerospace Segment. The principal products of the Company's Aerospace Segment include cooling, hydraulic, fuel, and pneumatic systems and components used on commercial and military airframe and engine programs. The Aerospace Segment also manufactures a broad range of fluid conveyance systems and components, fluid metering, delivery and atomization devices, inert gas

generating systems, as well as connectors, hoses, fittings, tube fittings and quick disconnects which control, transmit and contain fluid for aircraft applications.

The Aerospace Segment offers complete hydraulic and primary flight control systems and components, including:

- hydraulic, electrohydraulic and electromechanical components used for precise control of aircraft rudders, elevators, ailerons and other aerodynamic control surfaces; and
- utility hydraulic components such as:
 - i Reservoirs
 - i Accumulators
 - i Selector valves
 - i Electrohydraulic servo valves
 - i Thrust-reverser actuators
 - i Engine-driven pumps
 - i Motor pumps
 - i Nose wheel steering systems
 - i Electromechanical actuators
 - i Engine controls
 - i Electronic controllers

The Aerospace Segment also designs and manufactures aircraft wheels and brakes for general aviation and military markets.

The Aerospace Segment's fuel product line offers complete fuel systems and components, including:

- Fuel tank inerting systems
- Fuel transfer and pressurization controls
- In-flight refueling systems
- Fuel pumps and valves
- Fuel measurement and management systems
- Center of gravity controls
- Engine fuel injection atomization nozzles, manifolds and augmentor controls
- Electronic monitoring computers

The Aerospace Segment also produces various engine systems and components, including:

- Bleed air control systems
- Pressure regulators
- Low-pressure pneumatic controls
- Engine starter systems
- Engine bleed control and anti-ice systems
- Electronic control and monitoring computers

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

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

control applications in a wide variety of industries including processing, fuel dispensing, beverage dispensing and mobile emissions. These products include:

- Accumulators
- CO₂ controls
- Electronic controllers
- Filter driers
- Hand shut-off valves
- Heat exchangers
- Hose and fittings
- Pressure regulating valves
- Refrigerant distributors
- Safety relief valves
- Solenoid valves
- Thermostatic expansion valves

Climate & Industrial Controls Segment products are marketed primarily through field sales employees and independent distributors and wholesalers.

No single product contributed more than 1% to the Company's total net sales for the fiscal year ended June 30, 2009.

Competition

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

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

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

Research and Product Development

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

Total research and development costs relating to the development of new products and services and the improvement of existing products and services amounted to \$338,907,820 in fiscal year 2009, \$303,097,752 in fiscal year 2008, and \$253,091,228 in fiscal year 2007. These amounts include costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts and included in the total research and development costs reported above for each of the respective fiscal years 2009, 2008 and 2007 were \$50,739,381, \$47,757,134 and \$40,893,768.

Patents, Trademarks, Licenses

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

Backlog and Seasonal Nature of Business

The Company's backlog by business segment for the past two fiscal years, as set forth on pages 13-4 to 13-6 of Exhibit 13 to this Annual Report on Form 10-K, is incorporated into this section by reference. The Company's backlog at June 30, 2009 was \$2,885,284,015 and at June 30, 2008 was \$3,651,285,185. Approximately 80% of the Company's backlog at June 30, 2009 is scheduled for delivery in the succeeding twelve months. The Company's business generally is not seasonal in nature.

Environmental Regulation

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

As of June 30, 2009, the Company is involved in environmental remediation at various manufacturing facilities presently or formerly operated by the Company and has been named as a "potentially responsible party," along with other companies, at off-site waste disposal facilities and regional sites.

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

As of June 30, 2009, the Company has a reserve of \$13,891,137 for environmental matters which are probable and reasonably estimable. This reserve is recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties.

The Company's estimated total liability for the above mentioned sites ranges from a minimum of \$13,891,137 to a maximum of \$74,197,967. The largest range for any one site is approximately \$8,621,973. The actual costs to be incurred by the Company will be dependent on final determination of contamination, final determination of remedial action required, negotiations with federal and state agencies with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technologies, effectiveness of remedial technologies employed, the ability of the other responsible parties to pay, and any insurance or third-party recoveries.

Energy Matters and Sources and Availability of Raw Materials

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

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

Employees

The Company employed 51,639 persons as of June 30, 2009, of whom approximately 27,917 were employed by foreign subsidiaries.

Business Segment Information

The Company's net sales, segment operating income and assets by business segment and net sales and long-lived assets by geographic area for the past three fiscal years, as set forth on pages 13-14 to 13-15 of Exhibit 13 to this Annual Report on Form 10-K, are incorporated into this section by reference.

Acquisitions

During fiscal year 2009, the Company completed a number of acquisitions. The description of these transactions, as set forth on page 13-21 of Exhibit 13 to this Annual Report on Form 10-K, is incorporated into this section by reference.

ITEM 1A. Risk Factors.

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

The Company is subject to adverse changes in worldwide economic conditions and volatility in and tightening of the capital and credit markets.

The extended deterioration in worldwide economic conditions and the resulting volatility in and tightening of the capital and credit markets has had and may continue to have an adverse effect on the business, results of operations and financial condition of the Company and its distributors, customers and suppliers, and on the general economic activity in many of the industries and markets in which the Company and its distributors, customers and suppliers operate. These effects have, among other things, negatively impacted the level of capital expenditures and creditworthiness of the Company's distributors, customers and suppliers, and, therefore, the Company's revenues, operating profits and margins and order rates.

The Company remains focused on maintaining its financial strength by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash through various initiatives, including workforce reductions, salary freezes and short work weeks. There can be no assurance, however, that these or any other initiatives or contingency plans implemented by the Company to further control costs will be successful.

The Company cannot predict the duration or severity of the deterioration in worldwide economic conditions and the resulting volatility in and tightening of the capital and credit markets or if or when conditions will improve. These conditions are highly unpredictable and beyond the Company's control. If these conditions continue for a significant period of time or further deteriorate, however, the Company's business, results of operations and financial condition could be materially adversely affected.

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

In fiscal 2009, approximately 44% of the Company's net sales were derived from customers outside the United States. In addition, many of the Company's manufacturing operations and suppliers are located outside the United States. The Company expects net sales from foreign markets to continue to represent a significant portion of its total net sales. The Company's foreign operations are subject to risk in addition to those risks of its domestic operations, including:

- fluctuations in currency exchange rates;
- limitations on ownership and on repatriation of earnings;
- transportation delays and interruptions;

- political, social and economic instability and disruptions;
- government embargoes or foreign trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- labor unrest and current and changing regulatory environments;
- the potential for nationalization of enterprises;
- difficulties in staffing and managing multi-national operations;
- limitations on its ability to enforce legal rights and remedies; and
- potentially adverse tax consequences.

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

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

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

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

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

The Company operates in a highly competitive environment.

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

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

The Company's supply of raw materials for its businesses could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. Although the Company generally attempts to pass along increased raw

material prices to its customers in the form of price increases, there may be a time delay between the increased raw material prices and the Company's ability to increase the price of its products, or the Company may be unable to increase the prices of its products due to pricing pressure or other factors.

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

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

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

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

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

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

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

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

The Company's future growth is partly dependent on the preservation of its intellectual property.

Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights under patents owned by others. The Company's intellectual property may be challenged or infringed upon by third parties or the Company may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. In addition, the global nature of the Company's business could present increased risks that the Company's intellectual property will be subject to infringement or other unauthorized use outside of the United States. In such case, the Company's ability to protect its intellectual property rights by legal recourse or otherwise may be limited, particularly in countries where laws or enforcement practices are undeveloped or do not recognize or protect intellectual property rights to the same extent as the United States. Unauthorized use of the Company's intellectual property rights or inability to preserve existing intellectual property rights could adversely impact the Company's competitive position and results of operations.

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

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

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

The Company may be adversely affected by litigation or other regulatory proceedings.

The Company is a defendant from time to time in lawsuits and regulatory proceedings relating to its business. Due to the inherent uncertainties of litigation and regulatory proceedings, the Company cannot accurately predict the ultimate outcome of any such litigation or proceedings. An unfavorable outcome could adversely impact the Company's business, financial condition or results of operations.

The Company does business with the United States government and as such is subject to government regulations.

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments. None.

ITEM 1C. Executive Officers of the Registrant.

The Company's Executive Officers are as follows:

<u>Name</u>	<u>Position</u>	<u>Officer Since(1)</u>	<u>Age as of 8/15/2009</u>
Donald E. Washkewicz	Chairman of the Board, Chief Executive Officer and President	1997	59
Marwan M. Kashkoush	Executive Vice President – Sales, Marketing and Operations Support	2000	55

<u>Name</u>	<u>Position</u>	<u>Officer Since(1)</u>	<u>Age as of 8/15/2009</u>
Timothy K. Pistell	Executive Vice President – Finance and Administration and Chief Financial Officer	1993	62
Lee C. Banks	Executive Vice President and Operating Officer	2001	46
Robert P. Barker	Executive Vice President, Operating Officer and President – Aerospace Group	2003	59
Thomas L. Williams	Executive Vice President and Operating Officer	2005	50
Dana A. Dennis	Senior Vice President - Finance	1999	61
Robert W. Bond	Vice President and President – Fluid Connectors Group	2000	51
Michael Chung	Vice President and President – Asia Pacific Group	2008	46
Jeffery A. Cullman	Vice President and President – Hydraulics Group	2006	54
John G. Dedinsky, Jr.	Vice President – Global Supply Chain and Procurement	2006	52
Heinz Droxner	Vice President	2002	64
William G. Eline	Vice President – Chief Information Officer	2002	53
John R. Greco	Vice President and President – Instrumentation Group	2006	55
Thomas F. Healy	Vice President and President – Climate & Industrial Controls Group	2006	49
William R. Hoelting	Vice President – Tax	2007	52
Pamela J. Huggins	Vice President and Treasurer	2003	55
Kurt A. Keller	Vice President and President – Seal Group	2009	51
A. Ricardo Machado	Vice President and President – Latin America Group	2006	61
Jon P. Marten	Vice President and Controller	2008	53
M. Craig Maxwell	Vice President – Technology and Innovation	2003	51
Thomas A. Piraino, Jr.	Vice President, General Counsel and Secretary	1998	60

<u>Name</u>	<u>Position</u>	<u>Officer Since(1)</u>	<u>Age as of 8/15/2009</u>
Peter Popoff	Vice President and President – Filtration Group	2008	57
Charly Saulnier	Vice President and President – Europe, Middle East and Africa Group	2008	61
Daniel S. Serbin	Vice President – Human Resources	2005	55
Roger S. Sherrard	Vice President and President – Automation Group	2003	43

- (1) Officers of the Company are elected by the Board of Directors to serve for a term of one-year or until their respective successors are elected, except in the case of death, resignation or removal. Messrs. Eline, Maxwell and Piraino and Ms. Huggins have served in the executive capacities indicated above opposite their respective names during each of the past five years.

Mr. Washkewicz has served as a Director of the Company since 2000. Mr. Washkewicz has been Chairman of the Board of Directors of the Company since October 2004, Chief Executive Officer of the Company since July 2001, and President since January 2007. He was previously the President of the Company from February 2000 to October 2004.

Mr. Kashkoush has been Executive Vice President – Sales, Marketing and Operations Support since October 2007. He was Corporate Vice President – Worldwide Sales and Marketing from October 2003 to October 2007.

Mr. Pistell has been Executive Vice President – Finance and Administration since April 2005 and has been Chief Financial Officer since April 2003. He was Vice President – Finance and Administration from April 2003 to April 2005.

Mr. Banks has been an Executive Vice President since August 2008 and has been an Operating Officer since November 2006. He was a Senior Vice President from November 2006 to August 2008, Vice President from October 2001 to November 2006, and President of the Hydraulics Group from October 2003 to November 2006.

Mr. Barker has been an Executive Vice President since August 2008 and has been an Operating Officer since November 2006 and President of the Aerospace Group since March 2003. He was a Senior Vice President from November 2006 to August 2008 and Vice President from April 2003 to November 2006.

Mr. Williams has been an Executive Vice President since August 2008 and has been an Operating Officer since November 2006. He was a Senior Vice President from November 2006 to August 2008, Vice President and President of the Instrumentation Group from March 2005 to November 2006, and Vice President – Operations of the Hydraulics Group from November 2003 to February 2005. He is also a director of Chart Industries, Inc.

Mr. Dennis has been Senior Vice President – Finance since August 2008. He was a Vice President from October 2001 to August 2008 and Controller from July 1999 to August 2008.

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

Mr. Chung has been a Vice President and President of the Asia Pacific Group since March 2008. He was Vice President – Operations of the Hydraulic Group in Asia from January 2005 to March 2008 and Country Managing Director for Korea from April 2003 to January 2005.

Mr. Cullman has been a Vice President and President of the Hydraulics Group since November 2006. He was Vice President –Operations of the Hydraulics Group from July 2002 to November 2006.

Mr. Dedinsky has been Vice President – Global Supply Chain and Procurement since January 2006. He was Vice President – Global Sourcing and Procurement from July 2004 to January 2006 and Vice President – Procurement from August 2000 to July 2004.

Mr. Droxner has been a Vice President since January 2002. He was President of the Seal Group from January 2002 to August 2009.

Mr. Greco has been a Vice President and President of the Instrumentation Group since October 2006. He was Vice President and General Manager of the Global Parflex Division from August 2005 to October 2006 and General Manager of the Parflex Division from March 1996 to August 2005.

Mr. Healy has been a Vice President since April 2006 and has been President of the Climate & Industrial Controls Group since July 2006. He was a Climate & Industrial Controls Group Vice President and General Manager of Mobile Climate Systems Division from September 2004 to April 2006 and General Manager of Nichols Portland Division from July 1998 to September 2004.

Mr. Hoelting has been Vice President – Tax since February 2007. He was Vice President – Taxation from January 1998 to February 2007.

Mr. Keller was elected Vice President and President of the Seal Group in August 2009. He was Vice President of Operations of the Seal Group from July 2005 to August 2009 and General Manager of O-Ring Division from April 1999 to July 2005.

Mr. Machado has been a Vice President since January 2006 and has been President of the Latin America Group since March 2000.

Mr. Marten has been Vice President and Controller since August 2008. He was an Assistant Controller of the Corporation from July 2007 to August 2008, Vice President and Controller of the Aerospace Group from October 2004 to July 2007, and Vice President and Controller of the Instrumentation Group from June 2003 to October 2004.

Mr. Popoff has been a Vice President and President of the Filtration Group since February 2008. He was Vice President – Operations of the Filtration Group from April 2006 to February 2008, Vice President/General Manager of the Global Racor Division from July 2004 to April 2006, and General Manager of the Racor Division from February 1987 to July 2004.

Mr. Saulnier has been Vice President and President of the Europe, Middle East and Africa Group since September 2008. He was President of Sales Companies – Europe, Middle East and Africa from January 2008 to September 2008 and Vice President – Operations of Sales Companies South from July 2001 to January 2008.

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

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

ITEM 2. Properties. The Company's corporate headquarters is located in Cleveland, Ohio and, at June 30, 2009, the Company had 316 manufacturing plants and 307 distribution centers and sales and administrative offices throughout the world, none of which were individually material to its operations. The facilities are situated in 40 states within the United States and in 47 other countries. The Company owns the majority of its manufacturing plants and distribution centers, and its leased properties primarily consist of sales and administrative offices. The number of facilities used by each of the Company's operating segments is summarized by type and geographic location in the tables below:

	Type of Facility		
	Manufacturing Plants	Distribution Centers	Sales and Administrative Offices
Industrial	265	109	157
Aerospace	23	3	11
Climate & Industrial Controls	28	3	24
Total	316	115	192

	Geographic Location			
	North America	Europe	Asia-Pacific	Latin America
Industrial	233	178	98	22
Aerospace	28	5	3	1
Climate & Industrial Controls	42	8	4	1
Total	303	191	105	24

Several facilities are shared among each of the Company's operating segments. To avoid double counting, each shared facility is counted once, primarily in the Industrial Segment.

The Company believes that its properties have been adequately maintained, are in good condition generally and are suitable and adequate for its business as presently conducted. The extent to which the Company uses its properties varies by property and from time to time. The Company believes that its restructuring efforts have brought capacity levels closer to present and anticipated needs. Most of the Company's manufacturing facilities remain capable of handling additional volume increases.

ITEM 3. 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 continues to cooperate 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 must pay the fine on or before September 8, 2009.

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. A hearing was held in the matter on July 7, 2009. The matter was continued until certain other respondents are served. The ACCC appears to be investigating conduct for the period beginning as early as 1994 through 2007.

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 February 17, 2009, Parker ITR entered into a separate agreement to settle possible private causes of action outside the United States.

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

PART II

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

- (a) **Market for the Registrant's Common Equity.** The Company's common stock is listed for trading on the New York Stock Exchange. Information regarding stock price and dividend information with respect to the Company's common stock, as set forth on page 13-40 of Exhibit 13 to this Annual Report on Form 10-K, is incorporated into this section by reference. As of July 31, 2009, the number of shareholders of record of the Company was 4,513.
- (b) **Use of Proceeds.** Not Applicable.
- (c) **Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid Per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 1, 2009 through April 30, 2009	43,700	\$ 37.95	43,700	9,738,400
May 1, 2009 through May 31, 2009	35,000	\$ 44.88	35,000	9,703,400
June 1, 2009 through June 30, 2009	39,960	\$ 44.25	39,960	9,663,440
Total:	118,660	\$ 42.12	118,660	9,663,440

- (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.

ITEM 6. Selected Financial Data. The information set forth on page 13-45 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The information set forth on pages 13-2 to 13-12 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

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

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt, thereby limiting its exposure to changes in near-term interest rates. A 100 basis point increase in near-term interest rates would increase annual interest expense on variable rate debt by approximately \$8,033,803.

For further discussion, see the discussion of Significant Accounting Policies Footnote on page 13-20 of Exhibit 13 to this Annual Report on Form 10-K and incorporated into this section by reference.

ITEM 8. Financial Statements and Supplementary Data. The information set forth on pages 13-13 to 13-40 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. None.

ITEM 9A. Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of fiscal year 2009. Based on this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of fiscal year 2009, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting set forth on page 13-41 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference. The Report of Independent Registered Public Accounting Firm set forth on pages 13-42 and 13-43 of Exhibit 13 to this Annual Report on Form 10-K is incorporated into this section by reference.

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

ITEM 9B. Other Information. None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance. Information required with respect to the Directors of the Company is set forth under the caption “Election of Directors” in the definitive Proxy Statement for the Company’s 2009 Annual Meeting of Shareholders to be held October 28, 2009 (the “2009 Proxy Statement”) and is incorporated herein by reference. Information with respect to the executive officers of the Company is included in Part I, Item 1C hereof under the caption “Executive Officers of the Registrant”.

The information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2009 Proxy Statement is incorporated herein by reference.

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

The information set forth under the captions “Audit Committee Financial Experts” and “Report of the Audit Committee” in the 2009 Proxy Statement is incorporated herein by reference.

ITEM 11. Executive Compensation. The information set forth under the captions “Compensation Discussion and Analysis,” “Compensation Committee Report,” and “Compensation Tables” in the 2009 Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. The information set forth under the caption “Principal Shareholders” in the 2009 Proxy Statement is incorporated herein by reference. The information set forth under the caption “Equity Compensation Plan Information” in the 2009 Proxy Statement is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence. The information set forth under the captions “Certain Relationships and Related Transactions”, “Review and Approval of Transactions with Related Persons”, and “Director Independence” in the 2009 Proxy Statement is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services. The information set forth under the captions “Audit Fees,” “Audit-Related Fees,” “Tax Fees,” “All Other Fees” and “Audit Committee Pre-Approval Policies and Procedures” in the 2009 Proxy Statement is incorporated herein by reference.

ITEM 15. Exhibits and Financial Statement Schedules.

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

1. Financial Statements and Schedule

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

2. Exhibits

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PARKER-HANNIFIN CORPORATION

By: /s/ Timothy K. Pistell

Timothy K. Pistell

Executive Vice President – Finance and Administration
and Chief Financial Officer

August 27, 2009

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

Signature and Title

DONALD E. WASHKEWICZ, Chairman of the Board of Directors and Chief Executive Officer; JON P. MARTEN, Principal Accounting Officer; LINDA S. HARTY, Director; WILLIAM E. KASSLING, Director; ROBERT J. KOHLHEPP, Director; GIULIO MAZZALUPI, Director; KLAUS-PETER MÜLLER, Director; CANDY M. OBOURN, Director; JOSEPH M. SCAMINACE, Director; WOLFGANG R. SCHMITT, Director; MARKOS I. TAMBAKERAS, Director; and JAMES L. WAINSCOTT, Director.

Date: August 27, 2009

/s/ Timothy K. Pistell

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

PARKER-HANNIFIN CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

	Reference	
	Form 10-K Annual Report (Page)	Excerpt from Exhibit 13 (Page)
Data incorporated by reference from Exhibit 13:		
Management's Report on Internal Control over Financial Reporting	—	13 - 41
Report of Independent Registered Public Accounting Firm	—	13 - 42 to 13 - 44
Consolidated Statement of Income for the years ended June 30, 2009, 2008 and 2007	—	13 - 13
Consolidated Statement of Comprehensive Income for the years ended June 30, 2009, 2008 and 2007	—	13 - 13
Consolidated Balance Sheet at June 30, 2009 and 2008	—	13 - 16
Consolidated Statement of Cash Flows for the years ended June 30, 2009, 2008 and 2007	—	13 - 17
Notes to Consolidated Financial Statements	—	13 - 18 to 13 - 40
Schedule:		
II - Valuation and Qualifying Accounts	F-2	—

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

PARKER-HANNIFIN CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 2007, 2008 and 2009
 (Dollars in Thousands)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning Of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Other (Deductions)/ Additions (A)</u>	<u>Balance At End Of Period</u>
<u>Allowance for doubtful accounts:</u>				
Year ended June 30, 2007	\$ 12,332	\$ 2,133	\$ (2,810)	\$ 11,655
Year ended June 30, 2008	\$ 11,655	\$ 8,470	\$ (3,282)	\$ 16,843
Year ended June 30, 2009	\$ 16,843	\$ 9,157	\$ (6,185)	\$ 19,815
<u>Deferred tax asset valuation allowance:</u>				
Year ended June 30, 2007	\$ 7,391	\$ 20,788	\$ 717	\$ 28,896
Year ended June 30, 2008	\$ 28,896	\$ 53,324	\$ (3,589)	\$ 78,631
Year ended June 30, 2009	\$ 78,631	\$ 28,377	\$ 130	\$ 107,138

(A) For allowance for doubtful accounts, net balance of deductions due to uncollectible accounts charged off and additions due to acquisitions or recoveries. For deferred tax asset valuation allowance, primarily represents adjustments due to acquisitions.

