

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

FORM 10-Q

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

For the quarterly period ended December 31, 1994

OR

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

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

Commission File number 1-4982

PARKER-HANNIFIN CORPORATION  
(Exact name of registrant as specified in its charter)

OHIO  
(State or other  
jurisdiction of  
incorporation)

34-0451060  
(IRS Employer  
Identification No.)

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

44112  
(Zip Code)

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

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

Yes  . No .

Number of Common Shares outstanding at December 31, 1994 49,140,587

The Exhibit Index appears on sequential page 12.

PARKER-HANNIFIN CORPORATION

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

## PART I - FINANCIAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	1994	1993	1994	1993
Net sales	\$ 738,231	\$ 592,226	\$ 1,450,688	\$ 1,199,637
Cost of sales	572,862	485,145	1,123,389	979,199
Gross profit	165,369	107,081	327,299	220,438
Selling, general and administrative expenses	91,168	70,070	172,703	142,840
Provision for business restructuring activities		5,044		6,705
Income from operations	74,201	31,967	154,596	70,893
Other income (deductions)				
Interest expense	(7,654)	(10,206)	(14,878)	(21,817)
Interest and other income, net	148	1,222	336	3,171
	(7,506)	(8,984)	(14,542)	(18,646)
Income before income taxes and extraordinary item	66,695	22,983	140,054	52,247
Income taxes	25,611	8,922	55,321	22,121
Income before extraordinary item	41,084	14,061	84,733	30,126
Extraordinary item - extinguishment of debt		(4,207)		(4,207)
Net income	\$ 41,084	\$ 9,854	\$ 84,733	\$ 25,919
Earnings per share before extraordinary item	\$ .84	\$ .29	\$ 1.73	\$ .62
Earnings per share	\$ .84	\$ .20	\$ 1.73	\$ .53
Cash dividends per common share	\$ .25	\$ .24	\$ .50	\$ .48

See accompanying notes to consolidated financial statements.

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

	December 31, 1994 (Unaudited)	June 30, 1994
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 43,553	\$ 81,590
Accounts receivable, net	408,879	388,515
Inventories:		
Finished products	276,446	245,068
Work in process	184,191	171,114
Raw materials	91,955	76,748
	552,592	492,930
Prepaid expenses	12,666	14,263
Deferred income taxes	41,506	41,056
Total current assets	1,059,196	1,018,354
Plant and equipment	1,701,323	1,621,828
Less accumulated depreciation	950,183	904,528
	751,140	717,300
Other assets	234,230	177,136
Total assets	\$ 2,044,566	\$ 1,912,790
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	\$ 95,776	\$ 26,973
Accounts payable, trade	170,946	181,148
Accrued liabilities	234,368	238,682
Accrued domestic and foreign taxes	51,753	57,641
Total current liabilities	552,843	504,444
Long-term debt	252,769	257,259
Pensions and other postretirement benefits	179,078	169,081
Deferred income taxes	4,930	8,052
Other liabilities	7,045	7,603
Total liabilities	996,665	946,439
<b>SHAREHOLDERS' EQUITY</b>		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	--	--
Common stock, \$.50 par value; authorized 150,000,000 shares; issued 49,273,618 shares at December 31 and 49,265,074 shares at June 30	24,637	24,633
Additional capital	169,152	165,942
Retained earnings	866,412	806,240
Deferred compensation related to guarantee of ESOP debt	(19,733)	(25,697)
Currency translation adjustment	10,420	2,538
	1,050,888	973,656
Less treasury shares, at cost: 133,031 shares at December 31 and 325,371 shares at June 30	(2,987)	(7,305)
Total shareholders' equity	1,047,901	966,351
Total liabilities and shareholders' equity	\$ 2,044,566	\$ 1,912,790

See accompanying notes to consolidated financial statements.

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

	Six Months Ended December 31,	
	1994	1993
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 84,733	\$ 25,919
Adjustments to reconcile net income to net cash provided by operations:		
Net effect of extraordinary loss		4,207
Depreciation	55,516	54,489
Amortization	3,982	2,624
Deferred income taxes	(2,848)	(16,381)
Foreign currency transaction loss	83	2,116
Loss (gain) on sale of plant and equipment	511	(62)
Provision for restructuring	(4,115)	(6,874)
Changes in assets and liabilities:		
Accounts receivable	9,614	17,474
Inventories	(31,724)	3,344
Prepaid expenses	2,806	(431)
Other assets	(6,588)	(3,712)
Accounts payable, trade	(23,050)	(11,841)
Accrued payrolls and other compensation	(8,825)	(18,049)
Accrued domestic and foreign taxes	(7,651)	(4,845)
Other accrued liabilities	(2,393)	15,814
Pensions and other postretirement benefits	7,899	8,756
Other liabilities	(1,553)	(2,029)
Net cash provided by operating activities	76,397	70,519
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions (excluding cash of \$5,146 in 1994 and \$2,095 in 1993)	(105,750)	(29,798)
Capital expenditures	(59,548)	(41,554)
Proceeds from sale of plant and equipment	8,937	1,827
Proceeds from disposition of business		3,205
Other	3,574	1,884
Net cash used in investing activities	(152,787)	(64,436)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	6,998	1,581
Proceeds from notes payable, net	63,275	2,113
Proceeds from long-term borrowings	18,887	1,637
Payments of long-term borrowings	(26,721)	(110,179)
Extraordinary loss on early retirement of debt		(6,922)
Dividends	(24,560)	(23,349)
Net cash provided by (used in) financing activities	37,879	(135,119)
Effect of exchange rate changes on cash	474	(1,193)
Net decrease in cash and cash equivalents	(38,037)	(130,229)
Cash and cash equivalents at beginning of year	81,590	159,985
Cash and cash equivalents at end of period	\$ 43,553	\$ 29,756