Exhibit Index

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
	<u>Articles of Incorporation and By-Laws:</u>
(3)(a)	Amended Articles of Incorporation incorporated by reference to Exhibit 3 to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1997 (Commission File No. 1-4982).
(3)(b)	Code of Regulations, as amended, incorporated by reference to Exhibit 3(ii) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2007 (Commission File No. 1-4982).
	<u>Instruments Defining Rights of Security Holders:</u>
(4)(a)	Shareholder Protection Rights Agreement, dated as of February 8, 2007, between the Registrant and National City Bank incorporated by reference to Exhibit 1 to the Registrant's Form 8-A filed on February 8, 2007 (Commission File No. 1-4982). First Amendment to Shareholder Protection Rights Agreement, dated as of July 6, 2009, between the Registrant and Wells Fargo Bank, National Association, as successor to National City Bank. The Registrant is a party to other instruments, copies of which will be furnished to the Commission upon request, defining the rights of holders of its long-term debt identified in Note 9 of the Notes to Consolidated Financial Statements on page 13-27 of Exhibit 13 hereto, which Note is incorporated herein by reference.
	<u>Material Contracts:</u>
(10)(a)	Form of Parker-Hannifin Corporation Amended and Restated Change in Control Severance Agreement entered into by the Registrant and executive officers incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
(10)(b)	Parker-Hannifin Corporation Amended and Restated Change in Control Severance Plan incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
(10)(c)	Form of Indemnification Agreement entered into by the Registrant and its directors and executive officers incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission File No. 1-4982).*
(10)(d)	Form of Executive Life Insurance Agreement entered into by the Registrant and certain executives (including executive officers), as restated, incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2002 (Commission File No. 1-4982).*

- (10)(e) Form of Termination Agreement to the Executive Life Insurance Agreement entered into by the Registrant and executive officers incorporated by reference to Exhibit 10(g) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2005 (Commission File No. 1-4982).*
- (10)(f) Description of the Parker-Hannifin Corporation Officer Life Insurance Plan incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2005 (Commission File No. 1-4982).*
- (10)(g) Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program.*
- (10)(h) Form of Notice of Change to Long Term Disability Benefit and Tax Election Form for certain executive officers incorporated by reference to Exhibit 10(j) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2007 (Commission File No. 1-4982).*
- (10)(i) Parker-Hannifin Corporation Amended and Restated 1993 Stock Incentive Program.*
- (10)(j) Parker-Hannifin Corporation Amended and Restated 2003 Stock Incentive Plan.*
- (10)(k) Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed with the Commission on September 26, 2005 (Commission File No. 1-4982).*
- (10)(l) Form of 2008 Notice of Grant of Stock Options with Tandem Stock Appreciation Rights for executive officers incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K/A filed with the Commission on September 5, 2007 (Commission File No. 1-4982).*
- (10)(m) Form of 2009 Notice of Stock Options Award with Tandem Stock Appreciation Rights for executive officers incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(n) Form of Notice of FY09 Target Incentive Bonus Award Under the Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit 10(e) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(o) Form of 2007-08-09 Long Term Incentive Award Letter Under the Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit 10.6 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).*

- (10)(p) Form of 2008-09-10 Long Term Incentive Award Letter Under the Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit 10.4 to the Registrant's Report on Form 8-K/A filed with the Commission on September 5, 2007 (Commission File No. 1-4982).*
- (10)(q) Form of Notice of 2009-10-11 Long Term Incentive Award Under the Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit 10(f) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(r) Form of Notice of FY09 Return on Net Assets Bonus Award Under the Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit 10(g) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(s) Parker-Hannifin Corporation Summary of RONA Bonus Awards in Lieu of Certain Executive Perquisites incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(t) Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan incorporated by reference to Exhibit 10(i) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(u) Parker-Hannifin Corporation Amended and Restated Pension Restoration Plan incorporated by reference to Exhibit 10(j) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(v) Parker-Hannifin Corporation Amended and Restated Executive Deferral Plan incorporated by reference to Exhibit 10(k) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(w) Parker-Hannifin Corporation Volume Incentive Plan, as amended, incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2007(Commission File No. 1-4982).*
- (10)(x) Parker-Hannifin Corporation Sales Company Incentive Plan.*
- (10)(y) Amended and Restated Parker-Hannifin Corporation Non-Employee Directors' Stock Plan incorporated by reference to Exhibit 10(x) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).*
- (10)(z) Parker-Hannifin Corporation Non-Employee Directors Stock Option Plan incorporated by reference to Exhibit 10(w) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).*
- (10)(aa) Parker-Hannifin Corporation Amended and Restated 2004 Non-Employee Directors' Stock Incentive Plan.*

- (10)(bb) Form of 2007 Notice of Issuance of Restricted Stock for Non-Employee Directors incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).*
- (10)(cc) Form of 2008 Notice of Issuance of Restricted Stock for Non-Employee Directors incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2007 (Commission File No. 1-4982).*
- (10)(dd) Form of 2009 Notice of Issuance of Restricted Stock for Non-Employee Directors incorporated by reference to Exhibit 10(l) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(ee) Amended 2009 Notice of Issuance of Restricted Stock for Non-Employee Directors issued to William E. Kassling dated March 11, 2009 incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2009 (Commission File No. 1-4982).*
- (10)(ff) Amended 2009 Notice of Issuance of Restricted Stock for Non-Employee Directors issued to Joseph M. Scaminace dated March 11, 2009 incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2009 (Commission File No. 1-4982).*
- (10)(gg) Amended 2009 Notice of Issuance of Restricted Stock for Non-Employee Directors issued to Wolfgang R. Schmitt dated March 11, 2009 incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2009 (Commission File No. 1-4982).*
- (10)(hh) Amended and Restated Deferred Compensation Plan for Directors of Parker-Hannifin Corporation incorporated by reference to Exhibit 10(m) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (10)(ii) Summary of the Compensation of the Non-Employee Members of the Board of Directors, effective October 1, 2007, incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2007 (Commission File No. 1-4982).*
- (10)(jj) Summary of the Compensation of the Non-Employee Members of the Board of Directors, effective October 1, 2008, incorporated by reference to Exhibit 10(n) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).*
- (11) Computation of Common Shares Outstanding and Earnings Per Share is incorporated by reference to Note 5 of the Notes to Consolidated Financial Statements on pages 13-24 to 13-25 of Exhibit 13 hereto.
- (12) Computation of Ratio of Earnings to Fixed Charges as of June 30, 2009.

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- (13) Excerpts from Annual Report to Shareholders for the fiscal year ended June 30, 2009 which are incorporated herein by reference thereto.
 - (21) List of subsidiaries of the Registrant.
 - (23)(a) Consent of Independent Registered Public Accounting Firm – Deloitte & Touche LLP.
 - (23)(b) Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP.
 - (24) Power of Attorney.
 - (31)(i)(a) Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
 - (31)(i)(b) Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
 - (32) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.

* Management contracts or compensatory plans or arrangements.

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

**FIRST AMENDMENT
TO
SHAREHOLDER PROTECTION RIGHTS AGREEMENT**

THIS FIRST AMENDMENT TO SHAREHOLDER PROTECTION RIGHTS AGREEMENT (the "Amendment") is made and entered into as of July 6, 2009 by and among Parker-Hannifin Corporation, an Ohio corporation (the "Company"), and Wells Fargo Bank, National Association, a national banking association organized under the laws of the United States of America ("Wells Fargo").

WHEREAS, the Company and National City Bank, as Rights Agent ("National City") are parties to a certain Shareholder Protection Rights Agreement dated as of February 8, 2007 (the "Rights Agreement"); and

WHEREAS, the Company has (a) provided National City with written notice of the Company's election to remove National City as Rights Agent under the Rights Agreement effective as of the date hereof, and (b) appointed Wells Fargo as successor Rights Agent under the Rights Agreement effective as of the date hereof pursuant to a certain Transfer Agent Services Agreement of even date herewith by and between the Company and Wells Fargo; and

WHEREAS, the Company and Wells Fargo desire to further document such removal and appointment by amending the Rights Agreement as and to the extent set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises, covenants and agreements hereinafter set forth, the Company and Wells Fargo agree as follows:

1. Effect of Appointment. Pursuant to Section 4.4 of the Rights Agreement, Wells Fargo is, by virtue of its appointment by the Company as successor Rights Agent under the Rights Agreement, vested with the same powers, rights, duties and responsibilities as if Wells Fargo had been originally named as Rights Agent pursuant to the Rights Agreement.

2. Amendments to the Rights Agreement and Related Documents.

(a) From and after the date hereof, and so long as Wells Fargo shall continue to serve as the Rights Agent under the Rights Agreement, all references to the Rights Agent or National City contained in the Rights Agreement, any of the Rights Certificates issued pursuant to the Rights Agreement, any legend referring to the Rights Agreement contained on any outstanding stock certificates, or any other certificate, instrument or other document referring to, relating to or issued pursuant to the Rights Agreement, shall be deemed automatically to refer to Wells Fargo without the necessity of any further restatement, amendment or other modification of such references.

(b) The third paragraph of Section 2.6(a) of the Rights Agreement is hereby amended in its entirety to read as follows:

Promptly after the Separation Time, the Company will notify the Rights Agent of such Separation Time and will deliver Rights Certificates

executed by the Company to the Rights Agent for countersignature, and, subject to Section 3.1(b), the Rights Agent shall countersign (either manually or by facsimile) and deliver such Rights Certificates to the holders of the Rights pursuant to Section 2.3(c). No Rights Certificate shall be valid for any purpose unless so countersigned by the Rights Agent.

(c) Section 2.10 of the Rights Agreement is hereby amended in its entirety to read as follows:

2.10 Delivery and Cancellation of Certificates.

(a) All Rights Certificates surrendered upon exercise or for registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Company may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificates shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this Section 2.10, except as expressly permitted by this Agreement.

(b) The Rights Agent shall (i) destroy all cancelled Rights Certificates and (ii) subject to applicable law, maintain records (in hard copy or electronically in a retrievable database) of all cancelled Rights Certificates and all Rights Certificates which have been destroyed by the Rights Agent. The Rights Agent shall maintain such records for the time period required by applicable law. Upon written request of the Company, the Rights Agent shall provide copies of such records to the Company or its designee.

3. Other References. From and after the date hereof, each reference in the Rights Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of similar import referring to the Rights Agreement shall mean and refer to the Rights Agreement as amended and supplemented hereby. The Rights Agreement, as amended and supplemented hereby, is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects.

4. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK;
SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

PARKER-HANNIFIN CORPORATION

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Thomas A. Piraino, Jr.
Thomas A. Piraino, Jr.
Vice President, General Counsel and Secretary

By: /s/ Tracie L. Balach
Name: Tracie L. Balach
Title: Assistant Vice President and Account Manager

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 06/30/09]

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.

(SERP) Amended and Restated Supplemental Executive Retirement Benefits Program (07.21.08)

- (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

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).

- (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;

- (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 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:

- (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 $\frac{1}{12}$ th 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 $\frac{1}{12}$ of $66\frac{2}{3}\%$ 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 $\frac{1}{12}$ th 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 $\frac{1}{12}$ th of 66 $\frac{2}{3}$ % 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(e) 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.

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:

- (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.

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.

PARKER-HANNIFIN CORPORATION
AMENDED & RESTATED 1993 STOCK INCENTIVE PROGRAM

Effective: April 22, 1993
Amended: August 15, 1996
Amended: October 22, 1997
Amended: January 28, 2009

1. Purpose.

The 1993 Stock Incentive Program is intended to help maintain and develop strong management through ownership of shares of the Corporation by key employees of the Corporation and its Subsidiaries and for recognition of efforts and accomplishments which contribute materially to the success of the Corporation's business interests.

2. Definitions.

In this Program, except where the context otherwise indicates, the following definitions apply:

- (a) "Award" means a stock option, stock appreciation right ("SAR"), restricted stock, incentive share, dividend equivalent right ("DER"), or other award under this Program.
- (b) "Board" means the Board of Directors of the Corporation.
- (c) "Change in Control" means the occurrence of one of the following events:
 - (i) any "person" (as such term is defined in Section 3(a)(9) of 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 Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding securities eligible to vote for the election of the Board (the "Corporation's Voting Securities"); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Corporation or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Corporation or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) as pertains to an individual Grantee, any acquisition by the Grantee or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Grantee (or any entity in which the Grantee or a group of persons including the Grantee, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Corporation Voting Securities from the Corporation, if a majority of the Board approves a

resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);

- (ii) 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 thereof; provided, that (A) any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Corporation'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 Corporation in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), 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 Corporation 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;
- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Corporation or any Subsidiary that requires the approval of the Corporation's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Corporation Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Corporation 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 Corporation Voting Securities among the holders thereof immediately prior to the Business Combination, (2) 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 (3) 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 (B) the Business Combination is effected by means of the acquisition of Corporation Voting Securities from the Corporation, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or

- (iv) the stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation and its Subsidiaries. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Corporation Voting Securities as a result of the acquisition of Corporation Voting Securities by the Corporation which, by reducing the number of Corporation Voting Securities 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 Corporation (if not for the operation of this sentence), and after the Corporation's acquisition such person becomes the beneficial owner of additional Corporation Voting Securities that increases the percentage of outstanding Corporation Voting Securities beneficially owned by such person, a Change in Control shall then occur.

Notwithstanding anything in this Program to the contrary, if a Grantee's employment is terminated prior to a Change in Control, and the Grantee 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 Change in Control, (a "Third Party"), 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 Change in Control for such Grantee.

- (d) "Code" means the Internal Revenue Code, as in effect from time to time.
- (e) "Compensation and Management Development Committee" or "Committee" means the committee of the Board so designated. The Committee will be constituted in a manner that satisfies all applicable legal requirements, including satisfying the disinterested administration standard set forth in Rule 16b-3.
- (f) "Corporation" means Parker-Hannifin Corporation, an Ohio corporation, and its Subsidiaries.
- (g) "Designated beneficiary" means the person designated by the grantee of an award hereunder to be entitled, on the death of the grantee, to any remaining rights arising out of such award. Such designation must be made in writing and in accordance with such regulations as the Committee may establish.
- (h) "Detrimental activity" means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the rendering of services for an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Corporation; (ii) the disclosure to any one outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by the employee during or after employment with the Corporation; or (iii) fraud, embezzlement, theft-in-office or other illegal activity.

- (i) "Dividend equivalent right," herein sometimes called a "DER," means the right of the holder thereof to receive, pursuant to the terms of the DER, credits based on the cash dividends that would be paid on the shares specified in the DER if such shares were held by the grantee, as more particularly set forth in Section 12(a) below.
- (j) "Eligible employee" means an employee who is an officer, or in a managerial, executive, technical, professional, or other key position as determined by the Committee.
- (k) "Employee" means a regular employee of the Corporation or one of its Subsidiaries.
- (l) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.
- (m) "Fair market value" in relation to a share as of any specific time shall mean, except as provided in Section 8 and 9, such value as reported for New York Stock Exchange—Composite Transactions on such date, or if no shares are traded on that date, the next preceding date on which trading occurred.
- (n) "Grantee" means a recipient of an award under this Program.
- (o) "Incentive share" means an award of shares granted pursuant to Section 11 below.
- (p) "Incentive stock option," herein sometimes called an "ISO," means a stock option meeting the requirements of Section 422 of the Code or any successor provision.
- (q) "Insider" means a person subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to equity securities of the Corporation.
- (r) "Restricted stock" means any share issued with the restriction that the holder may not sell, transfer, pledge, or assign such share and such other restrictions (which may include, but are not limited to, restrictions on the right to vote or receive dividends) which may expire separately or in combination, at one time or in installments, all as specified by the grant.
- (s) "Rule 16b-3" means Rule 16b-3 (or any successor thereto) under the Exchange Act that exempts from Section 16(b) of the Exchange Act transactions under employee benefit plans, as in effect from time to time with respect to this Program.
- (t) "Share" means a common share, par value \$.50, of the Corporation issued and reacquired by the Corporation or previously authorized but unissued.
- (u) "Shareholder-approved plan" means any of the plans constituting parts of any of the incentive programs previously or hereafter approved by shareholders of the Corporation.

- (v) "Stock appreciation right," herein sometimes called an "SAR," means the right of the holder thereof to receive, pursuant to the terms of the SAR, a number of shares or cash or a combination of shares and cash, based on the increase in the value of the number of shares specified in the SAR, as more particularly set forth in Section 9 below.
- (w) "Subsidiary" means any corporation, partnership, or other entity in which the Corporation, directly or indirectly, owns a 50 percent or greater equity interest.
- (x) "Terminate" means cease to be an employee, except by death, but a change of employment from the Corporation or one Subsidiary to another Subsidiary or to the Corporation shall not be considered a termination.
- (y) "Terminate normally" for an employee participating in this Program means terminate:
 - (i) as a result of retirement under the applicable retirement plan or policy of the Corporation or a Subsidiary,
 - (ii) as a result of that employee becoming eligible for disability income under the Corporation's long-term disability program, or
 - (iii) with written approval of the Committee given in the context of recognition that all or a specified portion of the outstanding awards to that employee will not expire or be forfeited or annulled because of such termination and, in each such case, without being terminated for cause.
- (z) "Year" means fiscal year.

3. Eligibility

The selection of eligible employees to receive awards will be within the discretion of the Committee. More than one award may be granted to the same eligible employee. Members of the Committee are not eligible for the grant of awards.

4. Administration

- (a) The Committee shall administer this Program. The Committee will, subject to the terms of the Program, have the authority to (i) select the eligible employees who will receive awards; (ii) grant awards; (iii) determine the number and types of awards to be granted to employees; (iv) determine the terms, conditions, vesting periods and restrictions applicable to awards; (v) adopt, alter and repeal administrative rules and practices governing this Program; (vi) interpret the terms and provisions of this Program and any awards granted under this Program; (vii) prescribe the forms of any notices of awards or other instruments relating to awards; and (viii) otherwise supervise the administration of this Program. All decisions by the Committee will be made with the approval of not less than a majority of its members.

- (b) All determinations and interpretations pursuant to the provisions of this Program shall be binding and conclusive upon the individual employees involved and all persons claiming under them.
- (c) With respect to Insiders, transactions under this Program are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Program or any action by the Committee under this Program fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3, provided that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent permitted by law and deemed advisable by the appropriate authority. Each award to an Insider under this Program shall be deemed issued subject to the foregoing qualification.
- (d) An award under this Program is not transferable except, as provided in the award, by will, pursuant to the laws of descent and distribution, or pursuant to a qualified domestic relations order, and is not subject, in whole or in part, to attachment, execution, or levy of any kind. The designation by a grantee of a designated beneficiary shall not constitute a transfer. Notwithstanding the foregoing, an employee may transfer any nonqualified stock option granted under this Plan to members of his immediate family (defined as his children, grandchildren and spouse) or to one or more trusts for the benefit of such family members or partnerships in which such family members are the only partners if the instrument evidencing such stock option expressly so provides (or is amended to so provide) and the employee does not receive any consideration for the transfer; provided that any such transferred stock option shall continue to be subject to the same terms and conditions that are applicable to such stock option immediately prior to its transfer (except that such transferred stock option shall not be further transferable by the transferee inter vivos).
- (e) Any rights with respect to an award granted under this Program existing after the grantee dies are exercisable by the grantee's designated beneficiary or, if there is no such designated beneficiary who may, and does, lawfully do so, by the grantee's personal representative.
- (f) Except as otherwise provided herein, a particular form of award may be granted to an eligible employee either alone or in addition to other awards hereunder. The provisions of particular forms of award need not be the same with respect to each recipient.
- (g) The Committee may delegate any of its authority to any other person or persons that it deems appropriate, provided the delegation does not cause the Program or any awards granted under this Program to fail to qualify for the exemption provided by Rule 16b-3.
- (h) This Program and all action taken under it shall be governed by the laws of the State of Ohio without giving effect to the principles of conflict of laws thereof.

5. Term

This Program will continue in effect until terminated by the Board.

6. Awards That May Be Granted

The aggregate number of shares that may be subject to awards granted under this Program in any fiscal year, subject to adjustment as provided in Section 7 below, will be equal to the sum of (a) one and one-half percent (1.5%) of the number of shares outstanding on the last day of the previous fiscal year; plus (b) the number of shares that were available for the grant of awards in previous fiscal years; provided, that, in no event will the number of shares available for the grant of awards in any fiscal year exceed two and one-half percent (2.5%) of the shares outstanding on the last day of the previous fiscal year. The aggregate number of shares that may be issued upon exercise of ISOs is 1,000,000. When an unexercised award lapses, expires, terminates or is forfeited, the related shares may be available for distribution in connection with future awards but will continue to be subject to the 2.5% maximum described above. The assumption of awards granted by an organization acquired by the Corporation, or the grant of awards under this Program in substitution for any such awards, will not reduce the number of shares available in any fiscal year for the grant of awards under this Program.

7. Adjustments

In the event that the Committee shall determine that any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase common stock of the Corporation at a price substantially below fair market value, or other similar corporate event affects the common stock of the Corporation such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under this Program, then the Committee shall, in its sole discretion, and in such manner as the Committee may deem equitable, adjust any or all of (a) the number and kind of shares which thereafter may be the subject of Awards under this Program, (b) the number and kind of shares subject to outstanding Awards, and (c) the exercise price with respect to any of the foregoing.

8. Stock Options

One or more stock options can be granted to any eligible employee. No employee may be granted stock options for more than 500,000 (increased to 750,000 as of 10/1/07 stock split pursuant to adjustment provided in Section 7) shares of common stock in any three-year period. Each stock option so granted shall be subject to such terms and conditions as the Committee shall impose. The exercise price per share shall be specified by the grant, but shall in no instance be less than 100 percent of Fair Market Value at the time of grant. Payment of the exercise price shall be made in cash, shares, or other consideration, or any combination thereof, in accordance with the terms of this Program and any applicable regulations of the Committee in effect at the time and valued at Fair Market Value on the exercise date of the stock option. Fair Market Value on the exercise date shall be determined pursuant to administrative rules established by the

Committee from time to time in accordance with applicable law. Stock options granted hereunder may be designated as ISOs (except to the extent otherwise specified in this Section 8) or nonqualified stock options. To the extent that the aggregate fair market value of shares with respect to which stock options designated as ISOs are exercisable for the first time by any grantee during any year (under all plans of the Corporation and any Subsidiary thereof) exceeds \$100,000, such stock options shall be treated as not being ISOs. ISOs must comply with requirements of Section 422 of the Code.

9. Stock Appreciation Rights

- (a) An SAR may be granted to an eligible employee as a separate award under this Plan. Any SAR granted under this Plan shall be subject to such terms and conditions as the Committee may impose, which shall include provisions that (i) such SAR shall entitle the holder upon exercise in accordance with such SAR and the regulations of the Committee, to receive from the Corporation that number of shares having an aggregate value equal to the excess of the Fair Market Value, on the exercise date, of one share over the exercise price per share specified by the grant of such SAR (which shall in no instance be less than 100 percent of fair market value at the time of grant) times the number of shares specified in such SAR, or portion thereof, which is so exercised. Fair Market Value on the exercise date shall be determined pursuant to administrative rules established by the Committee from time to time in accordance with applicable law.
- (b) Any stock option granted under this Program may include an SAR, either at the time of grant or by amendment. An SAR included in a stock option shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that:
 - (i) such SAR shall be exercisable to the extent, and only to the extent, the stock option is exercisable; and
 - (ii) such SAR shall entitle the optionee to surrender to the Corporation unexercised the stock option in which the SAR is included, or any portion thereof, and to receive from the Corporation in exchange therefor that number of shares having an aggregate value equal to the excess of the fair market value, at the time of exercise of such SAR, of one share over the exercise price specified in such stock option times the number of shares specified in such stock option, or portion thereof, which is so surrendered.
- (c) In lieu of the right to receive all or any specified portion of such shares, an SAR may entitle the holder thereof to receive the cash equivalent thereof as specified by the grant.
- (d) An SAR may provide that such SAR shall be deemed to have been exercised at the close of business on the business day preceding the expiration of such SAR or the related stock option, if any, if at such time such SAR has positive value and would have expired.

10. Restricted Stock

- (a) An award of restricted stock may be granted hereunder to an eligible employee, for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of restricted stock, including the vesting period, shall be specified by the Committee, at its sole discretion, in the grant.
- (b) Any restricted stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of restricted stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.

11. Incentive Shares

- (a) An incentive award may be granted hereunder in the form of shares. Incentive shares may be granted to an eligible employee for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of incentive shares shall be specified by the grant.
- (b) Incentive shares may be paid to the grantee in a single installment or in installments and may be paid at the time of grant or deferred to a later date or dates. Each grant shall specify the time and method of payment as determined by the Committee.

12. Dividend Equivalent Rights; Interest Equivalents

- (a) A DER may be granted hereunder to an eligible employee, as a component of another award or as a separate award. The terms and conditions of DERs shall be specified by the grant. Dividend equivalents credited to the holder of a DER may be paid currently or may be deemed to be reinvested in additional shares (which may thereafter accrue additional dividend equivalents). Any such reinvestment shall be at fair market value at the time thereof. DERs may be settled in cash or shares or a combination thereof, in a single installment or installments. A DER granted as a component of another award may provide that such DER shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other award, and that such DER shall expire or be forfeited or annulled under the same conditions as such other award. A DER granted as a component of another award may also contain terms and conditions different from such other award.
- (b) Any award under this Program that is settled in whole or in part in cash on a deferred basis may provide by the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

13. Deferral of Payment

With the approval of the Committee, the delivery of shares, cash or any combination thereof subject to an award may be deferred, either in the form of installments or a single future delivery. The Committee may also permit selected grantees to defer payment of some or all of their awards, as well as other compensation, in accordance with procedures established by the Committee to assure that recognition of taxable income is deferred under the Code.

14. Termination of Employment

If the employment of a grantee terminates for any reason, all unexercised, deferred and unpaid awards may be exercisable and paid only in accordance with rules established by the Committee. These rules may provide, as the Committee deems appropriate, for the expiration, continuation, or acceleration of the vesting of all or part of the awards.

15. Detrimental Activity

The Committee may cancel any unexpired, unpaid or deferred awards at any time if the grantee is not in compliance with all applicable provisions of this Program or with the terms of any notice of award or if the grantee engages in detrimental activity. The Committee may, in its discretion and as a condition to the exercise of an award, require a grantee to acknowledge that he or she is in compliance with all applicable provisions of the Program and of any notice of award and has not engaged in any detrimental activity.

16. Change in Control

The Committee may in its discretion and upon such terms as it deems appropriate, accelerate the date on which any outstanding option or SAR becomes exercisable or waive the restrictions or other terms and conditions on the vesting of any restricted or incentive shares in the event of a proposed change in control of the Corporation. In addition to the foregoing, the Corporation may, with the approval of the Committee, purchase stock options previously granted to any person who is at the time of any such transaction an employee of the Corporation for a price equal to the difference between the consideration per share payable pursuant to the terms of the transaction and the option price.

17. Substitute Awards

The Committee may grant awards in substitution for, or upon the assumption of, awards granted by another corporation that is merged into, consolidated with, or all or a substantial part of the assets or stock of which is acquired by the Corporation or a Subsidiary. The terms and provisions of any awards granted under this Section 16 may vary from the terms and provisions otherwise specified in this Program and may, instead, correspond to the terms and provisions of the awards granted by the other corporation.

18. Amendments to This Program; Amendments of Outstanding Awards

- (a) The Board can from time to time amend or terminate this Program, or any provision hereof. Approval of the shareholders of the Corporation will be required only to the extent necessary to comply with Rule 16b-3 or any other applicable law, regulation, or listing requirement, or to qualify for an exemption or characterization that is deemed desirable by the Board.
- (b) The Committee may, in its discretion, amend the terms of any award, prospectively or retroactively, but no such amendment may impair the rights of any grantee without his or her consent. The Committee may, in whole or in part, waive any restrictions or conditions applicable to, or accelerate the vesting of, any award.

19. Withholding Taxes

The Corporation shall have the right to deduct from any cash payment made under this Program any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Corporation to deliver shares or securities of the Corporation upon exercise of a stock option or SAR, upon settlement of a DER, upon delivery of restricted stock or incentive shares, or upon exercise, settlement, or payment of any other award under this Program, that the grantee of such award pay to the Corporation such amount as may be requested by the Corporation for the purpose of satisfying any liability for such withholding taxes. Any award under this Program may provide by the grant that the grantee of such award may elect, in accordance with any applicable regulations of the granting authority, to pay a portion or all of the amount of such minimum required or additional permitted withholding taxes in shares. The grantee shall authorize the Corporation to withhold, or shall agree to surrender back to the Corporation, on or about the date such withholding tax liability is determinable, shares previously owned by such grantee or a portion of the shares that were or otherwise would be distributed to such grantee pursuant to such award having a fair market value equal to the amount of such required or permitted withholding taxes to be paid in shares.

20. Grants of Awards to Employees Who are Foreign Nationals

Without amending this Program, but subject to the limitations specified in Section 18 above, the Committee can grant, amend, administer, annul, or terminate awards to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Program as may in the judgment of the granting authority be necessary or desirable to foster and promote achievement of the purposes of this Program.

21. Rights of Employees

Nothing in this Program will confer upon any grantee the right to continued employment by the Corporation or limit in any way the Corporation's right to terminate any grantee's employment at will.

22. Effective Date

This Program was ratified by the Board and became effective on April 22, 1993, subject to approval of the shareholders on or before October 28, 1993. Awards may be granted prior to approval of the Program by shareholders, but no such award may be exercised until after the Program has been approved by shareholders. If the shareholders do not approve the Program on or before October 28, 1993, all awards granted under the Program shall terminate. This Program was amended and restated on August 15, 1996, October 22, 1997 and January 28, 2009.

PARKER-HANNIFIN CORPORATION
AMENDED & RESTATED
2003 STOCK INCENTIVE PLAN

1. Purpose

The 2003 Stock Incentive Plan is intended to help maintain and develop strong management through ownership of Shares of the Corporation by key employees of the Corporation and its Subsidiaries and for recognition of efforts and accomplishments which contribute materially to the success of the Corporation's business interests.

2. Definitions

In this Plan, except where the context otherwise indicates, the following definitions apply:

- (a) "Award" means a Stock Option, a Stock Appreciation Right, Restricted Stock, or a Dividend Equivalent Right.
- (b) "Board" means the Board of Directors of the Corporation.
- (c) "Change in Control" means the occurrence of one of the following events:
 - (i) any "person" (as such term is defined in Section 3(a)(9) of 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 Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding securities eligible to vote for the election of the Board (the "Corporation's Voting Securities"); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Corporation or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Corporation or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) as pertains to an individual Grantee, any acquisition by the Grantee or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Grantee (or any entity in which the Grantee or a group of persons including the Grantee, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Corporation Voting Securities from the Corporation, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);
 - (ii) 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 thereof; provided, that (A) any person becoming a

director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Corporation'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 Corporation in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), 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 Corporation 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;

- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Corporation or any Subsidiary that requires the approval of the Corporation's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Corporation Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Corporation 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 Corporation Voting Securities among the holders thereof immediately prior to the Business Combination, (2) 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 (3) 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 (B) the Business Combination is effected by means of the acquisition of Corporation Voting Securities from the Corporation, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or
- (iv) the stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation and its Subsidiaries. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Corporation Voting Securities as a result of the acquisition of Corporation Voting

Securities by the Corporation which, by reducing the number of Corporation Voting Securities 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 Corporation (if not for the operation of this sentence), and after the Corporation's acquisition such person becomes the beneficial owner of additional Corporation Voting Securities that increases the percentage of outstanding Corporation Voting Securities beneficially owned by such person, a Change in Control shall then occur.

Notwithstanding anything in this Plan to the contrary, if a Grantee's employment is terminated prior to a Change in Control, and the Grantee 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 Change in Control (a "Third Party"), then for all purposes of this Plan, the date immediately prior to the date of such termination of employment shall be deemed to be the date of a Change in Control for such Grantee.

- (d) "Code" means the Internal Revenue Code and the regulations promulgated thereunder, as in effect from time to time.
- (e) "Human Resources and Compensation Committee" or "Committee" means the committee of the Board so designated. The Committee will be constituted in a manner that satisfies all applicable legal requirements, including satisfying any independence standard contained in the listing requirements of the New York Stock Exchange.
- (f) "Corporation" means Parker-Hannifin Corporation, an Ohio corporation, and its Subsidiaries.
- (g) "Designated Beneficiary" means the person designated by the Grantee of an Award hereunder to be entitled, on the death of the Grantee, to any remaining rights arising out of such Award. Such designation must be made in writing and in accordance with such regulations as the Committee may establish.
- (h) "Detrimental Activity" means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the 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 Corporation; (ii) the disclosure to any one outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by the Grantee during or after employment with the Corporation; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Corporation's Code of Ethics.
- (i) "Dividend Equivalent Right," herein sometimes called a "DER," means the right of the Grantee thereof to receive, pursuant to the terms of the DER, credits based on the cash dividends that would be paid on the Shares specified in the DER if such shares were held by the grantee, as more particularly set forth in Section 10(a) below.

- (j) “Eligible Employee” means an Employee who is an officer, or in a managerial, executive, technical, professional, or other key position as determined by the Committee.
- (k) “Employee” means an employee of the Corporation or one of its Subsidiaries.
- (l) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.
- (m) “Fair Market Value” in relation to a Share as of any specific time shall mean, except as otherwise provided pursuant to Section 7(a) or Section 8(a) below, the closing price as reported for the New York Stock Exchange—Composite Transactions on such date, or if no shares are traded on that date, the next preceding date on which trading occurred.
- (n) “Grantee” means a recipient of an Award under this Plan.
- (o) “Incentive Stock Option,” also sometimes called an “ISO,” means a stock option meeting all of the requirements of Section 422 of the Code or any successor provision.
- (p) “Insider” means a person subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to equity securities of the Corporation.
- (q) “Restricted Stock” means any Share issued with the restriction that the Grantee may not sell, transfer, pledge, or assign such Share and such other restrictions (which may include, but are not limited to, restrictions on the right to vote or receive dividends) which may expire separately or in combination, at one time or in installments, all as specified by the Award.
- (r) “Rule 16b-3” means Rule 16b-3 (or any successor thereto) under the Exchange Act that exempts from Section 16(b) of the Exchange Act transactions under employee benefit plans, as in effect from time to time with respect to this Plan.
- (s) “Share” means a common share, par value \$.50, of the Corporation issued and reacquired by the Corporation or previously authorized but unissued.
- (t) “Stock Appreciation Right,” also sometimes called an “SAR,” means the right to receive, pursuant to the terms of the Award, a number of Shares or cash or a combination of Shares and cash, based on the increase in the Fair Market Value of the number of Shares specified in the Award, as more particularly set forth in Section 8 below.
- (u) “Stock Option” means the right to acquire a number of Shares upon payment to the Corporation of the exercise price specified in the Award.
- (v) “Subsidiary” means any corporation, partnership, or other entity in which the Corporation, directly or indirectly, owns a 50 percent or greater equity interest.
- (w) “Terminate” or “Termination” means to cease to be an Employee of the Corporation or a Subsidiary of the Corporation, except by death, but a change of employment from the Corporation or one Subsidiary to another Subsidiary or to the Corporation shall not be considered a termination.

- (x) "Terminate Normally" means to Terminate:
 - (i) as a result of retirement under the applicable retirement plan or policy of the Corporation or a Subsidiary,
 - (ii) as a result of that Employee becoming eligible for disability income under the Corporation's long-term disability Plan, or
 - (iii) with written approval of the Committee given in the context of recognition that all or a specified portion of the Employee's outstanding Awards will not expire or be forfeited or annulled because of such Termination and, in each such case, without being Terminated for cause.
- (y) "1993 Program" means the Corporation's 1993 Stock Incentive Program.

3. Eligibility

The selection of eligible Employees to receive Awards under this Plan will be within the discretion of the Committee. More than one Award may be granted to an Eligible Employee. Members of the Committee are not eligible for the grant of Awards.

4. Administration

- (a) The Committee shall administer this Plan. The Committee will, subject to the terms of the Plan, have the authority to (i) select the eligible Employees who will receive Awards; (ii) grant Awards; (iii) determine the number and types of Awards to be granted to Employees; (iv) subject to the terms of the Plan, determine the terms, conditions, vesting periods and restrictions applicable to Awards; (v) adopt, alter and repeal administrative rules and practices governing this Plan; (vi) interpret the terms and provisions of this Plan and any Awards granted under this Plan; (vii) prescribe the forms of any notices of Awards or other instruments relating to Awards; and (viii) otherwise supervise the administration of this Plan. All decisions by the Committee will be made with the approval of not less than a majority of its members.
- (b) All determinations and interpretations pursuant to the provisions of this Plan shall be binding and conclusive upon the individual Employees involved and all persons claiming under them.
- (c) With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Plan or any action by the Committee under this Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3, provided that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent permitted by law and deemed advisable by the appropriate authority. Each Award to an Insider under this Plan shall be deemed issued subject to the foregoing qualification.

- (d) Except as otherwise determined by the Committee, an Award under this Plan is not transferable other than by will or the laws of descent and distribution and is not subject, in whole or in part, to attachment, execution, or levy of any kind.
- (e) Any rights with respect to an Award granted under this Plan existing after the Grantee dies are exercisable by the Grantee's Designated Beneficiary or, if there is no such Designated Beneficiary who may, and does, lawfully do so, by the Grantee's personal representative.
- (f) Except as otherwise provided herein, a particular form of Award may be granted to an eligible Employee either alone or in addition to other Awards hereunder. The provisions of particular forms of Award need not be the same with respect to each recipient.
- (g) The Committee may delegate any of its authority to any other person or persons that it deems appropriate, provided the delegation does not cause the Plan or any Awards granted under this Plan to fail to qualify for the exemption provided by Rule 16b-3 or violate any independence standard contained in the New York Stock Exchange listing requirements.
- (h) This Plan and all action taken under it shall be governed by the laws of the State of Ohio without giving effect to the principles of conflict of laws thereof.
- (i) The Committee may permit or require any Grantee to exercise any Stock Options or SARs by means of electronic signature.
- (j) Each Award shall be evidenced in such form (written, electronic or otherwise) as the Committee shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan.

5. **Awards That May Be Granted**

- (a) The aggregate number of Shares that may be delivered (i) upon the exercise of a Stock Option or SAR; (ii) as Restricted Stock and released from a substantial risk of forfeiture thereof; or (iii) in payment of DERs, subject to adjustment as provided in the Plan, is equal to the sum of (A) 9,000,000 (increased to 13,500,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6)); plus (B) the amount of any Shares that are not delivered to an Employee by reason of (1) the expiration, termination, cancellation or forfeiture of an award under the 1993 Program; and (2) the tendering or withholding of Shares to satisfy all or a portion of the exercise price or tax withholding obligations relating to Shares issued or distributed under an award under the 1993 Program.
- (b) The aggregate number of Shares that may be issued upon exercise of ISOs is 3,000,000 (increased to 4,500,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6).
- (c) The aggregate number of Shares of Restricted Stock that may be issued hereunder is 5,000,000 (increased to 7,500,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6).

- (d) To the extent that Shares subject to an outstanding Award are not delivered to a Grantee by reason of the expiration, termination, cancellation or forfeiture of such Award or by reason of the tendering or withholding of Shares to satisfy all or a portion the tax withholding obligations relating to an Award, then such Shares shall not be deemed to have been delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. If the exercise price of any Stock Option granted under the Plan is satisfied by tendering Shares (by actual delivery or attestation), only the number of shares issued to the participant net of the Shares tendered shall be deemed to be delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. When an unexercised Award lapses, expires, terminates or is forfeited, the related Shares may be available for distribution in connection with future Awards. If the benefit provided by any Award is paid in cash, any Shares covered by the Award will be available for distribution in connection with future Awards.
- (e) The assumption of Awards granted by an organization acquired by the Corporation, or the grant of Awards under this Plan in substitution for any such Awards, will not reduce the number of Shares available for the grant of Awards under this Plan.

6. Adjustments

In the event that the Committee shall determine that any (a) stock dividend, stock split, combination of Shares, recapitalization or other change in the capital structure of the Corporation, or (b) merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) other corporate transaction or event having an effect similar to any of the foregoing affects the Shares of the Corporation such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under this Plan, then the Committee shall, in its sole discretion, and in such manner as the Committee may deem equitable, adjust any or all of (i) the number and kind of Shares which thereafter may be the subject of Awards under this Plan, (ii) the number and kind of Shares subject to outstanding Awards, and (iii) the exercise price with respect to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for any or all outstanding Awards under this Plan such alternative consideration as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all Awards so replaced.

7. Stock Options

- (a) One or more Stock Options may be granted to any eligible Employee. No Employee may be granted Stock Options for more than 1,000,000 (increased to 1,500,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6) Shares in any three-year period. Each Stock Option so granted shall be subject to such terms and conditions as the Committee shall impose. The exercise price per Share shall be specified by the Award, but shall in no instance be less than 100 percent of Fair Market Value at the time of the Award. Payment of the exercise price shall be made in cash, Shares, or other consideration, or any combination thereof, in accordance with the terms of this Plan and any applicable regulations of the Committee in effect at the time and valued at Fair Market Value on the exercise date. The Fair Market Value on the exercise date shall be

determined pursuant to administrative rules established by the Committee from time to time in accordance with applicable law. All Stock Options granted hereunder shall have a maximum life of no more than ten (10) years from the date of issuance of the Award. In no event shall any Stock Option vest sooner than one (1) year from date of issuance of the Award except in the event of a Change in Control.

- (b) Stock Options granted hereunder may be designated as ISOs (except to the extent otherwise specified in this Section 7) or nonqualified Stock Options. ISOs may be granted only to Eligible Employees which meet the definition of "employees" under Section 3401(c) of the Code. To the extent that the aggregate Fair Market Value of Shares with respect to which Stock Options designated as ISOs are exercisable for the first time by any Grantee during any year (under all plans of the Corporation and any Subsidiary thereof) exceeds \$100,000, such stock options shall be treated as not being ISOs. ISOs and Awards thereof must comply with all of the requirements of Section 422 of the Code.
- (c) The Committee shall not adjust or amend the exercise price of Stock Options previously awarded to any Grantee, whether through amendment, cancellation and replacement grant, or any other means.
- (d) The Committee may grant reload Stock Options, separately or together with another Stock Option, pursuant to which, subject to the terms and conditions established by the Committee, the Grantee would be granted a new Stock Option when the payment of the exercise price of a previously granted Stock Option is made by the delivery of Shares owned by the Grantee, which new Stock Option would be an option to purchase the number of Shares not exceeding the number of Shares so provided as consideration upon the exercise of the previously granted Stock Option to which such reload Stock Option relates. Reload Stock Options may be granted with respect to Stock Options previously granted under the Plan or any other Stock Option plan of the Corporation. Reload Stock Options shall have a per Share exercise price equal to the Fair Market Value as of the date of grant of the reload Stock Option. Any Reload Option shall be subject to availability of sufficient Shares for grant under the Plan.

8. Stock Appreciation Rights

- (a) An SAR may be granted to an eligible Employee as a separate Award hereunder. No Employee may be granted SARs for more than 1,000,000 (increased to 1,500,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6) Shares in any three-year period. Any SAR shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that (i) such SAR shall entitle the Grantee, upon exercise thereof in accordance with such SAR and the regulations of the Committee, to receive from the Corporation that number of Shares having an aggregate value equal to the excess of the Fair Market Value, at the time of exercise of such SAR, of one Share over the exercise price per Share specified by the Award of such SAR (which shall in no instance be less than 100 percent of Fair Market Value at the time of the Award) (the "Appreciation") times the number of Shares specified in such SAR, or portion thereof, which is so exercised. The Fair Market Value at exercise shall be determined pursuant to administrative rules established by the Committee from time to time in accordance applicable law.

- (b) Any Stock Option granted under this Plan may include an SAR, either at the time of the Award or by amendment. An SAR included in a Stock Option shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that
 - (i) such SAR shall be exercisable to the extent, and only to the extent, the Stock Option is exercisable; and
 - (ii) such SAR shall entitle the Grantee to surrender to the Corporation unexercised the Stock Option in which the SAR is included, or any portion thereof, and to receive from the Corporation in exchange therefor that number of shares having an aggregate value equal to the excess of the Fair Market Value, at the time of exercise of such SAR, of one Share over the exercise price specified in the Award of such Stock Option times the number of Shares specified in the Award of such Stock Option, or portion thereof, which is so surrendered.
- (c) All SARs granted hereunder shall have a maximum life of ten (10) years from the date of issuance of the Award. In no event shall any SAR vest sooner than one (1) year from the date of issuance of the Award except in the event of a Change in Control.
- (d) In lieu of the right to receive all or any specified portion of such Shares, an SAR may entitle the holder thereof to receive the cash equivalent thereof as specified by the Award.
- (e) An SAR may provide that such SAR shall be deemed to have been exercised at the close of business on the business day preceding the expiration of such SAR or the related Stock Option, if any, if at such time such SAR has positive value and would have expired.
- (f) The Committee may grant reload SARs, separately or together with another Stock Option, pursuant to which, subject to the terms and conditions established by the Committee, the Grantee would be granted a new SAR when the payment of the exercise price of a previously granted Stock Option is made by the delivery of Shares owned by the Grantee, which new SAR would entitle the Grantee to receive from the Corporation the Appreciation on the number of Shares not exceeding the number of Shares so provided as consideration upon the exercise of the previously granted Stock Option to which such reload SAR relates. Reload SARs may be granted with respect to Stock Options previously granted under the Plan or any other Stock Option plan of the Corporation and may be included with a grant of reload Stock Options. Reload SARs shall have a per Share exercise price equal to the Fair Market Value as of the date of grant of the reload SAR. Any Reload SAR shall be subject to availability of sufficient Shares for grant under the Plan.

9. Restricted Stock

- (a) An Award of Restricted Stock may be granted hereunder to an eligible Employee for such consideration, if any, as may be required by applicable law. The terms and conditions of Restricted Stock, including the vesting period, shall be specified by the Committee, at its sole discretion, in the Award. In no event shall any Restricted Stock vest sooner than three (3) years from the date of the issuance of the Restricted Stock

except, to the extent specified in the Award, (i) in the event of a Change in Control; (ii) upon the death of the Grantee; or (iii) if the Grantee Terminates Normally.

- (b) Any Shares of Restricted Stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.
- (c) The grant of any Award of Restricted Stock may be conditioned upon the achievement of performance-based criteria. Further, any Award of Restricted Stock may specify performance-based criteria which, if achieved by the Corporation, will result in termination or early termination of the restrictions applicable to such Shares.

10. Dividend Equivalent Rights; Interest Equivalents

- (a) A DER may be granted hereunder to an eligible Employee, as a component of another Award or as a separate Award. The terms and conditions of DERs shall be specified by the Award. Dividend Equivalents Rights credited to the Grantee of a DER may be paid currently or may be deemed to be reinvested in additional Shares (which may thereafter accrue additional Dividend Equivalents Rights). Any such reinvestment shall be at Fair Market Value at the time thereof. DERs may be settled in cash or Shares or a combination thereof, in a single installment or installments. A DER granted as a component of another Award may provide that such DER shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such DER shall expire or be forfeited or annulled under the same conditions as such other Award. A DER granted as a component of another Award may also contain terms and conditions different from such other Award.
- (b) Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide by the Award for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the Award.

11. Deferral of Payment

With the approval of the Committee, the delivery of Shares, cash or any combination thereof subject to an award may be deferred, either in the form of installments or a single future delivery. The Committee may also permit or require selected Grantees to defer payment of some or all of their Awards, as well as other compensation, in accordance with procedures established by the Committee to assure that recognition of taxable income is deferred under the Code.

12. Termination of Employment

If the employment of a Grantee terminates for any reason, all unexercised, deferred and unpaid Awards may be exercisable and paid only as specified in the Award and in accordance with rules established by the Committee. These rules may provide, as the Committee deems

appropriate, subject to the terms of the Plan, for the expiration, continuation, or acceleration of the vesting of all or part of the Awards.

13. Detrimental Activity

The Committee may cancel any unexpired, unpaid or deferred Awards at any time if the Grantee is not in compliance with all applicable provisions of this Plan or with the terms of any notice of Award or if the Grantee engages in Detrimental Activity. The Committee may, in its discretion and as a condition to the exercise of an Award, require a Grantee to acknowledge that he or she is in compliance with all applicable provisions of the Plan and of any notice of Award and has not engaged in any Detrimental Activity. Any Award may provide that if a Grantee, either during employment by the Corporation or within a specified period after termination of such employment, shall engage in any Detrimental Activity, and the Committee shall so find, forthwith upon notice of such finding, the Grantee shall:

- (a) return to the Corporation, in exchange for payment by the Corporation of any amount actually paid therefor by the Grantee, all Shares that the Grantee has not disposed of that were issued pursuant to this Plan within a specified period prior to the date of the commencement of such Detrimental Activity; and
- (b) with respect to any Shares so acquired that the Grantee has disposed of, pay to the Corporation in cash the difference between:
 - (i) any amount actually paid therefore by the Grantee pursuant to this Plan; and
 - (ii) the Fair Market Value of such Share on the date of such acquisition.

To the extent that such amounts are not paid to the Corporation, the Corporation may set off the amounts so payable to it against any amounts that may be owing from time to time by the Corporation to the Grantee, whether as wages, deferred compensation or vacation pay or in the form of any other benefit or for any other reason.

14. Change in Control

The Committee may in its discretion and upon such terms as it deems appropriate, either in the Award or subsequent thereto, accelerate the date on which any outstanding Stock Option or SAR becomes exercisable or waive the restrictions or other terms and conditions on the vesting of any Restricted Stock in the event of a Change in Control or proposed Change in Control of the Corporation. In addition to the foregoing, the Corporation may, with the approval of the Committee, purchase Stock Options previously granted to any Grantee who is at the time of any such transaction an Employee of the Corporation for a price equal to the difference between the consideration per Share payable pursuant to the terms of the transaction resulting in the Change in Control and the exercise price specified in the Award.

15. Substitute Awards

The Committee may grant Awards in substitution for, or upon the assumption of, Awards granted by another corporation that is merged into, consolidated with, or all or a substantial part of the assets or stock of which is acquired by the Corporation or a Subsidiary. The terms and

provisions of any Awards granted under this Section 15 may vary from the terms and provisions otherwise specified in this Plan and may, instead, correspond to the terms and provisions of the awards granted by the other corporation.

16. Amendments to This Plan; Amendments of Outstanding Awards

- (a) The Board may from time to time amend or terminate this Plan, or any provision hereof, provided, however, approval of the shareholders of the Corporation will be required to the extent necessary to comply with Rule 16b-3 or any other applicable law, regulation, or stock exchange listing requirement, or to qualify for an exemption or characterization that is deemed desirable by the Board.
- (b) The Committee may, in its discretion, subject to the terms of the Plan, amend the terms of any Award, prospectively or retroactively, but no such amendment may impair the rights of any Grantee without his or her consent. The Committee may, in whole or in part, subject to the terms of the Plan, waive any restrictions or conditions applicable to, or accelerate the vesting of, any Award.