See accompanying notes to consolidated financial statements.

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

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

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

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

Results by Business Segment:

	Three Months Ended December 31,		Six Months Ended December 31,	
	1994	1993	1994	1993
Net sales, including intersegment sales				
Industrial:				
North America	\$ 414,206	\$ 342,068	\$ 825,227	\$ 688,418
International	190,689	115,919	360,840	234,347
Aerospace	133,551	134,297	264,932	277,020
Intersegment sales	(215)	(58)	(311)	(148)
Total	\$ 738,231	\$ 592,226	\$ 1,450,688	\$ 1,199,637
 Income (loss) from operations before corporate general and administrative expenses				
Industrial:				
North America	\$ 55,639	\$ 41,491	\$ 116,912	\$ 83,165
International	15,209	(10,042)	28,129	(15,633)
Aerospace	13,753	9,499	29,685	22,143
Total	84,601	40,948	174,726	89,675
Corporate general and administrative expenses	10,400	8,981	20,130	18,782
Income from operations	\$ 74,201	\$ 31,967	\$ 154,596	\$ 70,893

See accompanying notes to consolidated financial statements.

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

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1. Management Representation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of December 31, 1994, the results of operations for the three and six months ended December 31, 1994 and 1993 and cash flows for the six months then ended.

2. Extraordinary Item

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

3. Earnings per share

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

4. Acquisitions

Effective December 31, 1994 the Company purchased the Polyflex Schwarz Group of companies with operating plants in Huttenfeld and Viernheim, Germany and in Wissembourg, France as well as the wholly-owned subsidiary, Rogan & Shanley, in Houston, Texas for \$18.1 million in cash. Polyflex manufactures reinforced high- and ultra-high-pressure hoses, hose fittings and assemblies. Also effective December 31, 1994 the Company purchased Hauser Elektronik GmbH, a producer of automation components and systems based in Offenburg, Germany for \$11.6 million in cash. Effective December 21, 1994 the Company sold its 49 percent interest in its Mexican joint venture Conductores de Fluidos Parker, purchased inventory and accounts receivable from such joint venture, and formed a new wholly-owned subsidiary - Parker Fluid Connectors de Mexico. The net purchase price was approximately \$2.5 million in cash. On October 31, 1994, the Company acquired Symetrics, Inc., a Newbury Park, California manufacturer of aerospace quick-disconnect valved couplings, for 108,680 shares of Parker-Hannifin Common Stock.

On September 30, 1994, the Company acquired Chomerics Inc., a leading producer of electromagnetic interference-shielding materials and thermal interface products for commercial-electronics and defense-electronics applications for approximately \$40 million in cash. Chomerics has manufacturing facilities in the U.S. and the U.K. On August 1, 1994, the Company acquired the Automation Division of Atlas Copco AB, a Swedish manufacturer of pneumatic components for a variety of automation markets for \$37 million in cash.

These acquisitions were accounted for by the purchase method, and the accompanying statements include their results of operations since the respective dates of acquisition. Sales by these operations for their most recent fiscal year prior to acquisition exceeded \$171 million.

PARKER-HANNIFIN CORPORATION

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

FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1994  
AND COMPARABLE PERIODS ENDED DECEMBER 31, 1993

CONSOLIDATED STATEMENT OF INCOME

Net sales increased 24.7 percent for the second quarter and 20.9 percent for the six-month period. Without the effect of acquisitions and dispositions the increases would have been 20.5 percent and 18.5 percent, respectively. This growth is the result of market-share gains and the worldwide recovery of the industrial markets. The aerospace market, which had been declining, also began to show signs of recovery in order entry although sales were down slightly from the prior year.

Income from operations of \$74.2 million for the current second quarter and \$154.6 million for the current six months was more than double the \$32.0 million for the quarter and \$70.9 million for the six months of the prior year. As a percent of sales, Income from operations increased to 10.1 percent from 5.4 percent for the quarter and to 10.7 percent from 5.9 percent for the six months. Cost of sales as a percent of sales decreased to 77.6 percent from 81.9 percent for the quarter and to 77.4 percent from 81.6 percent for the six-month period as a result of the benefits achieved from prior years' restructuring activities and the positive effects of higher production levels in relation to fixed costs. Selling, general and administrative expenses, as a percent of sales, increased to 12.3 percent from 11.8 percent for the quarter and remained at 11.9 percent for the six-month period. The majority of this increase is due to acquisitions, increased sales-promotion expenses and charges related to incentive compensation based on sales and earnings.