17. Withholding Taxes

The Corporation shall have the right to deduct from any cash payment made under this Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Corporation to deliver Shares upon exercise of a Stock Option or SAR, upon settlement of a DER, upon delivery of Restricted Stock, or upon exercise, settlement, or payment of any other Award under this Plan, that the Grantee of such Award pay to the Corporation such amount as may be requested by the Corporation for the purpose of satisfying any liability for such withholding taxes. Any Award under this Plan may provide by the Award that the Grantee of such Award may elect, in accordance with any applicable regulations of the Committee, to pay a portion or all of the amount of such minimum required or additional permitted withholding taxes in shares. The Grantee shall authorize the Corporation to withhold, or shall agree to surrender back to the Corporation, on or about the date such withholding tax liability is determinable, shares previously owned by such Grantee or a portion of the shares that were or otherwise would be distributed to such Grantee pursuant to such Award having a Fair Market Value on the day prior to the date such payment is made equal to the amount of such required or permitted withholding taxes to be paid in Shares. Any Award under this Plan may provide by the Award that the Grantee shall pay a portion or all of such minimum required or additional permitted withholding taxes in Shares that otherwise would be distributed to such Grantee having a Fair Market Value on the day prior to the date such payment is made equal to the amount of such required or permitted withholding taxes.

18. Grants of Awards to Employees Who are Foreign Nationals

Without amending this Plan, but subject to the limitations specified in Section 16 above, the Committee may grant, amend, administer, annul, or terminate Awards to eligible Employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of this Plan.

19. Rights of Employees

Nothing in this Plan will confer upon any Grantee the right to continued employment by the Corporation or limit in any way the Corporation's right to terminate any Grantee's employment at will.

20. Effective Date

This Plan was approved by the Board on August 14, 2003 and became effective upon approval by the shareholders of the Corporation on October 22, 2003. As authorized by Section 16(a) herein, this Plan was amended and restated pursuant to Board approval on August 10, 2005, and on January 29, 2009.

Upon approval of the Plan by the Shareholders of the Corporation, no further Awards may be made by the Corporation under the 1993 Program. The foregoing limitation shall not be construed to prevent the amendment of Awards previously granted under the 1993 Program in accordance with the terms of the 1993 Program, including, without limitation, by the inclusion of stock appreciation rights in any outstanding stock option.

**PARKER-HANNIFIN CORPORATION
SALES COMPANY INCENTIVE PLAN**

Participants: Certain Group Presidents and certain other management personnel

Terms: Participants will receive two Return on Net Asset ("RONA") bonus shares based on the average net assets of the local sales companies and a cash bonus equal to 1 percent (or fraction thereof) of base salary for each 1 percent (or fraction thereof) of sales by which the local sales companies exceed their sales for the prior year. Acquisitions are excluded from this calculation. Participants are limited to an overall maximum annual bonus equal to 30 percent of base salary.

PARKER-HANNIFIN CORPORATION
AMENDED & RESTATED
2004 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN

1. Purpose

The 2004 Non-Employee Directors' Stock Incentive Plan is intended to help maintain and develop focused leadership and governance through ownership of Shares of the Corporation by non-employee directors of the Corporation.

2. Definitions

In this Plan, except where the context otherwise indicates, the following definitions apply:

- (a) "Award" means a Stock Option, a Stock Appreciation Right, Restricted Stock, or a Dividend Equivalent Right.
- (b) "Board" means the Board of Directors of the Corporation.
- (c) "Change in Control" means the occurrence of one of the following events:
 - (i) any "person" (as such term is defined in Section 3(a)(9) of 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 Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding securities eligible to vote for the election of the Board ("Corporation Voting Securities"); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Corporation or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Corporation or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) as pertains to an individual Grantee, any acquisition by the Grantee or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Grantee (or any entity in which the Grantee or a group of persons including the Grantee, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Corporation Voting Securities from the Corporation, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);
 - (ii) 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 thereof; provided, that (A) any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Corporation'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 Corporation in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), 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 Corporation 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;

- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Corporation or any Subsidiary that requires the approval of the Corporation's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Corporation Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Corporation 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 Corporation Voting Securities among the holders thereof immediately prior to the Business Combination, (2) 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 (3) 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 (B) the Business Combination is effected by means of the acquisition of Corporation Voting Securities from the Corporation, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or

- (iv) the stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation and its Subsidiaries.

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

- (b) "Code" means the Internal Revenue Code and the regulations promulgated thereunder, as in effect from time to time.
- (c) "Compensation and Management Development Committee" or "Committee" means the committee of the Board so designated. The Committee will be constituted in a manner that satisfies all applicable legal requirements, including satisfying any independence standard contained in the listing requirements of the New York Stock Exchange.
- (d) "Corporation" means Parker-Hannifin Corporation, an Ohio corporation.
- (e) "Designated Beneficiary" means the person designated by the Grantee of an Award hereunder to be entitled, on the death of the Grantee, to any remaining rights arising out of such Award. Such designation must be made in writing and in accordance with such regulations as the Committee may establish.
- (f) "Detrimental Activity" means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the 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 Corporation; (ii) the disclosure to anyone outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by the Grantee during or after service with the Corporation; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Corporation's Code of Ethics.
- (g) "Dividend Equivalent Right," herein sometimes called a "DER," means the right of the Grantee thereof to receive, pursuant to the terms of the DER, credits based on the cash dividends that would be paid on the Shares specified in the DER if such shares were held by the grantee, as more particularly set forth in Section 10(a) below.
- (h) "Eligible Director" means a Director who is not an employee of the Corporation.

- (i) "Director" means a member of the Board of Directors of the Corporation.
- (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.
- (k) "Fair Market Value" in relation to a Share as of any specific time shall mean, except as otherwise provided pursuant to Section 7(a) and 8(a), the closing price as reported for the New York Stock Exchange—Composite Transactions on such date, or if no shares are traded on that date, the next preceding date on which trading occurred.
- (l) "Grantee" means a recipient of an Award under this Plan.
- (m) "Restricted Stock" means any Share issued with the restriction that the Grantee may not sell, transfer, pledge, or assign such Share and such other restrictions (which may include, but are not limited to, restrictions on the right to vote or receive dividends) which may expire separately or in combination, at one time or in installments, all as specified by the Award.
- (n) "Rule 16b-3" means Rule 16b-3 (or any successor thereto) under the Exchange Act that exempts from Section 16(b) of the Exchange Act transactions under employee benefit plans, as in effect from time to time with respect to this Plan.
- (o) "Share" means a common share, par value \$.50, of the Corporation issued and reacquired by the Corporation or previously authorized but unissued.
- (p) "Stock Appreciation Right," herein sometimes called an "SAR," means the right of the Grantee thereof to receive, pursuant to the terms of the SAR, a number of Shares or cash or a combination of Shares and cash, based on the increase in the value of the number of Shares specified in the SAR, as more particularly set forth in Section 8 below.
- (q) "Stock Option" means the right of the Grantee thereof to acquire a number of Shares upon payment to the Corporation of the exercise price specified in the Award.
- (r) "Subsidiary" means any corporation, partnership, or other entity in which the Corporation, directly or indirectly, owns a 50 percent or greater equity interest.
- (s) "Terminate" or "Termination" means cease to be a Director, except by death.
- (t) "1996 Plan" means the Corporation's 1996 Non-Employee Directors' Stock Option Plan.

3. Eligibility

The selection of Eligible Directors to receive Awards will be within the discretion of the Committee. More than one Award may be granted to the same Eligible Director.

4. **Administration**

- (a) The Committee shall administer this Plan. The Committee will, subject to the terms of the Plan, have the authority to (i) select the Eligible Directors who will receive Awards; (ii) grant Awards; (iii) determine the number and types of Awards to be granted to Directors; (iv) subject to the terms of the Plan, determine the terms, conditions, vesting periods and restrictions applicable to Awards; (v) adopt, alter and repeal administrative rules and practices governing this Plan; (vi) interpret the terms and provisions of this Plan and any Awards granted under this Plan; (vii) prescribe the forms of any notices of Awards or other instruments relating to Awards; and (viii) otherwise supervise the administration of this Plan. All decisions by the Committee will be made with the approval of not less than a majority of its members.
- (b) All determinations and interpretations pursuant to the provisions of this Plan shall be binding and conclusive upon the individual Director involved and all persons claiming under them.
- (c) Transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Plan or any action by the Committee under this Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3, provided that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent permitted by law and deemed advisable by the appropriate authority. Each Award to a Director under this Plan shall be deemed issued subject to the foregoing qualification.
- (d) Except as otherwise determined by the Committee, an Award under this Plan is not transferable other than by will or the laws of descent and distribution and is not subject, in whole or in part, to attachment, execution, or levy of any kind.
- (e) Any rights with respect to an Award granted under this Plan existing after the Grantee dies are exercisable by the Grantee's Designated Beneficiary or, if there is no such Designated Beneficiary who may, and does, lawfully do so, by the Grantee's personal representative.
- (f) Except as otherwise provided herein, a particular form of Award may be granted to an Eligible Director either alone or in addition to other Awards hereunder. The provisions of particular forms of Award need not be the same with respect to each recipient.
- (g) To the extent permitted by law, the Committee may delegate any of its authority to any other person or persons that it deems appropriate, provided the delegation does not cause the Plan or any Awards granted under this Plan to fail to qualify for the exemption

provided by Rule 16b-3 or violate any independence standard contained in the New York Stock Exchange listing requirements.

- (h) This Plan and all action taken under it shall be governed by the laws of the State of Ohio without giving effect to the principles of conflict of laws thereof.
- (i) The Committee may permit or require any Grantee to exercise any Stock Options or SARs by means of electronic signature.
- (j) Each Award shall be evidenced in such form (written, electronic or otherwise) as the Committee shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan.

5. Awards That May Be Granted

- (a) The aggregate number of Shares that may be delivered (i) upon the exercise of a Stock Option or SAR; (ii) as Restricted Stock and released from a substantial risk of forfeiture thereof; or (iii) in payment of DERs, subject to adjustment as provided in the Plan, is 250,000 (increased to 375,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6).
- (b) To the extent that Shares subject to an outstanding Award are not delivered to a Grantee by reason of the expiration, termination, cancellation or forfeiture of such Award or by reason of the tendering or withholding of Shares to satisfy all or a portion the tax withholding obligations relating to an Award, then such Shares shall not be deemed to have been delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. If the exercise price of any Stock Option granted under the Plan is satisfied by tendering Shares (by actual delivery or attestation), only the number of shares issued to the participant net of the Shares tendered shall be deemed to be delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. When an unexercised Award lapses, expires, terminates or is forfeited, the related Shares may be available for distribution in connection with future Awards. If the benefit provided by any Award is paid in cash, any Shares covered by the Award will be available for distribution in connection with future Awards.
- (c) The assumption of Awards granted by an organization acquired by the Corporation, or the grant of Awards under this Plan in substitution for any such Awards, will not reduce the number of Shares available for the grant of Awards under this Plan.

6. Adjustments

In the event that the Committee shall determine that any (a) stock dividend, stock split, combination of Shares, recapitalization or other change in the capital structure of the Corporation, or (b) merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) other corporate transaction or event having an effect similar to any of

the foregoing affects the Shares of the Corporation such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under this Plan, then the Committee shall, in its sole discretion, and in such manner as the Committee may deem equitable, adjust any or all of (i) the number and kind of Shares which thereafter may be the subject of Awards under this Plan, (ii) the number and kind of Shares subject to outstanding Awards, and (iii) the exercise price with respect to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for any or all outstanding Awards under this Plan such alternative consideration as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all Awards so replaced.

7. Stock Options

- (a) One or more Stock Options may be granted to any Eligible Director. Each Stock Option so granted shall be subject to such terms and conditions as the Committee shall impose. The exercise price per Share shall be specified by the Award, but shall in no instance be less than 100 percent of Fair Market Value at the time of the Award. Payment of the exercise price shall be made in cash, Shares, or other consideration, or any combination thereof, in accordance with the terms of this Plan and any applicable regulations of the Committee in effect at the time and valued at Fair Market Value on the date of exercise of the Stock Option. Fair Market Value on exercise shall be determined pursuant to administrative rules established by the Committee from time to time in accordance with applicable law. All Stock Options granted hereunder shall have a maximum life of no more than ten (10) years from the date of issuance of the Award. In no event shall any Stock Option vest sooner than one (1) year from date of issuance of the Award except in the event of a Change in Control.
- (b) The Committee shall not adjust or amend the exercise price of Stock Options previously awarded to any Grantee, whether through amendment, cancellation and replacement grant, or any other means.
- (c) The Committee may grant reload Stock Options, separately or together with another Stock Option, pursuant to which, subject to the terms and conditions established by the Committee, the Grantee would be granted a new Stock Option when the payment of the exercise price of a previously granted Stock Option is made by the delivery of Shares owned by the Grantee, which new Stock Option would be an option to purchase the number of Shares not exceeding the number of Shares so provided as consideration upon the exercise of the previously granted Stock Option to which such reload Stock Option relates. Reload Stock Options may be granted with respect to Stock Options previously granted under the Plan or any other Stock Option plan of the Corporation. Reload Stock Options shall have a per Share exercise price equal to the Fair Market Value as of the date of grant of the reload Stock Option. Any Reload Option shall be subject to availability of sufficient Shares for grant under the Plan.

8. Stock Appreciation Rights

- (a) An SAR may be granted to an Eligible Director as a separate Award hereunder. Any SAR shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that (i) such SAR shall entitle the Grantee, upon exercise thereof in accordance with such SAR and the regulations of the Committee, to receive from the Corporation that number of Shares having an aggregate value equal to the excess of the Fair Market Value at the time of exercise of such SAR, of one Share over the exercise price per Share specified by the Award of such SAR (which shall in no instance be less than 100 percent of Fair Market Value at the time of the Award) times the number of Shares specified in such SAR, or portion thereof, which is so exercised. The Fair Market Value at exercise shall be determined pursuant to administrative rules established by the Committee from time to time in accordance with applicable law.
- (b) Any Stock Option granted under this Plan may include an SAR, either at the time of the Award or by amendment. An SAR included in a Stock Option shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that
 - (i) such SAR shall be exercisable to the extent, and only to the extent, the Stock Option is exercisable; and
 - (ii) such SAR shall entitle the Grantee to surrender to the Corporation unexercised the Stock Option in which the SAR is included, or any portion thereof, and to receive from the Corporation in exchange therefor that number of Shares having an aggregate value equal to the excess of the Fair Market Value, at the time of exercise of such SAR, of one Share over the exercise price specified in the Award of such Stock Option times the number of Shares specified in the Award of such Stock Option, or portion thereof, which is so surrendered.
- (c) All SARs granted hereunder shall have a maximum life of ten (10) years from the date of issuance of the Award. In no event shall any SAR vest sooner than one (1) year from the date of issuance of the Award except in the event of a Change in Control.
- (d) In lieu of the right to receive all or any specified portion of such Shares, a SAR may entitle the holder thereof to receive the cash equivalent thereof as specified by the Award.
- (e) An SAR may provide that such SAR shall be deemed to have been exercised at the close of business on the business day preceding the expiration of such SAR or the related Stock Option, if any, if at such time such SAR has positive value and would have expired.

9. Restricted Stock

- (a) An Award of Restricted Stock may be granted hereunder to an Eligible Director for such consideration, if any, as may be required by applicable law. The terms and conditions of Restricted Stock, including the vesting period, shall be specified by the Committee, at its sole discretion, in the Award.

- (b) Any Shares of Restricted Stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.
- (c) The grant of any Award of Restricted Stock may be conditioned upon the achievement of performance-based criteria. Further, any Award of Restricted Stock may specify performance-based criteria which, if achieved by the Corporation, will result in termination or early termination of the restrictions applicable to such Shares.

10. Dividend Equivalent Rights; Interest Equivalents

- (a) A DER may be granted hereunder to an Eligible Director, as a component of another Award or as a separate Award. The terms and conditions of DERs shall be specified by the Award. Dividend Equivalent Rights credited to the Grantee of a DER may be paid currently or may be deemed to be reinvested in additional Shares (which may thereafter accrue additional Dividend Equivalent Rights). Any such reinvestment shall be at Fair Market Value at the time thereof. DERs may be settled in cash or Shares or a combination thereof, in a single installment or installments. A DER granted as a component of another Award may provide that such DER shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such DER shall expire or be forfeited or annulled under the same conditions as such other Award. A DER granted as a component of another Award may also contain terms and conditions different from such other Award.
- (b) Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide by the Award for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the Award.

11. Deferral of Payment

With the approval of the Committee, the delivery of Shares, cash or any combination thereof subject to an award may be deferred, either in the form of installments or a single future delivery. The Committee may also permit or require selected Grantees to defer payment of some or all of their Awards, as well as other compensation, in accordance with procedures established by the Committee to assure that recognition of taxable income is deferred under the Code.

12. Termination of Service

If the service of a Grantee as a Director terminates for any reason, all unexercised, deferred and unpaid Awards may be exercisable and paid only as specified in the Award and in accordance with rules established by the Committee. These rules may provide, as the Committee

deems appropriate, subject to the terms of the Plan, for the expiration, continuation, or acceleration of the vesting of all or part of the Awards.

13. Detrimental Activity

The Committee may cancel any unexpired, unpaid or deferred Awards at any time if the Grantee is not in compliance with all applicable provisions of this Plan or with the terms of any notice of Award or if the Grantee engages in Detrimental Activity. The Committee may, in its discretion and as a condition to the exercise of an Award, require a Grantee to acknowledge that he or she is in compliance with all applicable provisions of the Plan and of any notice of Award and has not engaged in any Detrimental Activity. Any Award may provide that if a Grantee, either during service as a Director or within a specified period after termination of such service, shall engage in any Detrimental Activity, and the Committee shall so find, forthwith upon notice of such finding, the Grantee shall:

- (a) return to the Corporation, in exchange for payment by the Corporation of any amount actually paid therefor by the Grantee, all Shares that the Grantee has not disposed of that were issued pursuant to this Plan within a specified period prior to the date of the commencement of such Detrimental Activity; and
- (b) with respect to any Shares so acquired that the Grantee has disposed of, pay to the Corporation in cash the difference between:
 - (i) any amount actually paid therefor by the Grantee pursuant to this Plan; and
 - (ii) the Fair Market Value of such Shares on the date of such acquisition.

To the extent that such amounts are not paid to the Corporation, the Corporation may set off the amounts so payable to it against any amounts that may be owing from time to time by the Corporation to the Grantee, whether as director fees, deferred compensation or in the form of any other benefit or for any other reason.

14. Change in Control

The Committee may in its discretion and upon such terms as it deems appropriate, either in the Award or subsequent thereto, accelerate the date on which any outstanding Stock Option or SAR becomes exercisable or waive the restrictions or other terms and conditions on the vesting of any Restricted Stock in the event of a Change in Control or proposed Change in Control of the Corporation. In addition to the foregoing, the Corporation may, with the approval of the Committee, purchase Stock Options previously granted to any Grantee who is at the time of any such transaction an Eligible Director of the Corporation for a price equal to the difference between the consideration per Share payable pursuant to the terms of the transaction resulting in the Change in Control and the exercise price specified in the Award.

15. Amendments to This Plan; Amendments of Outstanding Awards

- (a) The Board may from time to time amend or terminate this Plan, or any provision hereof, provided, however, approval of the shareholders of the Corporation will be required to the extent necessary to comply with Rule 16b-3 or any other applicable law, regulation, or stock exchange listing requirement, or to qualify for an exemption or characterization that is deemed desirable by the Board.
- (b) The Committee may, in its discretion, subject to the terms of the Plan, amend the terms of any Award, prospectively or retroactively, but no such amendment may impair the rights of any Grantee without his or her consent. The Committee may, in whole or in part, subject to the terms of the Plan, waive any restrictions or conditions applicable to, or accelerate the vesting of, any Award.

16. Withholding Taxes

The Corporation shall have the right to deduct from any cash payment made under this Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Corporation to deliver Shares upon exercise of a Stock Option or SAR, upon settlement of a DER, upon delivery of Restricted Stock, or upon exercise, settlement, or payment of any other Award under this Plan, that the Grantee of such Award pay to the Corporation such amount as may be requested by the Corporation for the purpose of satisfying any liability for such withholding taxes. Any Award under this Plan may provide by the Award that the Grantee of such Award may elect, in accordance with any applicable regulations of the Committee, to pay a portion or all of the amount of such minimum required or additional permitted withholding taxes in Shares. The Grantee shall authorize the Corporation to withhold, or shall agree to surrender back to the Corporation, on or about the date such withholding tax liability is determinable, Shares previously owned by such Grantee or a portion of the shares that were or otherwise would be distributed to such Grantee pursuant to such Award having a Fair Market Value on the day prior to the date such payment is made equal to the amount of such required or permitted withholding taxes to be paid in Shares.

17. Grants of Awards to Eligible Directors Who are Foreign Nationals

Without amending this Plan, but subject to the limitations specified in Section 15 above, the Committee may grant, amend, administer, annul, or terminate Awards to Eligible Directors who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of this Plan.

18. Termination

No Awards will be made under this Plan more than ten (10) years after the date on which this Plan is first approved by the shareholders of the Corporation, but all Awards made on or prior to such date will continue in effect thereafter subject to the terms thereof and this Plan.

19. Effective Date

This Plan was approved by the Board on August 12, 2004 and became effective on October 27, 2004 upon approval by the shareholders of the Corporation. Upon approval of the Plan by the shareholders of the Corporation, no further Awards may be made by the Corporation under the 1996 Plan.

**Exhibit (12) to Report
On Form 10-K for Fiscal
Year Ended June 30, 2009
By Parker-Hannifin Corporation
Computation of Ratio of Earnings to Fixed Charges
(In thousands, except ratios)**

	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
<u>EARNINGS</u>					
Income from continuing operations before income taxes	\$681,454	\$1,326,524	\$1,159,282	\$ 899,958	\$738,271
Adjustments:					
Interest on indebtedness, exclusive of interest capitalized in accordance with FASB #34 and interest on ESOP loan guarantee	109,911	96,572	80,053	71,100	62,482
Amortization of deferred loan costs	2,143	1,793	1,511	1,888	1,457
Portion of rents representative of interest factor	41,839	35,378	29,000	25,609	21,507
Minority interests in consolidated subsidiaries	1,629	8,048	7,181	1,532	1,856
Loss (income) of equity investees	(1,529)	2,596	1,059	(161)	(1,935)
Amortization of previously capitalized interest	262	278	282	304	280
Income as adjusted	<u>\$835,709</u>	<u>\$1,471,189</u>	<u>\$1,278,368</u>	<u>\$1,000,230</u>	<u>\$823,918</u>
<u>FIXED CHARGES</u>					
Interest on indebtedness, exclusive of interest capitalized in accordance with FASB #34 and interest on ESOP loan guarantee	\$ 109,911	\$ 96,572	\$ 80,053	\$ 71,100	\$ 62,482
Capitalized interest			436	178	
Amortization of deferred loan costs	2,143	1,793	1,511	1,888	1,457
Portion of rents representative of interest factor	41,839	35,378	29,000	25,609	21,507
Fixed charges	<u>\$153,893</u>	<u>\$ 133,743</u>	<u>\$ 111,000</u>	<u>\$ 98,775</u>	<u>\$ 85,446</u>
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	5.43x	11.00x	11.52x	10.13x	9.64x

**Exhibit (13) to Report
On Form 10-K for Fiscal
Year Ended June 30, 2009
By Parker-Hannifin Corporation**

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 Company's future performance and earnings projections of the Company and individual segments 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, actions taken to combat the effects of the current recession, and growth, innovation and global diversification initiatives. A change in economic conditions in individual markets may have a particularly volatile effect on segment results. 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, disputes regarding contract terms 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 employee retirement and health care benefits and insurance, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 would indicate the opposite effect. The PMI for the United States at the end of fiscal 2009 was 44.8 and the PMI for the Eurozone countries was 42.6 at the end of fiscal 2009. The PMI for the United States and the Eurozone countries have both decreased significantly during fiscal 2009 and the Company's order rates during fiscal 2009 have reflected this decline. However, the PMI for the United States and the Eurozone countries have both sequentially increased during the latter part of fiscal 2009 and the Company expects the sequential increases to continue in the short term, though beyond that period the PMI levels are uncertain.

With respect to the aerospace market, aircraft miles flown and revenue passenger miles during fiscal 2009 have declined moderately from comparable fiscal 2008 levels, with the most of the decline occurring in the latter part of fiscal 2009. The Company anticipates that both aircraft miles flown and revenue passenger miles in fiscal 2010 will be lower than their fiscal 2009 levels. The Company anticipates that Department of Defense spending in fiscal 2010 will be about four percent higher than the fiscal 2009 level.

With respect to the North American residential air conditioning market, housing starts in June 2009 were approximately 46 percent lower than housing starts in June 2008. The Company anticipates the level of housing starts in fiscal 2010 will continue to be well below historical normal 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 the continued deterioration in 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 35.2 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.

During the first half of fiscal 2009, the Company completed nine acquisitions whose aggregate annual revenues were approximately \$532 million. 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 each of the financial statements presented on pages 13-13 to 13-17. All year references are to fiscal years.

Discussion of Consolidated Statement of Income

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

<u>(millions)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net sales	\$10,309	\$12,146	\$10,718
Gross profit margin	20.6%	23.1%	22.8%
Selling, general and administrative expenses	\$ 1,290	\$ 1,364	\$ 1,227
Interest expense	112	99	83
Other expense (income), net	44	20	(7)
Effective tax rate	25.4%	28.4%	28.4%
Net income	\$ 509	\$ 949	\$ 830
Net income, as percent of sales	4.9%	7.8%	7.7%

Net sales in 2009 were 15.1 percent lower than 2008. The decline in sales in 2009 primarily reflects lower volume in all segments except for the Aerospace Segment. Acquisitions made in the last 12 months contributed approximately \$539 million in sales. The effect of currency rate changes reduced net sales by approximately \$490 million.

Net sales in 2008 were 13.3 percent higher than 2007. The increase in sales in 2008 primarily reflects higher volume experienced in the Industrial International and Aerospace Segments. Acquisitions made in fiscal 2008 contributed approximately \$373 million in sales. The effect of currency rate changes increased net sales by approximately \$544 million.

During 2009, the worldwide economic downturn resulted in the Company experiencing an unprecedented drop in the demand for its products in virtually all markets of the Industrial and Climate & Industrial Controls Segments. Business conditions in the Aerospace Segment were strong in the earlier part of 2009 but began to soften in the latter part of 2009. For 2010, the Company expects the recessionary-like business conditions experienced in 2009 in the Industrial and Climate & Industrial Controls Segments to continue but the rate of decline is expected to lessen. The Company anticipates business conditions in the commercial aftermarket business of the Aerospace Segment will weaken as passenger air miles continue to decline and airlines reduce flight schedules and capacity.

Gross profit margin was lower in 2009 primarily due to the lower sales volume, resulting in manufacturing inefficiencies. Gross margin was higher in 2008 primarily due to a combination of the increase in sales and the effects of the Company's financial performance initiatives, especially in the Industrial International businesses. Current-year acquisitions, not yet fully integrated, negatively affected the current-year gross margin. Included in gross profit in 2009, 2008 and 2007 were business realignment charges of \$40.9 million, \$5.3 million and \$15.0 million, respectively.

Selling, general and administrative expenses decreased 5.4 percent in 2009 and increased 11.2 percent in 2008. The decrease in 2009 was primarily due to the lower sales volume as well as lower expenses related to incentive compensation plans. The increase in 2008 was primarily due to the higher sales volume, current-year acquisitions as well as higher expenses related to professional fees. Selling, general and administrative expenses, as a percent of sales, were 12.5 percent in 2009, 11.2 percent in 2008 and 11.4 percent in 2007.

Interest expense in 2009 and 2008 increased primarily due to higher average debt outstanding. The increase in borrowings primarily related to the funding of acquisitions and the repurchase of the Company's common shares.

Other expense (income), net in 2009 included \$37.4 million of expense related to litigation settlements, \$13.8 million of expense related to investment writedowns and \$11.6 million of income related to insurance recoveries. Other expense (income), net in 2008 included \$20.0 million of expense related to litigation settlements.

Effective tax rate in 2009 was lower primarily due to a tax benefit associated with a worthless stock deduction for tax reporting purposes related to a foreign subsidiary, higher research and development tax credits and lower taxable income, partially offset by the effect of litigation settlements. The effective tax rate in 2008 remained at the 2007 level primarily due to the increase in foreign tax rate differences being offset by lower research and development tax credits.

Other comprehensive income (loss) included gains and losses that under generally accepted accounting principles are recorded directly into Shareholders' equity. See Note 11 to the Consolidated Financial Statements for further information.

Discussion of Business Segment Information

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

Industrial Segment (millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales			
North America	\$3,735	\$4,250	\$4,064
International	3,896	5,006	3,901
Operating income			
North America	395	608	598
International	351	789	533
Operating income as a percent of sales			
North America	10.6%	14.3%	14.7%
International	9.0%	15.8%	13.7%
Backlog	\$1,200	\$1,744	\$1,393
Assets	7,540	8,122	6,364
Return on average assets	9.5%	19.3%	18.6%

Sales in 2009 for the Industrial North American operations decreased 12.1 percent compared to an increase of 4.6 percent from 2007 to 2008. The decrease in sales in 2009 was primarily due to lower demand experienced from distributors and lower end-user demand experienced in virtually all of the markets of the Industrial North American businesses as customer order levels have declined in response to current economic conditions. Acquisitions completed within the past 12 months contributed approximately \$271 million in sales. The increase in sales in 2008 was primarily due to acquisitions as well as higher demand experienced from distributors and higher end-customer demand experienced in the construction equipment, farm and agriculture, oil and gas and general industrial machinery markets, partially offset by lower end-customer demand in the heavy-duty truck, automotive, semiconductor and residential construction markets.

Sales in the Industrial International operations decreased 22.2 percent in 2009 following an increase of 28.3 percent from 2007 to 2008. The sales decline in 2009 was primarily due to lower sales volume across most markets in all regions with the largest decline in volume experienced in Europe. Acquisitions completed within the past 12 months contributed approximately \$250 million in sales. The sales increase in 2008 was primarily due to higher volume across most markets, particularly Europe and the Asia Pacific region as well as acquisitions, which accounted for about 20 percent of the increase. Foreign currency rate changes, primarily the strengthening of the U.S. dollar against the Euro and British Pound, decreased net sales in 2009 by \$386 million.

The lower Industrial North American operating margins in 2009 were primarily due to the lower sales volume, resulting in manufacturing inefficiencies as well as higher expenses associated with business realignment activities. The lower Industrial North American operating margins in 2008 were primarily due to higher expenses associated with new product development and higher material costs more than offsetting the higher sales volume. Acquisitions, not yet fully integrated, negatively impacted margins in both 2009 and 2008. Included in Industrial North American operating income in 2009, 2008 and 2007 are business realignment charges of \$10.4 million, \$4.5 million and \$9.8 million, respectively. The business realignment charges resulted from actions the Company took to structure the Industrial North American operations to operate in the current economic environment and primarily consisted of severance costs and costs relating to the consolidation of manufacturing operations.

The lower Industrial International operating margins in 2009 were primarily due to the lower sales volume, resulting in manufacturing inefficiencies as well as higher expenses associated with business realignment activities. The Industrial International operating margin improvement in 2008 was primarily due to a combination of the higher sales volume and benefits realized from the Company's financial performance initiatives. Acquisitions, not fully integrated, negatively impacted margins in 2009 and 2008. Operating income in 2009, 2008 and 2007 included \$23.3 million, \$0.4 million and \$8.9 million, respectively, of business realignment charges that were taken to appropriately structure operations primarily in Europe.

The Company anticipates Industrial North American sales for 2010 will decrease between 6.7 percent and 11.5 percent from the fiscal 2009 level and Industrial International sales for fiscal 2010 will decrease between 11.7 percent and 16.2 percent from the fiscal 2009 level. The lower sales levels in 2010 are primarily due to continued lower end-user demand expected in most markets. Industrial North American operating margins in 2010 are expected to range from 9.0 percent to 9.4 percent and Industrial International margins are expected to range from 4.0 percent to 4.6 percent. The lower Industrial International operating margin in 2010 primarily results from manufacturing inefficiencies. The Company expects to continue to take actions necessary to structure appropriately the operations of the Industrial Segment. Such actions may include the necessity to record business realignment charges in 2010.

The decrease in total Industrial Segment backlog in 2009 was primarily due to lower order rates in both the North American and International businesses, particularly in Europe and Asia Pacific. The increase in backlog in 2008 was primarily due to higher order rates in the Industrial International businesses.

The decrease in assets in 2009 was primarily due to the effect of currency fluctuations as well as decreases in accounts receivable and inventory partially offset by increases in assets from current-year acquisitions. The increase in assets in 2008 was primarily due to current-year acquisitions and the effect of currency fluctuations. The increase in assets in 2008 was also due to increases in cash, accounts receivable and inventory.

Aerospace Segment (millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales	\$1,883	\$1,838	\$1,685
Operating income	262	251	270
Operating income as a percent of sales	13.9%	13.6%	16.0%
Backlog	\$1,559	\$1,737	\$1,359
Assets	915	922	779
Return on average assets	28.5%	29.5%	35.4%

Sales in 2009 increased 2.5 percent compared to an increase of 9.0 percent from 2007 to 2008. The increase in sales in 2009 was primarily due to an increase in both commercial and military aftermarket volume as well as an increase in military original equipment manufacturer (OEM) volume. The increase in sales in 2008 was primarily due to an increase in both commercial OEM and aftermarket volume. The sales increase in 2008 was partially offset by lower military aftermarket volume.

The increase in margins in 2009 were primarily due to a higher concentration of sales occurring in the higher margin aftermarket businesses partially offset by higher engineering development costs. The lower margins in 2008 were primarily due to a higher concentration of sales occurring in the lower margin OEM businesses as well as higher engineering development costs and an increase in contract reserves related to certain programs.

The decrease in backlog in 2009 was primarily due to lower order rates in the commercial and military OEM businesses. The increase in backlog in 2008 was primarily due to higher order rates, especially in the commercial OEM businesses. For 2010, sales are expected to decrease between 5.7 percent and 6.6 percent from the fiscal 2009 level primarily due to anticipated lower commercial OEM and aftermarket volume. Operating margins are expected to range from 11.5 percent to 11.7 percent. Further reductions in commercial aftermarket volume in future product mix and higher than expected engineering development costs could result in lower margins.

The decrease in assets in 2009 was primarily due to a decrease in accounts receivable partially offset by an increase in inventory. The increase in assets in 2008 was primarily due to increases in accounts receivable and inventory as well as acquisitions.

Climate & Industrial Controls Segment (millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales	\$795	\$1,051	\$1,068
Operating (loss) income	(4)	59	82
Operating (loss) income as a percent of sales	(0.5)%	5.7%	7.7%
Backlog	\$127	\$170	\$183
Assets	691	805	831
Return on average assets	(0.5)%	7.3%	9.9%

Sales in 2009 decreased 24.4 percent compared to a 1.6 percent decrease in sales from 2007 to 2008. The decrease in sales in 2009 and 2008 was primarily due to lower end-user demand in the residential air conditioning, commercial refrigeration, heavy-duty truck and automotive markets. The magnitude of the decline in sales in 2009 reflects the effect of the worldwide economic downturn especially with respect to housing starts and automotive production. The lower margins in 2009 and 2008 were primarily due to the lower sales volume, resulting in manufacturing inefficiencies. Margins in 2009 were also adversely affected by business realignment charges of \$10.9 million.

The Company anticipates sales in 2010 will decrease between 10.1 percent and 13.1 percent from the fiscal 2009 level primarily due to continued lower end-user demand expected in most markets. Operating margins are expected to range from 2.1 percent to 2.9 percent, reflecting the benefit of past business realignment activities. The Company expects to continue to take actions necessary to structure appropriately the Climate & Industrial Controls Segment operations. Such actions may include the necessity to record business realignment charges in 2010.

The decrease in assets in 2009 was primarily due to declines in accounts receivable, inventory and property, plant and equipment as well as the effect of foreign currency fluctuations. The decrease in assets in 2008 was primarily due to declines in accounts receivable, property, plant and equipment and intangible assets partially offset by the effect of currency fluctuations.

Corporate assets increased 31.8 percent in 2009 compared to an increase of 15.2 percent from 2007 to 2008. The increase in 2009 was primarily due to a decrease in the LIFO reserve and increases in prepaid expenses and deferred taxes. The increase in 2008 was primarily due to an increase in deferred taxes, cash and property, plant and equipment partially offset by an increase in the LIFO reserve.

Discussion of Consolidated Balance Sheet

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

<u>(millions)</u>	<u>2009</u>	<u>2008</u>
Accounts receivable	\$1,417	\$2,047
Inventories	1,255	1,495
Plant and equipment, net	1,881	1,927
Goodwill	2,903	2,798
Intangible assets, net	1,274	1,021
Notes payable	481	119
Accounts payable, trade	650	962
Shareholders' equity	4,280	5,259
Working capital	\$ 1,118	\$1,912
Current ratio	1.56	1.88

Accounts receivable are primarily receivables due from customers for sales of product (\$1,280 million at June 30, 2009 and \$1,821 million at June 30, 2008). Accounts receivable decreased primarily due to the reduced sales volume, especially in the European businesses within the Industrial Segment. Days sales outstanding relating to trade receivables for the Company was 53 days in 2009 compared to 50 days in 2008.

Inventories decreased primarily in the Industrial Segment due to decreased customer demand across almost all markets. In response to declining order rates, especially in the Industrial Segment, the Company is continuing its efforts to adjust inventory levels to a level commensurate with current customer demand. Days supply of inventory on hand was 77 days in 2009 compared to 61 days in 2008.

Goodwill increased primarily as a result of current-year acquisitions. The change in this amount is explained further in Note 7 to the Consolidated Financial Statements.

Intangible assets, net consist primarily of patents, trademarks and customer lists. Intangible assets, net increased primarily due to current-year acquisitions. The change in this amount is explained further in Note 7 to the Consolidated Financial Statements.

Notes payable increased primarily due to additional commercial paper borrowings to finance current-year acquisition activity and share repurchases. The change in this amount is explained further in Note 8 to the Consolidated Financial Statements.

Accounts payable, trade decreased primarily due to reduced purchasing and production levels.

Shareholders' equity included a decrease of \$494.5 million related to foreign currency translation adjustments due to the strengthening of the U.S. dollar during 2009. The translation adjustments primarily affected Accounts receivable, Inventories, Plant and equipment, Investments and other assets, Goodwill, Intangible assets, Accounts payable, trade and Long-term debt. The change in Shareholders' equity is explained further in Note 11 to the Consolidated Financial Statements.

Discussion of Consolidated Statement of Cash Flows

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

A summary of cash flows follows:

<u>(millions)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash provided by (used in):			
Operating activities	\$1,129	\$ 1,317	\$ 957
Investing activities	(961)	(1,171)	(580)
Financing activities	(274)	1	(380)
Effect of exchange rates	(32)	6	4
Net (decrease) increase in cash and cash equivalents	<u>\$ (138)</u>	<u>\$ 153</u>	<u>\$ 1</u>

Cash Flows From Operating Activities decreased from 2008 primarily due to lower Net Income partially offset by an increase in cash provided from working capital. Cash flows provided from working capital increased due to lower inventory and accounts receivable levels offset by a decrease in accounts payable. In addition, the Company settled payments from a current-year acquisition after the acquisition closing date resulting in an increase in cash used by Other accrued liabilities.

Cash Flows Used In Investing Activities decreased primarily due to a lower level of acquisition activity as compared with 2008. Refer to Note 2 to the Consolidated Financial Statements for a summary of net assets of acquired companies. Also, cash used for capital expenditures decreased slightly from 2008 as near-term economic uncertainties resulted in the Company reducing the level of capital expenditures in the latter part of fiscal 2009.

Cash Flows From Financing Activities primarily consists of proceeds from commercial paper borrowings, dividend payments and share repurchases. In 2009, additional commercial paper borrowings were used primarily to finance acquisition activity and share repurchases. Although the Company repurchased a comparable number of its common shares as in 2008, the average price per share was lower in 2009 resulting in less cash required to complete the repurchases.

Dividends have been paid for 236 consecutive quarters, including a yearly increase in dividends for the last 53 fiscal years. The current annual dividend rate is \$1.00 per share.

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

<u>Debt to Debt-Equity Ratio (dollars in millions)</u>	<u>2009</u>	<u>2008</u>
Debt	\$2,321	\$2,071
Debt & Equity	6,601	7,330
Ratio	35.2%	28.3%

As of June 30, 2009, the Company has a line of credit totaling \$1,500 million through a multi-currency revolving credit agreement with a group of banks. 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. 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 and 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 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 covenant provides that the ratio of secured debt to net tangible assets be less than 10 percent. As of June 30, 2009, the ratio of secured debt to net tangible assets was less than two 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 near 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.

Contractual Obligations –The total amount of gross unrecognized tax benefits for uncertain tax positions was \$142.1 million at June 30, 2009. Payment of these obligations would result from settlements with worldwide taxing authorities. Due to the difficulty in determining the timing of the settlements, FIN 48 obligations are not included in the following summary of the Company's fixed contractual obligations. References to Notes are to the Notes to the Consolidated Financial Statements.

<u>(In thousands)</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
<u>Contractual obligations</u>					
Long-term debt (Note 9)	\$ 1,890,128	\$ 50,423	\$ 444,292	\$ 232,371	\$ 1,163,042
Interest on long-term debt	817,136	96,104	162,388	133,821	424,823
Operating leases (Note 9)	315,740	82,164	100,772	46,717	86,087
Retirement benefits (Note 10)	1,907,636	199,892	315,261	364,429	1,028,054
Total	\$ 4,930,640	\$ 428,583	\$ 1,022,713	\$ 777,338	\$ 2,702,006

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 15 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. A 100 basis point increase in near-term interest rates would increase annual interest expense on variable rate debt by approximately \$8.0 million.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements.

Critical Accounting Policies

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

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

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

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

Pensions and Postretirement Benefits Other Than Pensions – The annual net periodic expense and benefit obligations related to the Company’s defined benefit plans are determined on an actuarial basis. This determination requires critical assumptions regarding the discount rate, long-term return on plan assets, increases in compensation levels, amortization periods for actuarial gains and losses and health care cost trends. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plan’s measurement date. Changes in the assumptions to reflect actual experience as well as the amortization of actuarial gains and losses could result in a material change in the annual net periodic expense and benefit obligations reported in the financial statements. For the Company’s domestic defined benefit plans, a one-half percentage point change in the assumed long-term rate of return on plan assets is estimated to have an \$8 million effect on pension expense and a one-half percentage point decrease in the discount rate is estimated to increase pension expense by \$13 million. As of June 30, 2009, \$527 million of past years’ net actuarial losses related to the Company’s domestic qualified defined benefit plans are subject to amortization in the future. These losses will generally be amortized over approximately 10 years and will negatively affect earnings in the future. Actuarial gains experienced in future years will help reduce the effect of the actuarial loss amortization.

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

Stock-Based Compensation – The computation of the expense associated with stock-based compensation requires the use of a valuation model. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options and stock appreciation rights. The Black-Scholes model requires assumptions regarding the volatility of the Company’s stock, the expected life of the stock award and the Company’s dividend ratio. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility, future dividend payments and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. Further information on stock-based compensation is provided in Note 12 to the Consolidated Financial Statements.

Income Taxes – Significant judgment is required in determining the Company’s income tax expense and in evaluating tax positions. Deferred income tax assets and liabilities have been recorded for the differences between the financial accounting and income tax basis of assets and liabilities. Factors considered by the Company in the determination of the probability of realization of deferred income tax assets include forecasted operating earnings, available tax planning strategies and the time period over which the temporary differences will reverse. The Company reviews its tax positions on a regular basis and adjusts the balances as new information becomes available. Further information on income taxes is provided in Note 4 to the Consolidated Financial Statements.

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

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), "Business Combinations" (Statement No. 141R). Statement No. 141R changes 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. Statement No. 141R is effective for fiscal years beginning after December 15, 2008. Generally, the effect of Statement No. 141R on the Company's financial position and results of operations will depend on future acquisitions.

In December 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB 51." Statement No. 160 requires 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 will be included in consolidated net income on the face of the income statement. Statement No. 160 is effective for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of FASB Statement No. 160 will have a material effect on the Company's financial position or results of operations.

In December 2008, the FASB issued FASB Staff Position (FSP) 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." FSP 132(R)-1 requires 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. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company has not yet determined the effect, if any, that FSP 132(R)-1 will have on the Company's retirement benefits disclosures.

In April 2009, the FASB issued FSP 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP 107-1 requires disclosures about fair value of financial instruments in interim reports as well as annual reports. The Company will comply with the required disclosures beginning with the fiscal quarter ending September 30, 2009 and does not believe the adoption of FSP 107-1 will have a significant effect on the Company's financial instrument disclosures.

Consolidated Statement of Income

(Dollars in thousands, except per share amounts)	For the years ended June 30,		
	2009	2008	2007
Net Sales	\$10,309,015	\$12,145,605	\$10,718,059
Cost of sales	8,181,348	9,339,072	8,272,949
Gross profit	2,127,667	2,806,533	2,445,110
Selling, general and administrative expenses	1,290,379	1,364,082	1,226,861
Interest expense	112,071	98,996	83,414
Other expense (income), net	44,099	20,327	(7,183)
(Gain) on disposal of assets	(336)	(3,396)	(17,264)
Income before income taxes	681,454	1,326,524	1,159,282
Income taxes (Note 4)	172,939	377,058	329,236
Net Income	\$ 508,515	\$ 949,466	\$ 830,046
Earnings per Share (Note 5)			
Basic earnings per share	\$ 3.15	\$ 5.64	\$ 4.75
Diluted earnings per share	\$ 3.13	\$ 5.53	\$ 4.68

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

Consolidated Statement of Comprehensive Income

(Dollars in thousands)	For the years ended June 30,		
	2009	2008	2007
Net Income	\$ 508,515	\$ 949,466	\$ 830,046
Other comprehensive income (loss), net of taxes (Note 11):			
Foreign currency translation adjustment	(494,544)	280,482	119,582
Minimum pension liability			221,546
Retirement benefits funding adjustment	(481,207)	(81,834)	
Retirement benefits amortization	26,750	35,420	
Unrealized (loss) on marketable equity securities	(3,432)	(4,041)	
Realized loss on cash flow hedging and marketable equity securities	3,198	236	236
Comprehensive (Loss) Income	\$ (440,720)	\$1,179,729	\$1,171,410

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

Business Segment Information**By Industry**

<u>(Dollars in thousands)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net Sales:			
Industrial:			
North America	\$ 3,734,613	\$ 4,249,918	\$ 4,063,889
International	3,895,874	5,006,310	3,900,628
Aerospace	1,883,273	1,837,888	1,685,431
Climate & Industrial Controls	795,255	1,051,489	1,068,111
	<u>\$10,309,015</u>	<u>\$12,145,605</u>	<u>\$10,718,059</u>
Segment Operating Income:			
Industrial:			
North America	\$ 394,923	\$ 607,821	\$ 598,405
International	350,662	788,925	533,136
Aerospace	261,953	250,523	269,931
Climate & Industrial Controls	(3,737)	59,494	82,316
Total segment operating income	1,003,801	1,706,763	1,483,788
Corporate administration	152,118	192,966	179,077
Income before interest expense and other	851,683	1,513,797	1,304,711
Interest expense	112,071	98,996	83,414
Other expense	58,158	88,277	62,015
Income before income taxes	<u>\$ 681,454</u>	<u>\$ 1,326,524</u>	<u>\$ 1,159,282</u>
Assets:			
Industrial	\$ 7,539,504	\$ 8,121,793	\$ 6,363,652
Aerospace	915,155	921,935	778,777
Climate & Industrial Controls	691,423	804,526	831,482
Corporate (a)	709,820	538,600	467,502
	<u>\$ 9,855,902</u>	<u>\$10,386,854</u>	<u>\$ 8,441,413</u>
Property Additions (b):			
Industrial	\$ 346,691	\$ 329,125	\$ 203,448
Aerospace	21,877	17,274	21,343
Climate & Industrial Controls	6,645	9,664	17,170
Corporate	2,798	14,879	27,324
	<u>\$ 378,011</u>	<u>\$ 370,942</u>	<u>\$ 269,285</u>
Depreciation:			
Industrial	\$ 205,584	\$ 205,797	\$ 196,377
Aerospace	20,477	20,969	20,480
Climate & Industrial Controls	16,640	20,327	22,546
Corporate	9,898	10,477	5,655
	<u>\$ 252,599</u>	<u>\$ 257,570</u>	<u>\$ 245,058</u>

<u>(Dollars in thousands)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
By Geographic Area (c)			
Net Sales:			
North America	\$ 6,090,176	\$ 6,736,419	\$ 6,483,168
International	4,218,839	5,409,186	4,234,891
	<u>\$ 10,309,015</u>	<u>\$ 12,145,605</u>	<u>\$ 10,718,059</u>
Long-Lived Assets:			
North America	\$ 3,026,931	\$ 2,913,093	\$ 2,413,624
International	3,030,562	2,832,130	2,172,424
	<u>\$ 6,057,493</u>	<u>\$ 5,745,223</u>	<u>\$ 4,586,048</u>

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

- (a) Corporate assets are principally cash and cash equivalents, domestic deferred income taxes, investments, benefit plan assets, headquarters facilities and the major portion of the Company's domestic data processing equipment.
- (b) Includes the value of net plant and equipment at the date of acquisition of acquired companies (2009 - \$107,278; 2008 - \$90,615; 2007 - \$31,458).
- (c) Net sales are attributed to countries based on the location of the selling unit. North America includes the United States, Canada and Mexico. No country other than the United States represents greater than 10 percent of consolidated sales. Long-lived assets are comprised of plant and equipment based on physical location, goodwill and intangible assets.

Consolidated Balance Sheet

(Dollars in thousands)	June 30,	
	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 187,611	\$ 326,048
Accounts receivable, less allowance for doubtful accounts (2009 - \$19,815; 2008 - \$16,843)	1,417,305	2,046,726
Inventories (Notes 1 and 6):		
Finished products	514,495	600,132
Work in process	581,266	682,816
Raw materials	158,789	211,746
	<u>1,254,550</u>	<u>1,494,694</u>
Prepaid expenses	142,335	82,326
Deferred income taxes (Notes 1 and 4)	121,980	145,831
Total Current Assets	3,123,781	4,095,625
Plant and equipment (Note 1):		
Land and land improvements	278,290	275,506
Buildings and building equipment	1,324,504	1,326,202
Machinery and equipment	3,027,155	3,044,893
Construction in progress	75,111	81,477
	<u>4,705,060</u>	<u>4,728,078</u>
Less accumulated depreciation	2,824,506	2,801,556
	<u>1,880,554</u>	<u>1,926,522</u>
Investments and other assets (Note 1)	674,628	546,006
Goodwill (Notes 1 and 7)	2,903,077	2,798,092
Intangible assets, net (Notes 1 and 7)	1,273,862	1,020,609
Total Assets	\$ 9,855,902	\$10,386,854
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable and long-term debt payable within one year (Notes 8 and 9)	\$ 481,467	\$ 118,864
Accounts payable, trade	649,718	961,886
Accrued payrolls and other compensation	356,776	433,070
Accrued domestic and foreign taxes	113,107	183,136
Other accrued liabilities	404,686	486,300
Total Current Liabilities	2,005,754	2,183,256
Long-term debt (Note 9)	1,839,705	1,952,452
Pensions and other postretirement benefits (Note 10)	1,233,271	491,935
Deferred income taxes (Notes 1 and 4)	183,457	162,678
Other liabilities	314,090	337,562
Total Liabilities	5,576,277	5,127,883
Shareholders' Equity (Note 11)		
Serial preferred stock, \$.50 par value, authorized 3,000,000 shares; none issued		
Common stock, \$.50 par value, authorized 600,000,000 shares; issued 181,046,128 shares in 2009 and 2008 at par value	90,523	90,523
Additional capital	586,246	528,802
Retained earnings	5,722,038	5,387,836
Unearned compensation related to ESOP (Note 9)		(4,951)
Deferred compensation related to stock options	1,955	2,112
Accumulated other comprehensive (loss) income	(831,593)	117,642
	<u>5,569,169</u>	<u>6,121,964</u>
Common stock in treasury at cost: 20,557,537 shares in 2009 and 13,331,126 shares in 2008	(1,289,544)	(862,993)
Total Shareholders' Equity	4,279,625	5,258,971
Total Liabilities and Shareholders' Equity	\$ 9,855,902	\$10,386,854

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

Consolidated Statement of Cash Flows

(Dollars in thousands)	For the years ended June 30,		
	2009	2008	2007
Cash Flows From Operating Activities			
Net income	\$ 508,515	\$ 949,466	\$ 830,046
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	252,599	257,570	245,058
Amortization	105,138	69,154	49,508
Share incentive plan compensation	47,215	44,947	33,203
Deferred income taxes	(13,048)	(33,933)	(28,652)
Foreign currency transaction loss (gain)	1,786	(6,293)	(18,644)
(Gain) on sale of plant and equipment	(336)	(3,396)	(17,264)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	598,065	(114,578)	(54,701)
Inventories	218,595	(53,556)	(15,018)
Prepaid expenses	(61,646)	(4,034)	(5,296)
Other assets	63,998	(3,964)	(129,814)
Accounts payable, trade	(304,863)	74,998	(16,944)
Accrued payrolls and other compensation	(67,654)	55,591	72,186
Accrued domestic and foreign taxes	(40,598)	12,666	9,135
Other accrued liabilities	(159,642)	(26,623)	(23,566)
Pensions and other postretirement benefits	28,522	58,548	7,180
Other liabilities	(47,454)	40,047	20,488
Net cash provided by operating activities	1,129,192	1,316,610	956,905
Cash Flows From Investing Activities			
Acquisitions (less cash acquired of \$24,203 in 2009, \$21,276 in 2008, and \$15,591 in 2007)	(722,635)	(921,014)	(378,639)
Capital expenditures	(270,733)	(280,327)	(237,827)
Proceeds from sale of plant and equipment	28,986	29,997	45,826
Other	3,551	544	(9,121)
Net cash (used in) investing activities	(960,831)	(1,170,800)	(579,761)
Cash Flows From Financing Activities			
Proceeds from exercise of stock options	3,557	33,406	40,265
(Payments for) common shares	(447,800)	(584,603)	(433,049)
Tax benefit from share incentive plan compensation	3,692	27,640	26,547
Proceeds from (payments of) notes payable, net	346,081	(48,320)	111,300
Proceeds from long-term borrowings	2,368	778,934	52,278
(Payments of) long-term borrowings	(20,671)	(63,575)	(56,505)
Dividends paid, net of tax benefit of ESOP shares	(161,575)	(142,260)	(121,263)
Net cash (used in) provided by financing activities	(274,348)	1,222	(380,427)
Effect of exchange rate changes on cash	(32,450)	6,310	4,436
Net (decrease) increase in cash and cash equivalents	(138,437)	153,342	1,153
Cash and cash equivalents at beginning of year	326,048	172,706	171,553
Cash and cash equivalents at end of year	\$ 187,611	\$ 326,048	\$ 172,706
Supplemental Data:			
Cash paid during the year for:			
Interest, net of capitalized interest	\$ 111,648	\$ 90,176	\$ 81,489
Income taxes	211,281	329,666	304,540

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

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

1. Significant Accounting Policies

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

Nature of Operations - The Company is a leading worldwide 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 evaluates performance based on segment operating income before Corporate general and administrative expenses, Interest expense and Income taxes.

The Company operates in three business segments: Industrial, Aerospace and Climate & Industrial Controls. The Industrial Segment is an aggregation of several business units, which manufacture motion-control and fluid power system components for builders and users of various types of manufacturing, packaging, processing, transportation, agricultural, construction, and military vehicles and equipment. Industrial Segment products are marketed primarily through field sales employees and independent distributors. The Industrial North American operations have manufacturing plants and distribution networks throughout the United States, Canada and Mexico and primarily services North America. The Industrial International operations provide Parker products and services to 45 countries throughout Europe, Asia Pacific and Latin America.

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

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

See the table of Business Segment Information "By Industry" and "By Geographic Area" on pages 13-14 and 13-15 for further disclosure of business segment information.

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

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

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

Basis of Consolidation - The consolidated financial statements include the accounts of all majority-owned domestic and foreign subsidiaries. All intercompany transactions and profits have been eliminated in the consolidated financial statements. The Company does not have off-balance sheet arrangements. Within the Business Segment Information, intersegment and interarea sales have been eliminated.

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

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

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

Inventories - Inventories are stated at the lower of cost or market. The majority of domestic inventories are valued by the last-in, first-out method and the balance of the Company's inventories are valued by the first-in, first-out method.

Plant, Equipment and Depreciation - Plant and equipment are recorded at cost and are depreciated principally using the straight-line method for financial reporting purposes. Depreciation rates are based on estimated useful lives of the assets, generally 40 years for buildings, 15 years for land improvements and building equipment, seven to 10 years for machinery and equipment, and three to eight years for vehicles and office equipment. Improvements, which extend the useful life of property, are capitalized, and maintenance and repairs are expensed. The Company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When plant and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.

Investments and Other Assets - Investments in joint-venture companies in which ownership is 50% or less and in which the Company does not have operating control are stated at cost plus the Company's equity in undistributed earnings. These investments and the related earnings are not material to the consolidated financial statements.

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

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

Income Taxes - Income taxes are provided based upon income for financial reporting purposes. Deferred income taxes arise from temporary differences in the recognition of income and expense for tax purposes. Tax credits and similar tax incentives are applied to reduce the provision for income taxes in the year in which the credits arise. The Company recognizes accrued interest related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized in income tax expense. Effective July 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. As a result of the implementation of FIN 48, the Company recognized an increase of \$29,904 in the liability for unrecognized tax benefits, which was accounted for by a decrease of \$23,801 to the July 1, 2007 balance of Retained earnings and an increase of \$6,103 to deferred tax assets, which is included in the Other assets caption in the Consolidated Balance Sheet.

Product Warranty - In the ordinary course of business the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual at June 30, 2009 and 2008 is immaterial to the financial position of the Company and the change in the accrual during 2009, 2008 and 2007 was immaterial to the Company's results of operations and cash flows.

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

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

The Company enters into forward exchange contracts (forward contracts) and costless collar contracts, 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. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Gains or losses on derivatives that are not hedges are adjusted to fair value through Net income. Gains or losses on derivatives that hedge specific transactions are recognized in Net income or recognized in Other comprehensive income until the hedged item is recognized in earnings. See Note 15 for disclosure of fair value of derivative financial instruments.

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

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

Subsequent Events - The Company has adopted FASB Statement No. 165 as of June 30, 2009, and has evaluated for disclosure subsequent events that have occurred up to August 27, 2009, the date of filing of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

Recent Accounting Pronouncements - In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), "Business Combinations" (Statement No. 141R). Statement No. 141R changes 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. Statement No. 141R is effective for fiscal years beginning after December 15, 2008. Generally, the effect of Statement No. 141R on the Company's financial position or results of operations will depend on future acquisitions.

In December 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB 51." Statement No. 160 requires 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 will be included in consolidated net income on the face of the income statement. Statement No. 160 is effective for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of Statement No. 160 will have a material effect on the Company's financial position or results of operations.

In December 2008, the FASB issued FASB Staff Position (FSP) 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." FSP 132(R)-1 requires 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. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company has not yet determined the effect, if any, that FSP 132(R)-1 will have on the Company's retirement benefits disclosures.

In April 2009, the FASB issued FSP 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP 107-1 requires disclosures about fair value of financial instruments in interim reports as well as annual reports. The Company will comply with the required disclosures beginning with the fiscal quarter ending September 30, 2009 and does not believe the adoption of FSP 107-1 will have a significant effect on the Company's financial instrument disclosures.

Reclassifications and Revisions - Certain prior period amounts have been reclassified to conform to the current-year presentation.

2. Acquisitions

In October 2008, the Company acquired Legris SA, a manufacturer of fluid circuit components and systems for pneumatic, hydraulic, and chemical processing applications. In October 2008, the Company acquired Origa Group, a manufacturer of rodless pneumatic actuators, electric actuators, filter regulator lubricators and pneumatic cylinders and valves. Aggregate annual sales for these businesses and seven other businesses acquired during fiscal 2009, for their most recent fiscal year prior to acquisition, were approximately \$532 million. Total purchase price for all businesses acquired during fiscal 2009 was approximately \$747 million in cash and \$4 million in assumed debt.

In November 2007, the Company acquired Scan Subsea ASA whose primary businesses include the design, production, and marketing of power and production umbilical cables for subsea installations as well as mooring lines for floating oil production and exploration units. In April 2008, the Company acquired Vansco Electronics, a global leader in the design and manufacture of electronic controls, displays and terminals, communication and operator interfaces, and sensors. Aggregate annual sales for these businesses and eight other businesses acquired during fiscal 2008, for their most recent fiscal year prior to acquisition, were approximately \$546 million. Total purchase price for all businesses acquired during fiscal 2008 was approximately \$942 million in cash and \$11 million in assumed debt.

In April 2007, the Company acquired Rectus AG, a manufacturer of quick disconnect couplings and related products for pneumatic, hydraulic, medical, and chemical processing applications. Aggregate annual sales for this business and 10 other businesses acquired during fiscal 2007, for their most recent fiscal year prior to acquisition, were approximately \$260 million. Total purchase price for all businesses acquired during fiscal 2007 was approximately \$394 million in cash and \$15 million in assumed debt.

The results of operations for all acquisitions are included as of the respective dates of acquisition. The initial purchase price allocation and any subsequent purchase price adjustments for acquisitions in 2009, 2008 and 2007 are presented below. Some of the 2009 purchase price allocations are preliminary and may require subsequent adjustment.

	2009	2008	2007
Assets acquired:			
Accounts receivable	\$ 116,931	\$ 79,342	\$ 47,534
Inventories	87,230	91,197	36,654
Prepaid expenses	3,957	4,055	(3,604)
Deferred income taxes	7,899	5,265	9,066
Plant and equipment	107,278	90,615	31,458
Intangible and other assets	431,964	468,609	164,318
Goodwill	319,193	439,667	182,740
	<u>1,074,452</u>	<u>1,178,750</u>	<u>468,166</u>
Liabilities assumed:			
Notes payable	2,622	611	5,231
Accounts payable, trade	49,421	54,495	21,265
Accrued payrolls and other compensation	33,714	16,364	13,410
Accrued domestic and foreign taxes	22,111	1,366	1,537
Other accrued liabilities	97,093	77,285	(10,440)
Long-term debt	1,640	10,023	9,954
Pensions and other postretirement benefits	5,418	653	(6,951)
Deferred income taxes	136,864	97,640	41,905
Other liabilities	2,934	(701)	13,616
	<u>351,817</u>	<u>257,736</u>	<u>89,527</u>
Net assets acquired	<u>\$ 722,635</u>	<u>\$ 921,014</u>	<u>\$378,639</u>

3. Charges Related to Business Realignment

In 2009, the Company recorded a \$52.1 million charge for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to the Industrial and Climate & Industrial Controls Segments and included severance costs attributable to approximately 4,295 employees as well as costs related to the consolidation of manufacturing product lines. All required severance payments have been made. The business realignment costs are presented in the Consolidated Statement of Income for 2009 in the following captions: \$41.0 million in Cost of sales, \$6.2 million in Selling, general and administrative expenses and \$4.9 million in (Gain) on disposal of assets.

In 2008, the Company recorded a \$5.7 million charge for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to the Industrial Segment and included severance costs attributable to approximately 280 employees as well as costs related to the consolidation of manufacturing product lines. All required severance payments have been made. The business realignment costs are primarily presented in the Cost of sales caption in the Consolidated Statement of Income for 2008.

In 2007, the Company recorded a \$19.4 million charge for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to the Industrial Segment and included severance costs attributable to approximately 775 employees as well as costs related to the consolidation of manufacturing product lines. All required severance payments have been made. The business realignment costs are presented in the Consolidated Statement of Income for 2007 in the following captions: \$15.0 million in Cost of sales and \$4.4 million in Selling, general and administrative expenses.

4. Income Taxes

Income before income taxes was derived from the following sources:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
United States	\$ 388,878	\$ 501,764	\$ 581,191
Foreign	292,576	824,760	578,091
	<u>\$ 681,454</u>	<u>\$ 1,326,524</u>	<u>\$ 1,159,282</u>

Income taxes include the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Federal	\$ 46,524	\$ 199,457	\$ 203,387
Foreign	120,963	187,034	135,001
State and local	18,500	24,500	19,500
Deferred	(13,048)	(33,933)	(28,652)
	<u>\$ 172,939</u>	<u>\$ 377,058</u>	<u>\$ 329,236</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes	1.7	1.0	1.0
Litigation settlements	1.8		
Foreign tax rate difference	(8.6)	(7.3)	(5.1)
Cash surrender of life insurance	2.3	.2	(.8)
Research tax credit	(2.5)	(.4)	(1.4)
Worthless stock benefit	(3.2)		
Other	(1.1)	(.1)	(.3)
Effective income tax rate	<u>25.4%</u>	<u>28.4%</u>	<u>28.4%</u>

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

	<u>2009</u>	<u>2008</u>
Postretirement benefits	\$ 491,655	\$ 258,550
Other liabilities and reserves	107,694	108,217
Long-term contracts	3,572	9,002
Stock-based compensation	47,250	32,682
Loss carryforwards	135,901	79,817
Foreign tax credit carryforwards	9,857	18,029
Unrealized currency exchange gains and losses	37,342	52,368
Inventory	16,963	18,369
Depreciation and amortization	(502,105)	(417,231)
Valuation allowance	(112,883)	(78,631)
Net deferred tax asset	<u>\$ 235,246</u>	<u>\$ 81,172</u>
Change in net deferred tax asset:		
Provision for deferred tax	\$ 13,048	\$ 33,933
Items of other comprehensive income	263,565	66,956
Acquisitions and other	(122,539)	(84,435)
Total change in net deferred tax	<u>\$ 154,074</u>	<u>\$ 16,454</u>

At June 30, 2009, the Company had recorded deferred tax assets of \$135,901 resulting from \$545,950 in loss carryforwards. A valuation allowance has been established due to the uncertainty of realizing certain loss carryforwards, a foreign capital loss carryforward, and certain deferred tax assets associated with other liabilities and reserves. The foreign capital loss carryforward and some of the loss carryforwards can be carried forward indefinitely; others can be carried forward from one to 19 years. The increase in loss carryforwards and the valuation allowance in 2009 were primarily due to an increase in losses in certain foreign jurisdictions. No material valuation allowance was recorded during the year attributable to various acquisitions. Upon the adoption of Statement No. 141R, changes in the valuation allowance attributable to acquisitions will affect income tax expense including those associated with acquisitions that closed prior to July 1, 2009.

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

Accumulated undistributed earnings of foreign operations reinvested in their operations amounted to \$1,298,102, \$1,435,394 and \$948,867, at June 30, 2009, 2008 and 2007, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2009</u>	<u>2008</u>
Balance July 1	\$ 105,070	\$ 74,459
Additions for tax positions related to current year	31,414	24,951
Additions for tax positions of prior years	15,899	6,470
Additions for acquisitions	760	993
Reductions for tax positions of prior years	(10,566)	(2,452)
Reductions for settlements	(3,768)	(538)
Reductions for expiration of statute of limitations		(45)
Effect of foreign currency translation	(5,855)	1,232
Balance June 30	<u>\$ 132,954</u>	<u>\$ 105,070</u>

The total amount of unrecognized tax benefits that, if recognized, would affect the effective rate was \$114,210 and \$76,868 as of June 30, 2009 and 2008, respectively. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, was \$9,179 and \$9,748 as of June 30, 2009 and 2008, respectively.

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 2001 as well as 2004 and 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 2002, 2003, 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 \$55 million due to the settlement of examinations and the expiration of statutes of limitation.

5. Earnings Per Share

Earnings per share have been computed according to FASB Statement No. 128, "Earnings per Share." Basic earnings per share is computed using the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed using the weighted-average number of common shares and common share equivalents outstanding during the year. Common share equivalents represent the dilutive effect of outstanding stock-based awards.

The computation of net income per share was as follows:

	2009	2008	2007
Numerator:			
Net income applicable to common shares	\$ 508,515	\$ 949,466	\$ 830,046
Denominator:			
Basic – weighted-average common shares	161,564,111	168,285,487	174,643,327
Increase in weighted-average from dilutive effect of exercise of stock-based awards	1,155,037	3,358,348	2,851,563
Diluted – weighted-average common shares, assuming exercise of stock-based awards	162,719,148	171,643,835	177,494,890
Basic earnings per share	\$ 3.15	\$ 5.64	\$ 4.75
Diluted earnings per share	\$ 3.13	\$ 5.53	\$ 4.68

For 2009, 2008 and 2007, 6.4 million, 1.1 million, and 2.5 million common shares, respectively, subject to stock-based awards were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

6. Inventories

Inventories valued on the last-in, first-out (LIFO) cost method were approximately 28 percent and 29 percent, respectively, of total inventories in 2009 and 2008. The current cost of these inventories exceeds their valuation determined on the LIFO basis by \$204,294 in 2009 and \$216,794 in 2008. During 2009, inventory reductions resulted in a pre-tax LIFO liquidation gain of \$12,500. Progress payments of \$57,704 in 2009 and \$34,809 in 2008 are netted against inventories.

7. Goodwill and Intangible Assets

The Company conducts an annual impairment test as required by FASB Statement No. 142. Goodwill is tested for impairment at the reporting unit level, which for the Company, is one level below the operating segment level. The Company uses a discounted cash flow model to determine the fair value of a reporting unit. 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 of the Company's reporting units prepare discrete operating forecasts and uses these forecasts as the basis for the assumptions used in the discounted cash flow analyses. The annual impairment tests performed in fiscal years 2009, 2008, and 2007 resulted in no impairment loss being recognized.

The changes in the carrying amount of goodwill for the years ended June 30, 2008 and June 30, 2009 are as follows:

	Industrial Segment	Aerospace Segment	Climate & Industrial Controls Segment	Total
Balance June 30, 2007	\$1,856,841	\$ 87,721	\$ 309,507	\$2,254,069
Acquisitions	427,032	12,635		439,667
Foreign currency translation	101,120	57	5,705	106,882
Goodwill adjustments	(2,514)		(12)	(2,526)
Balance June 30, 2008	<u>\$2,382,479</u>	<u>\$ 100,413</u>	<u>\$ 315,200</u>	<u>\$2,798,092</u>
Acquisitions	318,818		375	319,193
Foreign currency translation	(196,318)	(45)	(7,662)	(204,025)
Goodwill adjustments	(8,530)	(1,659)	6	(10,183)
Balance June 30, 2009	<u>\$2,496,449</u>	<u>\$ 98,709</u>	<u>\$ 307,919</u>	<u>\$2,903,077</u>

“Goodwill adjustments” primarily represent adjustments to the purchase price allocation during the twelve-month period subsequent to the acquisition date and primarily involves the valuation of property, plant and equipment and intangible assets. Some of the 2009 purchase price allocations are preliminary and may require subsequent adjustment.

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

June 30,	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 119,811	\$ 42,188	\$ 96,385	\$ 35,770
Trademarks	287,691	62,926	247,874	42,503
Customer lists and other	1,154,713	183,239	876,092	121,469
Total	<u>\$ 1,562,215</u>	<u>\$ 288,353</u>	<u>\$ 1,220,351</u>	<u>\$ 199,742</u>

During 2009, the Company acquired intangible assets with an initial purchase price allocation and weighted-average life as follows:

	Purchase Price Allocation	Weighted-Average Life
Patents	\$ 31,601	10 years
Trademarks	51,418	11 years
Customer lists and other	308,484	18 years
Total	<u>\$ 391,503</u>	<u>17 years</u>

Total intangible amortization expense in 2009, 2008 and 2007 was \$102,750, \$67,391 and \$45,842, respectively. The estimated amortization expense for the five years ending June 30, 2010 through 2014 is \$108,932, \$104,193, \$91,949, \$83,844 and \$82,317, respectively.

8. Financing Arrangements

The Company has a line of credit totaling \$1,500,000 through a multi-currency revolving credit agreement with a group of banks, of which \$1,071,566 was available at June 30, 2009. The credit agreement expires in 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. The interest on borrowings is based upon the terms of each specific borrowing and is subject to market conditions. The revolving credit agreement requires a facility fee of up to 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 is currently authorized to sell up to \$1,370,000 of short-term commercial paper notes, rated A-1 by Standard & Poor's, P-1 by Moody's and F-1 by Fitch Ratings. These ratings are considered investment grade. Commercial paper notes outstanding were \$354,500 at June 30, 2009. There were no commercial paper notes outstanding at June 30, 2008.

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 agreement for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At the Company's present rating level, the most restrictive covenant provides that the ratio of secured debt to net tangible assets be less than 10 percent. As of June 30, 2009, the ratio of secured debt to net tangible assets was less than two percent. The Company is in compliance with all covenants.

Notes payable is comprised of short-term lines of credit and borrowings from foreign banks. At June 30, 2009, the Company had \$172,752 in lines of credit from various foreign banks, of which \$169,686 was available. Most of these agreements are renewed annually. The balance and weighted-average interest rate of the Notes payable at June 30, 2009 and 2008 were \$431,044 and 1.5 percent and \$95,112 and 4.7 percent, respectively.

9. Debt

<u>June 30,</u>	<u>2009</u>	<u>2008</u>
Domestic:		
Debtures		
7.30%, due 2011	\$ 100,000	\$ 100,000
Fixed rate medium-term notes		
5.50% to 7.37%, due 2010-2038	915,000	915,000
Fixed rate senior notes		
4.88%, due 2013	225,000	225,000
ESOP loan guarantee		
6.34%, due 2009		6,291
Variable rate demand bonds		
0.6%, due 2010-2025	20,035	20,035
Foreign:		
Bank loans, including revolving credit		
1% to 10.7%, due 2010-2017	6,357	11,875
Euro Bonds		
3.5%, due 2011	280,580	314,880
4.125%, due 2016	280,580	314,880
Japanese Yen credit facility		
Libor plus 20 bps, due 2012	62,292	56,508
Other long-term debt, including capitalized leases	284	11,735
Total long-term debt	1,890,128	1,976,204
Less long-term debt payable within one year	50,423	23,752
Long-term debt, net	\$ 1,839,705	\$ 1,952,452

Principal amounts of Long-term debt payable in the five years ending June 30, 2010 through 2014 are \$50,423, \$381,537, \$62,755, \$232,157 and \$214, respectively. The carrying value of the Company's Long-term debt (excluding leases) was \$1,889,844 and \$1,975,590 at June 30, 2009 and 2008, respectively, and was estimated to have a fair value of \$1,899,246 and \$1,937,995, at June 30, 2009 and 2008, respectively. The fair value of the Long-term debt was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. At the Company's present rating level, some of the debt agreements include a limitation on the Company's ratio of secured debt to net tangible assets.

ESOP Loan Guarantee - In 1999, the Company's Employee Stock Ownership Plan (ESOP) was leveraged when the ESOP Trust borrowed \$112,000 and used the proceeds to purchase 4,583,120 shares of the Company's common stock from the Company's treasury. The loan was unconditionally guaranteed by the Company and therefore the unpaid balance of the borrowing was reflected on the Consolidated Balance Sheet as Long-term debt. A corresponding amount representing Unearned compensation was recorded as a deduction from Shareholders' equity. The ESOP Trust repaid the loan in 2009 so the borrowing was removed from Long-term debt.

Lease Commitments - Future minimum rental commitments as of June 30, 2009, under non-cancelable operating leases, which expire at various dates, are as follows: 2010-\$82,164; 2011-\$60,394; 2012-\$40,378; 2013-\$26,733; 2014-\$19,984 and after 2014-\$86,087.

Rental expense in 2009, 2008 and 2007 was \$125,516, \$106,135 and \$86,999, respectively.

10. Retirement Benefits

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

In September 2006, the FASB issued FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Statement No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Statement No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The funded status recognition provision was adopted by the Company as of June 30, 2007 resulting in a decrease to Shareholders' equity of \$259,166 in 2007. Prior to the adoption of Statement No. 158, accounting rules required that the Company recognize a liability if the accumulated benefit obligation exceeded the fair value of plan assets. The net of tax effect of recording the minimum liability on Shareholders' equity was an increase of \$221,546 in 2007. The measurement date provision of Statement No. 158 was adopted by the Company as of July 1, 2008 resulting in a decrease to Shareholders' equity of \$2,106 in 2009.

A summary of the Company's defined benefit pension plans follows:

Benefit cost	<u>2009</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ 71,187	\$ 76,315	\$ 79,136
Interest cost	172,321	163,635	151,030
Expected return on plan assets	(186,417)	(190,362)	(175,170)
Amortization of prior service cost	11,787	13,318	12,206
Amortization of unrecognized actuarial loss	31,507	45,757	58,833
Amortization of initial net (asset)	(53)	(71)	(63)
Net periodic benefit cost	<u>\$ 100,332</u>	<u>\$ 108,592</u>	<u>\$ 125,972</u>

	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 2,731,472	\$2,743,330
Service cost	71,187	76,315
Interest cost	172,321	163,635
Actuarial loss (gain)	184,275	(183,654)
Benefits paid	(140,842)	(134,425)
Plan amendments	6,442	9,414
Acquisitions	16,872	1,210
Foreign currency translation and other	(89,430)	55,647
Benefit obligation at end of year	<u>\$ 2,952,297</u>	<u>\$2,731,472</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 2,344,832	\$2,500,419
Actual (loss) on plan assets	(384,309)	(119,494)
Employer contributions	61,933	52,376
Benefits paid	(140,842)	(128,907)
Acquisitions	10,781	676
Foreign currency translation and other	(84,916)	39,762
Fair value of plan assets at end of year	<u>\$ 1,807,479</u>	<u>\$2,344,832</u>
Funded status	<u>\$ (1,144,818)</u>	<u>\$ (386,640)</u>
Amounts recognized on the Consolidated Balance Sheet		
Investments and other assets	\$ 182	\$ 2,417
Other accrued liabilities	(8,828)	(16,061)
Pensions and other postretirement benefits	(1,136,172)	(372,996)
Net amount recognized	<u>\$ (1,144,818)</u>	<u>\$ (386,640)</u>
Amounts recognized in Accumulated Other Comprehensive (Loss) Income		
Net actuarial loss	\$ 1,228,240	\$ 520,386
Prior service cost	73,094	79,107
Transition obligation (asset)	63	(101)
Net amount recognized	<u>\$ 1,301,397</u>	<u>\$ 599,392</u>

The presentation of the amounts recognized on the Consolidated Balance Sheet and in Accumulated Other Comprehensive (Loss) Income is on a debit (credit) basis and excludes the effect of income taxes.

The estimated amount of net actuarial loss, prior service cost and transition asset that will be amortized from accumulated other comprehensive (loss) income into net periodic benefit pension cost in 2010 is \$71,789, \$12,639 and \$51, respectively.

The accumulated benefit obligation for all defined benefit plans was \$2,699,942 and \$2,471,932 at June 30, 2009 and 2008, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$2,911,759, \$2,666,229 and \$1,767,765, respectively, at June 30, 2009, and \$498,209, \$433,578 and \$273,849, respectively, at June 30, 2008.

The Company expects to make cash contributions of approximately \$63 million to its defined benefit pension plans in 2010, the majority of which relate to non-U.S. defined benefit plans. Estimated future benefit payments in the five years ending June 30, 2010 through 2014 are \$131,556, \$152,252, \$152,481, \$192,023 and \$162,045, respectively and \$1,000,686 in the aggregate for the five years ending June 30, 2015 through June 30, 2019.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
U.S. defined benefit plans			
Discount rate	6.8%	6.3%	6.0%
Average increase in compensation	4.7%	4.7%	4.7%
Expected return on plan assets	8.5%	8.5%	8.75%
Non-U.S. defined benefit plans			
Discount rate	2.25 to 6.9%	2.25 to 6.3%	2.25 to 6.0%
Average increase in compensation	1.0 to 4.5%	1.0 to 4.25%	1.0 to 4.25%
Expected return on plan assets	1.0 to 8.0%	1.0 to 7.75%	1.0 to 7.75%

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

	<u>2009</u>	<u>2008</u>
U.S. defined benefit plans		
Discount rate	6.25%	6.8%
Average increase in compensation	0 to 3.5%	4.7%
Non-U.S. defined benefit plans		
Discount rate	2.0 to 6.78%	2.25 to 6.9%
Average increase in compensation	2.0 to 4.7%	1.0 to 4.5%

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

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

	<u>2009</u>	<u>2008</u>
Equity securities	60%	62%
Debt securities	32%	32%
Other	8%	6%
	<u>100%</u>	<u>100%</u>

The investment strategy for the defined benefit pension plan assets focuses on achieving prudent actuarial funding ratios while maintaining acceptable levels of risk. This strategy requires an investment portfolio that is broadly diversified across various asset classes and investment managers. The current weighted-average target asset allocation is 62 percent equity securities, 33 percent debt securities and 5 percent other. At June 30, 2009 and 2008, the plans' assets included Company stock with market values of \$53,717 and \$89,307, respectively.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Allocated shares	11,189,598	11,123,057	11,618,229
Suspense shares		202,587	621,648
Total shares held by the ESOP	<u>11,189,598</u>	<u>11,325,644</u>	<u>12,239,877</u>
Fair value of suspense shares		<u>\$ 14,449</u>	<u>\$ 40,577</u>

In 1999, the ESOP was leveraged and the loan was unconditionally guaranteed by the Company. The Company's matching contribution and dividends on the shares held by the ESOP were used to repay the loan, and shares were released from the suspense account as the principal and interest are paid. The unreleased portion of the shares in the ESOP suspense account were not considered outstanding for purposes of earnings per share computations. The ESOP Trust repaid the loan in 2009 so there are no suspense shares remaining at June 30, 2009. Company contributions to the ESOP, recorded as compensation and interest expense, were \$51,593 in 2009, \$53,019 in 2008 and \$51,647 in 2007. Dividends earned by the suspense shares and interest income within the ESOP totaled \$162 in 2009, \$796 in 2008 and \$1,031 in 2007. In 2009, in lieu of cash, the Company issued 49,422 of its common shares out of treasury for the matching contribution.

The Company has a retirement income account (RIA) within the employee savings plan. The Company makes a contribution to the participant's RIA account each year, the amount of which is based on the participant's age and years of service. Participants do not contribute to the RIA. The Company recognized \$14,489, \$10,826 and \$9,145 in expense related to the RIA in 2009, 2008 and 2007, respectively.

In addition to shares within the ESOP, as of June 30, 2009, employees have elected to invest in 4,080,864 shares of common stock within the Company Stock Fund of the Parker Retirement Savings Plan.

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

Certain employees are covered under benefit provisions that include prescription drug coverage for Medicare eligible retirees. The impact of the subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 on the Company's other postretirement benefits was immaterial.

A summary of the Company's other postretirement benefit plans follows:

<u>Benefit cost</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Service cost	\$1,034	\$1,519	\$1,656
Interest cost	5,193	5,700	5,699
Net amortization and deferral	(753)	(742)	(579)
Net periodic benefit cost	<u>\$5,474</u>	<u>\$6,477</u>	<u>\$6,776</u>

	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 91,851	\$ 96,291
Service cost	1,034	1,519
Interest cost	5,193	5,700
Actuarial (gain)	(3,667)	(3,584)
Benefits paid	(7,703)	(8,075)
Acquisitions	139	
Plan settlement	(22,413)	
Benefit obligation at end of year	<u>\$ 64,434</u>	<u>\$ 91,851</u>
Funded status	<u>\$ (64,434)</u>	<u>\$ (91,851)</u>
Amounts recognized on the Consolidated Balance Sheet		
Other accrued liabilities	\$ (5,318)	\$ (6,375)
Pensions and other postretirement benefits	(59,116)	(85,476)
Net amount recognized	<u>\$ (64,434)</u>	<u>\$ (91,851)</u>
Amounts recognized in Accumulated Other Comprehensive (Loss) Income		
Net actuarial (gain) loss	\$ (1,562)	\$ 803
Prior service (credit)	(2,829)	(2,304)
Net amount recognized	<u>\$ (4,391)</u>	<u>\$ (1,501)</u>

The presentation of the amounts recognized on the Consolidated Balance Sheet and in Accumulated Other Comprehensive (Loss) Income is on a debit (credit) basis and is before the effect of income taxes. The amount of prior service (credit) and net actuarial (gain) loss that will be amortized from accumulated other comprehensive (loss) income into net periodic postretirement cost in 2010 is \$450 and \$245, respectively.

Historically, the Company has provided self-insured retiree medical plan benefits for non-union employees upon their retirement. The retiree was responsible for paying the premiums for the medical coverage but the Company paid the costs of administering the plans (i.e., claims processing costs). Absorbing the administration costs was considered a benefit under FASB Statement No. 106 as the employees who elected to enroll in the retiree medical plans paid a lower premium since the Company was paying the costs to administer the plan. In 2009, the Company discontinued its self-insured retiree medical plans for non-union employees and has therefore eliminated the cost associated with administering the plans. The Company recognized \$22.4 million in income in 2009 as a result of eliminating the liability related to this benefit.

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

	2009	2008	2007
Discount rate	6.71%	6.23%	6.0%
Current medical cost trend rate	9.25%	9.7%	10.2%
Ultimate medical cost trend rate	5.0%	5.0%	5.0%
Medical cost trend rate decreases to ultimate in year	2014	2014	2014

The discount rate assumption used to measure the benefit obligation was 6.1 percent in 2009 and 6.71 percent in 2008.

Estimated future benefit payments for other postretirement benefits in the five years ending June 30, 2010 through 2014 are \$5,336, \$5,252, \$5,276, \$5,200 and \$5,161, respectively, and \$27,368 in the aggregate for the five years ending June 30, 2015 through June 30, 2019.

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

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 174	\$ (149)
Effect on postretirement benefit obligation	\$ 2,699	\$ (2,333)

Other - The Company has established nonqualified deferred compensation programs, which permit officers, directors and certain management employees annually to elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Company match, and earnings on the deferrals. During 2009, 2008 and 2007, the Company recorded (income) expense relating to deferred compensation of \$(27,167), \$8,785 and \$35,308, respectively.

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

11. Shareholders' Equity

	2009	2008	2007
Common Shares			
Balance July 1	\$ 90,523	\$ 90,513	\$ 90,513
Shares incentive plan activity (2008 – 24,838)		10	
Balance June 30	<u>\$ 90,523</u>	<u>\$ 90,523</u>	<u>\$ 90,513</u>
Additional Capital			
Balance July 1	\$ 528,802	\$ 482,068	\$ 480,698
Share incentive plan activity	(1,340)	(46,152)	(70,460)
Share incentive plan expense	47,215	44,947	33,203
Tax benefit of equity awards	3,692	27,640	26,547
Restricted stock (surrendered) issued	(31)	2,392	(260)
Shares related to ESOP	7,908	17,907	12,340
Balance June 30	<u>\$ 586,246</u>	<u>\$ 528,802</u>	<u>\$ 482,068</u>
Retained Earnings			
Balance July 1	\$5,387,836	\$4,601,394	\$3,916,412
Net income	508,515	949,466	830,046
Cash dividends paid on common shares, net of tax benefits	(161,575)	(142,260)	(121,263)
Cash payments for stock split fractional shares		(340)	
Share incentive plan activity	(6,348)	(20,424)	
Retirement benefit plan activity	(6,390)		
Balance June 30	<u>\$5,722,038</u>	<u>\$5,387,836</u>	<u>\$4,625,195</u>

	2009	2008	2007
Unearned Compensation Related to ESOP			
Balance July 1	\$ (4,951)	\$ (15,192)	\$ (25,809)
Unearned compensation related to ESOP debt guarantee	4,951	10,241	10,617
Balance June 30	<u>\$</u>	<u>\$ (4,951)</u>	<u>\$ (15,192)</u>
Deferred Compensation Related to Stock Options			
Balance July 1	\$ 2,112	\$ 2,269	\$ 2,347
Deferred compensation	(157)	(157)	(78)
Balance June 30	<u>\$ 1,955</u>	<u>\$ 2,112</u>	<u>\$ 2,269</u>
Accumulated Other Comprehensive (Loss) Income			
Balance July 1	\$ 117,642	\$(112,621)	\$(194,819)
Foreign currency translation	(494,544)	280,482	119,582
Net unrealized (loss)	(3,432)	(4,041)	
Net realized loss	3,198	236	236
Minimum pension liability prior to adoption of FASB 158			221,546
Adjustment recognized upon adoption of FASB 158			(259,166)
Retirement benefit plan activity	(454,457)	(46,414)	
Balance June 30	<u>\$ (831,593)</u>	<u>\$ 117,642</u>	<u>\$ (112,621)</u>
Common Stock in Treasury			
Balance July 1	\$ (862,993)	\$(360,567)	\$ (28,139)
Shares purchased at cost	(447,800)	(584,263)	(433,049)
Share incentive plan activity	10,773	74,419	83,951
Retirement benefit plan activity	3,102		
Restricted stock issued	7,374	7,418	16,670
Balance June 30	<u>\$ (1,289,544)</u>	<u>\$ (862,993)</u>	<u>\$ (360,567)</u>

Retirement benefit plan activity for Retained earnings in 2009 includes \$3,391 related to the adoption of Emerging Issues Task Force Issue 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance" and \$2,106 related to the adoption of the measurement date provision of Statement No. 158. The Retained earnings balance as of July 1, 2007 reflects a reduction of \$23,801 relating to the adoption of FIN 48. Foreign currency translation is net of tax of \$10,131, \$22,729, and \$4,056 in 2009, 2008 and 2007, respectively. The net unrealized (loss) relates to marketable equity securities and is net of tax of \$2,123 in 2009 and \$2,500 in 2008. The net realized loss relates to cash flow hedging and marketable equity securities and is net of tax of \$1,950 in 2009 and \$148 in 2008 and 2007. Minimum pension liability is net of tax of \$131,065 in 2007. Adjustment recognized upon adoption of Statement No. 158 is net of tax of \$156,711 in 2007. Retirement benefit plan activity for Accumulated other comprehensive (loss) income is net of tax of \$253,261 and \$28,856 in 2009 and 2008, respectively.

The balance of Accumulated other comprehensive (loss) income at June 30, 2009 is comprised of \$10,605, \$(836,398) and \$(5,800) related to foreign currency translation, retirement benefit plans and other items, respectively. The balance of Accumulated other comprehensive (loss) income at June 30, 2008 is comprised of \$505,149, \$(381,941) and \$(5,566) related to foreign currency translation, retirement benefit plans and other items, respectively.

Share Repurchases - 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 the shares are initially held as treasury stock. During 2009, the Company repurchased 7,557,284 shares of its common stock at an average price of \$59.25 per share.

In August 2007, the Company's Board of Directors authorized the accelerated purchase of \$500 million of the Company's common shares. This authorization is in addition to the Company's previously announced share repurchase program. Under the accelerated repurchase program, the Company repurchased a total of 6,629,981 shares at an average purchase price of \$75.48 per share.

12. Stock Incentive Plans

Stock-Based Awards - The Company's stock incentive plans provide for the granting of nonqualified options and stock appreciation rights (SARs) to officers and key employees of the Company. The nonqualified options allow the recipient to purchase shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date the stock-based awards are granted. Upon exercise, SARs entitle the recipient to receive shares of common stock equal to the increase in value of the award between the grant date and the exercise date. Outstanding options and SARs are exercisable from one to three years after the date of grant and expire no more than 10 years after grant. The Company satisfies stock option and SAR exercises by issuing common shares out of treasury, which have been repurchased pursuant to the Company's share repurchase program described in Note 11, or through the issuance of previously unissued common shares.

During 2009, 2008 and 2007, the Company recognized stock-based compensation expense of \$41,488, \$44,947 and \$33,203, respectively. The Company derives a tax deduction measured by the excess of the market value over the grant price at the date stock-based awards are exercised. The related tax benefit is credited to Additional capital as the Company is currently in a windfall tax benefit position.

The fair value of each stock-based award granted in 2009, 2008 and 2007 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2009	2008	2007
Risk-free interest rate	3.2%	4.4%	4.7%
Expected life of award	4.9 yrs	5.2 yrs	5.1 yrs
Expected dividend yield of stock	1.3%	1.4%	1.5%
Expected volatility of stock	26.6%	25.6%	30.2%
Weighted-average fair value	\$ 16.56	\$ 16.61	\$ 15.50

The risk-free interest rate was based on U.S. Treasury yields with a term similar to the expected life of the award. The expected life of the award was derived by referring to actual exercise and post-vesting employment termination experience. The expected dividend yield was based on the Company's historical dividend rate and stock price over a period similar to the expected life of the award. The expected volatility of stock was derived by referring to changes in the Company's historical common stock prices over a timeframe similar to the expected life of the award.

Stock-based award activity during 2009 is as follows (aggregate intrinsic value in millions):

	Number Of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding June 30, 2008	12,620,441	\$ 44.25		
Granted	2,478,610	65.34		
Exercised	(241,716)	28.13		
Canceled	(226,055)	57.94		
Outstanding June 30, 2009	14,631,280	\$ 47.88	6.1 years	\$ 59.8
Exercisable June 30, 2009	9,701,600	\$ 41.06	4.9 years	\$ 59.8

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

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Nonvested June 30, 2008	5,161,466	\$ 15.86
Granted	2,478,610	16.56
Vested	(2,563,056)	15.64
Canceled	(147,340)	16.02
Nonvested June 30, 2009	<u>4,929,680</u>	<u>\$ 16.32</u>

At June 30, 2009, \$25,587 of expense with respect to nonvested stock-based awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 18 months. The total fair value of shares vested during 2009, 2008 and 2007 was \$40,082, \$29,326 and \$25,554, respectively.

Information related to stock-based awards exercised during 2009, 2008 and 2007 is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net cash proceeds	\$3,557	\$33,406	\$40,265
Intrinsic value	4,787	82,415	81,844
Income tax benefit	1,517	26,360	23,441

Shares surrendered upon exercise of stock options: 2009 – 90,129; 2008 – 732,920; 2007 – 1,192,791.

Restricted Stock - Restricted stock was issued under the Company's 2003 Stock Incentive Program to certain key employees under the Company's 2006-07-08, 2005-06-07 and 2004-05-06 Long Term Incentive Plans (LTIP). Value of the payments was set at the market value of the Company's common stock on the date of issuance. Shares were earned and awarded, and an estimated value was accrued, based upon attainment of criteria specified in the LTIP over the cumulative years of each three-year Plan. Plan participants are entitled to cash dividends and to vote their respective shares, but the shares are restricted as to transferability for three years following issuance.

<u>Restricted Shares for LTIP</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of shares issued	172,130	294,418	318,330
Average share value on date of issuance	\$ 65.34	\$ 60.93	\$ 49.75
Total value	\$ 11,247	\$ 17,940	\$ 15,838

Under the Company's 2007-08-09 LTIP a payout of shares of restricted stock from the Company's 2003 Stock Incentive Program will be issued to certain key employees in August 2009. The balance of the 2007-08-09 LTIP payout will be made as deferred cash compensation (if elected by the participant) or in cash. The total payout, valued at \$3,287, has been accrued over the three years of the plan. During 2009, 2008 and 2007, the Company recorded (income) expense relating to the LTIP of \$(5,562), \$25,681 and \$37,205, respectively. The decrease in expense is primarily attributable to the impact the economic downturn has had on the Company's financial performance and stock price during 2009.

Shares surrendered in connection with the LTIP: 2009 – 60,247; 2008 – 109,642; 2007 – 23,427.

In 2009, 2008 and 2007, 12,150, 14,850 and 13,500 shares, respectively, of restricted stock were issued to certain non-employee members of the Board of Directors. Transferability of these shares is restricted for one to three years following issuance. In addition, non-employee members of the Board of Directors have been given the opportunity to receive all or a portion of their fees in the form of restricted stock. These shares vest ratably, on an annual basis, over the term of office of the director. In 2009, 2008 and 2007, 3,868, 2,526 and 14,495 shares, respectively, were issued in lieu of directors' fees.

At June 30, 2009, the Company had approximately 20 million common shares reserved for issuance in connection with its stock incentive plans.

13. Shareholders' Protection Rights Agreement

On January 25, 2007, the Board of Directors of the Company declared a dividend of one Shareholders' Right for each common share outstanding on February 17, 2007 in relation to the Company's Shareholders Protection Rights Agreement. As of June 30, 2009, 160,488,591 common shares were reserved for issuance under this Agreement. Under certain conditions involving acquisition of, or an offer for, 15 percent or more of the Company's common shares, all holders of Shareholders' Rights would be entitled to purchase one common share at an exercise price currently set at \$160. In addition, in certain circumstances, all holders of Shareholders' Rights (other than the acquiring entity) would be entitled to purchase a number of common shares equal to twice the exercise price, or at the option of the Board, to exchange each Shareholders' Right for one common share. The Shareholders' Rights remain in existence until February 17, 2017, unless extended by the Board of Directors or earlier redeemed (at one cent per Shareholders' Right), exercised or exchanged under the terms of the agreement. In the event of an unfriendly business combination attempt, the Shareholders' Rights will cause substantial dilution to the person attempting the business combination. The Shareholders' Rights should not interfere with any merger or other business combination that is in the best interest of the Company and its shareholders since the Shareholders' Rights may be redeemed.

14. Research and Development

Research and development costs amounted to \$338,908 in 2009, \$303,098 in 2008 and \$253,091 in 2007. These amounts include both costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts amounted to \$50,739 in 2009, \$47,757 in 2008 and \$40,894 in 2007. These costs are included in the total research and development cost for each of the respective years.

15. Fair Value Measurements

On July 1, 2008, the Company adopted the provisions of FASB Statement No. 157, "Fair Value Measurements." Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Statement No. 157 indicates that, among other things, a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. FASB Staff Position 157-2 delays the effective date of the application of Statement No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The adoption of Statement No. 157 had no effect on the Company's financial position or results of operations.

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

	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	\$ 3,493	\$ 3,493	\$	
Derivatives	203		203	
Liabilities:				
Deferred compensation plans	99,007		99,007	
Derivatives	1,513		1,513	

Available for sale securities are measured at fair value using quoted market prices. The fair value of derivatives is calculated through a model that utilizes market observable inputs including both spot and forward prices for the same underlying currencies.

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 participants accounts based on their investment elections.

On July 1, 2008, the Company adopted the provisions of FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect to measure any financial assets or financial liabilities at fair value that were otherwise not required to be measured at fair value under other accounting standards.

16. Contingencies

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

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. Each of these lawsuits is described below. The Company has made all required payments and as of June 30, 2009 has a reserve of \$2.8 million for future losses relating to these matters. Legal expenses related to these matters are being expensed as incurred.

On April 27, 2007, 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: *Shipyard 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 continues to cooperate with the KFTC. The KFTC issued its final report on July 2, 2009, which imposed a fine of KRW 42 million (approximately USD 34 thousand) on Parker ITR. Parker ITR must pay the fine on or before September 8, 2009.

The JTFC 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 JTFC 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. A hearing was held on the matter on July 7, 2009. The matter was continued until certain other respondents are served. The ACCC appears to be investigating conduct for the period beginning as early as 1994 through 2007.

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 February 17, 2009, Parker ITR entered into a separate agreement to settle possible private causes of action outside the United States.

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

As of June 30, 2009, the Company has a reserve of \$13,891 for environmental matters, which are probable and reasonably estimable. This reserve is recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties. This reserve is net of \$2,341 for discounting, primarily at a 4.5 percent discount rate, a portion of the costs to operate and maintain remediation treatment systems as well as gauge treatment system effectiveness through monitoring and sampling over periods up to 15 years.

The Company's estimated total liability for the above mentioned sites ranges from a minimum of \$13.9 million to a maximum of \$74.2 million. The largest range for any one site is approximately \$8.6 million. The actual costs to be incurred by the Company will be dependent on final determination of remedial action required, negotiations with federal and state agencies, changes in regulatory requirements and technology innovation, the effectiveness of remedial technologies employed, the ability of other responsible parties to pay, and any insurance or third party recoveries.

17. Quarterly Information (Unaudited)

2009	1 st	2 nd	3 rd	4 th	Total
Net sales	\$3,064,688	\$2,688,656	\$2,344,713	\$2,210,958	\$10,309,015
Gross profit	727,466	567,206	436,106	396,889	2,127,667
Net income	250,176	155,401	53,422	49,516	508,515
Diluted earnings per share	1.50	.96	.33	.31	3.13

2008	1 st	2 nd	3 rd	4 th	Total
Net sales	\$2,787,256	\$2,829,060	\$3,182,537	\$3,346,752	\$12,145,605
Gross profit	664,959	634,923	735,321	771,330	2,806,533
Net income	229,597	211,863	255,441	252,565	949,466
Diluted earnings per share	1.33	1.23	1.49	1.47	5.53

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

18. Stock Prices and Dividends (Unaudited)

(In dollars)		1 st	2 nd	3 rd	4 th	Full Year
2009	High	\$72.69	\$52.52	\$46.45	\$48.45	\$72.69
	Low	48.67	31.29	27.69	33.13	27.69
	Dividends	.25	.25	.25	.25	1.00
2008	High	\$78.43	\$86.56	\$76.03	\$86.91	\$86.91
	Low	58.19	71.15	58.10	69.46	58.10
	Dividends	.21	.21	.21	.21	.84
2007	High	\$52.63	\$58.67	\$58.79	\$68.95	\$68.95
	Low	46.47	51.15	50.41	57.03	46.47
	Dividends	.173	.173	.173	.173	.692

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

Management's Report On Internal Control Over Financial Reporting

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

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2009. We have excluded six entities from our evaluation of internal control over financial reporting as of June 30, 2009 because the entities were acquired in purchase business combinations during the year ended June 30, 2009. On a combined basis, the entities represent approximately 9.7 percent of total assets and 2.2 percent of total revenues as of and for the fiscal year ended June 30, 2009. In making this assessment, we used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework." We concluded that based on our assessment, the Company's internal control over financial reporting was effective as of June 30, 2009.

Deloitte & Touche LLP, the independent registered accounting firm that audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting as of June 30, 2009, which is included herein.

/s/ Donald E. Washkewicz

Chairman, Chief Executive Officer and President

/s/ Timothy K. Pistell

Executive Vice President – Finance and Administration and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Parker Hannifin Corporation

We have audited the accompanying consolidated balance sheets of Parker Hannifin Corporation and subsidiaries (the "Company") as of June 30, 2009 and June 30, 2008, and the related consolidated statements of income, comprehensive income, and cash flows for each of the two years in the period ended June 30, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(1). We also have audited the Company's internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedules and an opinion on the Company's internal control over financial reporting based on our audits.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded six entities from its assessment of internal control over financial reporting as of June 30, 2009, because they were acquired in purchase business combinations during the year ended June 30, 2009. On a combined basis, the entities represent approximately 9.7 percent of total assets and 2.2 percent of revenues of the consolidated financial statement amounts as of and for the year ended June 30, 2009. Accordingly, our audit of the Company's internal control over financial reporting as of June 30, 2009, did not include the internal control over financial reporting of these six entities.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parker Hannifin Corporation and subsidiaries as of June 30, 2009 and June 30, 2008, and the results of their operations and their cash flows for the two years in the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such fiscal 2009 and 2008 financial statement schedules, when considered in relation to the basic fiscal 2009 and 2008 consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, as of July 1, 2007.

/s/ DELOITTE & TOUCHE LLP

Cleveland, Ohio
August 27, 2009

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1), present fairly, in all material respects, the results of operations and cash flows of Parker Hannifin Corporation and its subsidiaries (the "Company") for the year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended June 30, 2007, listed in the accompanying index appearing under Item 15(a)(1), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio

August 16, 2007, except for the retrospective adjustment of additional capital, common shares, share numbers and per share amounts to give effect to the 3-shares-for-2 split of the Company's common stock as to which the date is October 1, 2007.

Five-Year Financial Summary

(Amounts in thousands, except per share information)	2009	2008	2007	2006	2005
Net sales	\$ 10,309,015	\$ 12,145,605	\$ 10,718,059	\$ 9,385,888	\$ 8,068,805
Cost of sales	8,181,348	9,339,072	8,272,949	7,367,618	6,391,477
Selling, general and administrative expenses	1,290,379	1,364,082	1,226,861	1,036,646	860,278
Interest expense	112,071	98,996	83,414	75,763	66,869
Income taxes	172,939	377,058	329,236	261,682	205,105
Income - continuing operations	508,515	949,466	830,046	638,276	533,166
Net income	508,515	949,466	830,046	673,167	604,692
Basic earnings per share - continuing operations	3.15	5.64	4.75	3.57	2.99
Diluted earnings per share - continuing operations	3.13	5.53	4.68	3.52	2.95
Basic earnings per share	3.15	5.64	4.75	3.76	3.39
Diluted earnings per share	\$ 3.13	\$ 5.53	\$ 4.68	\$ 3.71	\$ 3.35
Average number of shares outstanding - Basic	161,564	168,285	174,643	178,817	178,193
Average number of shares outstanding - Diluted	162,719	171,644	177,495	181,326	180,674
Cash dividends per share	\$ 1.000	\$.840	\$.692	\$.612	\$.520
Net income as a percent of net sales	4.9%	7.8%	7.7%	7.2%	7.5%
Return on average assets	5.0%	10.1%	10.0%	9.0%	9.3%
Return on average equity	10.7%	19.0%	18.5%	17.8%	19.1%
Book value per share	\$ 26.67	\$ 31.39	\$ 27.14	\$ 23.64	\$ 18.76
Working capital	\$ 1,118,027	\$ 1,912,369	\$ 1,460,930	\$ 1,457,873	\$ 1,454,883
Ratio of current assets to current liabilities	1.6	1.9	1.8	1.9	2.1
Plant and equipment, net	\$ 1,880,554	\$ 1,926,522	\$ 1,736,372	\$ 1,693,794	\$ 1,581,348
Total assets	9,855,902	10,386,854	8,441,413	8,173,432	6,860,703
Long-term debt	1,839,705	1,952,452	1,089,916	1,059,461	938,424
Shareholders' equity	\$ 4,279,625	\$ 5,258,971	\$ 4,711,665	\$ 4,241,203	\$ 3,340,147
Debt to debt-equity percent	35.2%	28.3%	21.4%	21.1%	22.5%
Depreciation	\$ 252,599	\$ 257,570	\$ 245,058	\$ 245,681	\$ 245,206
Capital expenditures	\$ 270,733	\$ 280,327	\$ 237,827	\$ 198,113	\$ 154,905
Number of employees (actual number)	51,639	61,722	57,338	57,073	50,019
Number of shares outstanding at year-end	160,489	167,512	173,618	179,417	178,034

**Exhibit (21)* to Report
on Form 10-K for
Fiscal Year Ended June 30, 2009
by Parker-Hannifin Corporation**

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

<u>Name of Subsidiary</u>	<u>State/County of Incorporation</u>
UNITED STATES	
Alkid Corp.	California
Winco Enterprises Inc.	California
Parker Hannifin International Corp.	Delaware
Parker Intangibles LLC	Delaware
Parker Italy (PH Espana Holding) LLC	Delaware
Parker Italy Holding LLC	Delaware
Parker-Hannifin Luxembourg Finance Limited Co.	Delaware
PH Astron Holding LLC	Delaware
PH Spain LLC	Delaware
Vansco Holdings LLC	Delaware
265 Warwick LLC	Ohio
Parker Royalty Partnership	Ohio
PG Square LLC	Ohio
INTERNATIONAL	
Parker Hannifin Argentina S.A.I.C.	Argentina
Domnick Hunter Pty Limited	Australia
Legris Australasia Pty Ltd.	Australia
Parker Hannifin (Australia) Pty Limited	Australia
Parker Hannifin Australia Assets Pty Limited	Australia
Parker Hannifin Australia Holding, Pty Limited	Australia
Legris G.e.s.m.b.H.	Austria
Parker Hannifin G.e.s.m.b.H.	Austria
Parker-Origa Pneumatic GmbH	Austria
Advanced Products N.V.	Belgium
S.A. Parker Hannifin N.V.	Belgium
Parker Hannifin (Bermuda) Ltd.	Bermuda
Adesp Brasil Industria de Adesivos Quimicos Ltd.	Brazil
Legris do Brasil Ltda.	Brazil
Parker Hannifin Industria e Comercio Ltda	Brazil
2172098 Ontario Inc.	Canada
3228453 Nova Scotia Company	Canada
3239249 Nova Scotia Ltd.	Canada
9183-7252 Quebec Inc.	Canada
Nexgen Hose Inc.	Canada
Parker Canada Holding Co	Canada
Parker Canada Investment Co.	Canada

<u>Name of Subsidiary</u>	<u>State/County of Incorporation</u>
Parker Canada Limited Partner Co	Canada
Parker Canada Management Inc.	Canada
Parker Hannifin Canada	Canada
Parker Hannifin Electronic Controls	Canada
Parker Ontario Holdings Inc.	Canada
Parker Ontario Limited Partnership	Canada
Ingeniera y Servicios Metalcrom Limitada	Chile
Parker Hannifin Chile Limitada	Chile
Legris Autoline Wuxi Automotive Components Co. Ltd.	China
Legris Wuxi Fluid Control Systems Co. Ltd.	China
Parker Shenyang Rubber Products Co., Ltd. (1)	China
Parker Tejing Hydraulics (Tianjin) Co., Ltd. (2)	China
PH Electronic Material (Shenzhen) Co., Ltd.	China
PH Fluid Connectors (Qingdao) Co., Ltd.	China
PH Fluid Connectors Co., Ltd	China
PH Fluid Power Systems & Components Co., Ltd.	China
PH Management (Shanghai) Co., Ltd. (China RHQ)	China
PH Motion & Control Shanghai Co. Ltd.	China
Rayco (Wuxi) Precision Mold Systems Co., Ltd.	China
Rayco (Wuxi) Technologies Co., Ltd.	China
Shanghai Denison Hydraulics Components Limited (3)	China
Taiyo Parker Fluidpower (Shanghai) Co., Ltd.	China
Wuxi Kenmore Refrigeration Components Co., Ltd.	China
Legris SRO	Czech Republic
Parker Hannifin Czech Republic Sro	Czech Republic
Parker Hannifin Industrial s.r.o.	Czech Republic
Parker-Hannifin s.r.o.	Czech Republic
Legris Danmark APS	Denmark
Parker Hannifin A/S	Denmark
Parker Hannifin Oy	Finland
Vansco Electronics Oy	Finland
Legris Autoline SAS	France
Legris SAS	France
Parker Hannifin France Holding SAS	France
Parker Hannifin France SAS	France
Parker Hannifin SNC	France
Parker-Origa SAS	France
PH France Finance SAS	France
SSD Drives France Holdings SAS	France
SSD Parvex SAS	France
Bell Hermetic Armaturenwerk GmbH & Co. KG	Germany
Domnick Hunter GmbH	Germany
Hermetic Armaturenwerk GmbH	Germany
Legris GmbH	Germany
Parker Hannifin GmbH	Germany
Parker Hannifin Holding GmbH	Germany
Parker Hannifin Verw. GmbH	Germany
Parker-Origa GmbH	Germany

<u>Name of Subsidiary</u>	<u>State/County of Incorporation</u>
Rectus GmbH	Germany
Zander Aufbereitungstechnik GmbH	Germany
Parker Hannifin (Gibraltar) Holding Limited (Gib1)	Gibraltar
Parker Hannifin (Gibraltar) Properties Limited (Gib7) (1)	Gibraltar
Parker Hannifin Hong Kong, Ltd.	Hong Kong
Legris Hungary Ltd.	Hungary
Parker International Capital Mng Hungary Ltd.	Hungary
PHC-Hungarian Trade Representative Office	Hungary
Annapurna Kenmore Tube Products Pvt. Ltd. (1)	India
Legris India Holding Private Ltd.	India
Legris India Private Ltd. (4)	India
Parker Hannifin India Private Ltd.	India
Parker Markwel Industries Private Ltd.	India
Acadia International Insurance Ltd	Ireland
Parker Sales (Ireland) Limited	Ireland
Legris SPA	Italy
Parker Hannifin SpA	Italy
Parker Hiross Spa	Italy
Parker Italy Holding S.r.l.	Italy
Parker ITR SRL	Italy
Kuroda Pneumatics Ltd.	Japan
Parker Hannifin Japan Ltd.	Japan
Taiyo Ltd. (5)	Japan
Taiyo Tech	Japan
Taiyo Techno	Japan
Parker Korea Ltd.	Korea
Parker Mobile Control Division Asia Co., Ltd.	Korea
PH Climate & Industrial Controls Ltd.	Korea
PH Connectors Ltd.	Korea
Parker Hannifin (Luxembourg) S.a r.l.	Luxembourg
Parker Hannifin Bermuda Luxembourg S.C.S.	Luxembourg
Parker Hannifin Global Capital Management S.a r.l.	Luxembourg
Parker Hannifin Luxembourg Acquisitions S.a r.l.	Luxembourg
Parker Hannifin Luxembourg Finance S.a r.l.	Luxembourg
PH Luxembourg Investments 1 S.a r.l.	Luxembourg
EmiTherm Sdn. Bhd.	Malaysia
Parker Hannifin Industrial (M) Sdn Bhd	Malaysia
Parker Hannifin Malaysia Sdn. Bhd	Malaysia
Parker Hannifin Singapore Private (Malaysia Branch)	Malaysia
Parker-Origina Sdn. Bhd	Malaysia
Parker Hannifin Malta Finance 1, Ltd	Malta
Parker Hannifin Malta Finance 2, Ltd.	Malta
Arosellos, S.A. de C.V.	Mexico
Parker Baja Servicios	Mexico
Parker Brownsville Servicios	Mexico
Parker Hannifin de Mexico, S.A. de C.V.	Mexico
Parker Hannifin Hldg S. de R.L. de C.V.	Mexico
Parker Industrial S. de R.L. de C.V.	Mexico

<u>Name of Subsidiary</u>	<u>State/County of Incorporation</u>
Parker Seal de Mexico S.A.	Mexico
Parker Servicio's de Mexico, S.A. de C.V.	Mexico
Parker Sistemas de Automatization S de R.L.	Mexico
DH Group Benelux B.V.	Netherlands
KV Automation BV	Netherlands
KV Holdings BV	Netherlands
KV Pneumatics B.V.	Netherlands
KV Systems BV	Netherlands
Legris BV	Netherlands
Parker Filtration & Separation BV	Netherlands
Parker Filtration B.V.	Netherlands
Parker Hannifin B.V.	Netherlands
Parker Hannifin Netherlands Holdings 2 B.V.	Netherlands
Parker Hannifin Netherlands Holdings B.V.	Netherlands
Parker Hose BV	Netherlands
Parker Pneumatic BV	Netherlands
Parker Polyflex BV	Netherlands
Parker-Origa BV	Netherlands
PH Finance BV	Netherlands
Parker Hannifin (N.Z.) Limited	New Zealand
Parker Hannifin A/S	Norway
Parker Hannifin Norway Holding AS	Norway
Parker Maritime AS	Norway
Parker ScanRope AS	Norway
Parker-Origa AS	Norway
Scan Rope Eindom Nord AS	Norway
Legris Poland Sp. z.o.o.	Poland
Parker Hannifin Sp. z.o.o.	Poland
Legris LDA	Portugal
Parker Hannifin Portugal LDA	Portugal
Legris Industries OOO	Russia
Parker Hannifin LLC	Russia
Domnick Hunter Group Pte Ltd	Singapore
Legris S.E. Asia Pte. Ltd.	Singapore
Legris Singapore Manufacturing Plc. Ltd.	Singapore
Parker Hannifin Singapore Pte. Ltd.	Singapore
Rayco International Pte. Ltd.	Singapore
Rayco Laboratories Pte. Ltd.	Singapore
Rayco Technologies Pte. Ltd.	Singapore
Parker-Origa Pte. Ltd.	Singapore
Parker Hannifin Czech Republic sro, organizacna zlozka	Slovakia
Parker-Hannifin s.r.o. - organizacna slozka	Slovakia
Parker Hannifin (Africa) Pty. Ltd.	South Africa
Legris Cenrasa SA	Spain
Legris Espanola SA	Spain
Parker Hannifin (Espana) S.A.	Spain
Parker Hannifin Acquisitions SL	Spain
Parker Hannifin Catera Industrial S.L.	Spain

<u>Name of Subsidiary</u>	<u>State/County of Incorporation</u>
PH Industries & Assets Holding SL	Spain
Tecknit Europe Espana, S.L.	Spain
Hoerbiger-Origa AB	Sweden
Legris Scandinavia AB	Sweden
Legris Swenska AB	Sweden
Parker Hannifin AB	Sweden
Tema Ingenjorsfirma AB	Sweden
Vansco Electronics AB	Sweden
Parker Hannifin Cartera Industrial, S.L. Torrejon de Ardoz (Espagne) succursale de Carouge	Switzerland
Parker Hannifin Europe Sarl	Switzerland
Parker Lucifer SA	Switzerland
Parker-Origa Holding AG	Switzerland
Tema Marketing AG	Switzerland
Parker Hannifin Taiwan Ltd.	Taiwan
KV Automation Thailand (6)	Thailand
Parker Hannifin (Thailand) Co. Ltd.	Thailand
Parker Hareket ve Kontrol Sistemleri Tic. A.S.	Turkey
Parker Lklm Kontrol Sistemleri Sanayi ve Tic AS	Turkey
Alenco (Holdings) Ltd.	UK
Legris Limited	UK
Parker Hannifin (GB) Ltd.	UK
Parker Hannifin (UK) Limited	UK
Parker Hannifin 2007 LLP	UK
Parker Hannifin Ltd.	UK
Parker-Origa Ltd.	UK
ScanRope Ltd.	UK
Vansco Electronics (UK) Limited	UK
Parker Middle East FZE	United Arab Emirates
Parker Hannifin de Venezuela, S.A.	Venezuela

- (1) The Company owns 51% of such subsidiary's equity capital.
- (2) The Company owns 90% of such subsidiary's equity capital.
- (3) The Company owns 85% of such subsidiary's equity capital.
- (4) The Company owns 74% of such subsidiary's equity capital.
- (5) The Company owns 60% of such subsidiary's equity capital.
- (6) The Company owns 77% of such subsidiary's equity capital.

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

**Exhibit (23)(a) to Report
On Form 10-K for Fiscal
Year Ended June 30, 2009
By Parker-Hannifin Corporation**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-02761, 333-47955, 333-88206, and 333-143226), and Form S-8 (Nos. 033-53193, 333-95477, 333-103181, 333-103633, 133-107691, 333-117761, 333-126957, and 333-130123) of our reports dated August 27, 2009, relating to the consolidated financial statements and financial statement schedules of Parker Hannifin Corporation and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended June 30, 2009.

/s/ DELOITTE & TOUCHE LLP
Cleveland, Ohio
August 27, 2009

**Exhibit (23)(b) to Report
On Form 10-K for Fiscal
Year Ended June 30, 2009
By Parker-Hannifin Corporation**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (Nos. 333-143226, 333-02761, 333-47955 and 333-88206) and Forms S-8 (Nos. 33-53193, 333-95477, 333-103181, 333-103633, 333-107691, 333-117761, 333-126957 and 333-130123) of Parker Hannifin Corporation of our report dated August 16, 2007, except for the retrospective adjustment of additional capital, common shares, share numbers and per share amounts to give effect to the 3-shares-for-2 split of the Company's common stock as to which the date is October 1, 2007, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
August 27, 2009

Securities and Exchange Commission
Washington, D.C. 20549

Re: Parker-Hannifin Corporation

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

Gentlemen:

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

Authorized Representatives

Donald E. Washkewicz
Timothy K. Pistell
Thomas A. Piraino, Jr.

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

	<u>Date</u>		<u>Date</u>
<u>/s/ D.E. Washkewicz</u> Donald E. Washkewicz, Chairman of the Board of Directors and Principal Executive Officer	<u>8/13/09</u>	<u>/s/ Giulio Mazzalupi</u> Giulio Mazzalupi, Director	<u>8/13/09</u>
		<u>/s/ K.P. Muller</u> Klaus-Peter Müller, Director	<u>8/13/09</u>
<u>/s/ T.K. Pistell</u> Timothy K. Pistell, Principal Financial Officer	<u>8/13/09</u>		
		<u>/s/ Candy M. Obourn</u> Candy M. Obourn, Director	<u>8/13/09</u>
<u>/s/ Jon P. Marten</u> Jon P. Marten Principal Accounting Officer	<u>8/13/09</u>		
		<u>/s/ Joseph M. Scaminace</u> Joseph M. Scaminace, Director	<u>8/13/09</u>
<u>/s/ L.S. Harty</u> Linda S. Harty, Director	<u>8/13/09</u>		
		<u>/s/ Wolfgang R. Schmitt</u> Wolfgang R. Schmitt, Director	<u>8/20/09</u>
<u>/s/ W.E. Kassling</u> William E. Kassling, Director	<u>8/13/09</u>		
		<u>/s/ Markos I. Tambakeras</u> Markos I. Tambakeras, Director	<u>8/13/09</u>
<u>/s/ R.J. Kohlhepp</u> Robert J. Kohlhepp, Director	<u>8/13/09</u>		
		<u>/s/ James L. Wainscott</u> James L. Wainscott, Director	<u>8/13/09</u>

CERTIFICATIONS

I, Donald E. Washkewicz, certify that:

1. I have reviewed this annual report on Form 10-K of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 27, 2009

/s/ Donald E. Washkewicz

Donald E. Washkewicz
Chief Executive Officer

CERTIFICATIONS

I, Timothy K. Pistell, certify that:

1. I have reviewed this annual report on Form 10-K of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 27, 2009

/s/ Timothy K. Pistell

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 Annual Report on Form 10-K of Parker-Hannifin Corporation (the "Company") for the fiscal year ended June 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: August 27, 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