The fiscal 1994 second quarter and six month results included a Provision for business restructuring activities amounting to \$5,044 and \$6,705, respectively. These provisions were for employment reductions, plant closings and relocations, and write-offs of related capital assets for the European Industrial and Aerospace operations. The Company has not incurred restructuring charges in fiscal 1995. Restructuring activities relating to prior-year provisions are continuing as planned and the remaining accruals are appropriate.

Interest expense decreased 25.0 percent for the quarter and 31.8 percent for the six months, primarily due to lower borrowings, but also due to lower interest rates on new borrowings.

The current-year effective income tax rate was reduced to 39.5 percent due to the utilization of previously reported net operating losses in the U.K. and Brazil. The Company experienced higher-than-expected profits in these countries during the second quarter because of the International Industrial recovery. For the first half of fiscal 1994 the rate had increased to 42.3 percent due to a \$1.6 million charge for tax-law changes in Germany and the United States.

Net income for the quarter was \$41.1 million, more than four times the \$9.9 million reported for the prior year after the extraordinary charge of \$4.2 million for the early-retirement of \$100 million of 9.45 percent debentures. As a percent of sales, Net income increased to 5.6 percent from 1.7 percent for the quarter. Six-month Net income increased to \$84.7 million from \$25.9 million after the extraordinary charge for the early-retirement of debentures. As a percent of sales, Net income increased to 5.8 percent from 2.2 percent for the six months.



MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Backlog increased to \$950.2 million at December 31, 1994 as compared to \$824.4 million the prior year and \$852.5 million at June 30, 1994. The increase was partially due to acquisitions, but was primarily due to increases within the Industrial Segment in both North American and International operations.

BUSINESS SEGMENT INFORMATION BY INDUSTRY

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

	Period ending December 31,	
	Three Months	Six Months
Industrial North America	21.1 %	19.9 %
Industrial International	64.5 %	54.0 %
Total Industrial	32.1 %	28.5 %

Without the effect of currency-rate changes, International sales would have increased 52.0 percent for the quarter and 43.9 percent for the six months. Without the effect of acquisitions, the increases would have been:

	Period ending December 31,	
	Three Months	Six Months
Industrial North America	17.1 %	17.5 %
Industrial International	49.2 %	42.4 %
Total Industrial	25.2 %	23.8 %

The Industrial International markets continue to demonstrate sharp improvement while the North American markets are maintaining their high demand. In addition to the global recovery, the Company is achieving market-share gains as a result of concentrated efforts towards reaching expanding markets and premier customer service. The sales levels achieved to date in fiscal 1995 are expected to continue throughout the year in addition to the benefit to be realized from recent acquisitions.

Operating income for the Industrial Segment was up 125.3 percent for the quarter and 114.8 percent for the six months. Industrial North America Operating income increased 34.1 percent for the quarter and 40.6 percent for the six months while Industrial International results moved from a loss to income of \$15.2 million for the quarter and \$28.1 million for the six months. Without the effect of acquisitions the total Industrial Segment Operating income would have increased 113.6 percent for the quarter and 107.5 for the six months. Benefits are being realized throughout the segment as a result of increased volume and prior years' restructuring activities.

Fiscal 1994 results included a Provision for restructuring activities for the Industrial Segment of \$3.3 million for the quarter and \$4.6 million for the six months ended December 31, 1993. Prior-year restructuring actions are progressing as planned and the remaining accruals are appropriate. No further restructuring charges are anticipated and the improved margin levels resulting from prior activities are expected to continue.

Total Industrial Segment backlog increased 47.4 percent compared to a year ago and 25.5 percent since June 30, 1994. Without the effect of acquisitions the increase would have been 40.5 percent and 19.5 percent, respectively. The North American operations are being challenged to keep up with demand, but productivity improvements and better utilization of existing capacity is increasing throughout worldwide.

Aerospace Segment Net sales were down 0.6 percent for the quarter and 4.4 percent for the six months. A portion of the decrease in sales is the result of divesting the Metal Bellows operations in the fourth quarter of fiscal 1994. The remaining decrease is the result of reduced original equipment shipments compared to the prior year. While Aerospace markets remain at low levels, long-term orders from original equipment customers and

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

near-term orders from maintenance, repair and overhaul customers are gradually improving, with sales increases anticipated in fiscal year 1996 and beyond.

Despite the decreased sales, Operating income for the Aerospace Segment increased 44.8 percent for the quarter and 34.1 percent for the six-month period. The Aerospace Segment has carried out a substantial downsizing over the past several years to adjust to the changing markets. These prior-year actions have helped the Segment to achieve improved margin levels in the current year, which are expected to continue. Fiscal 1994 results included a charge of \$1.7 million for the quarter and \$2.1 million for the six-month period for restructuring activities. The restructuring activities provided for in prior periods are continuing as planned and the remaining accruals are appropriate. No further restructuring charges are anticipated.

Management believes the Aerospace business is stabilizing and expects to maintain favorable margins despite the lower volume. Backlog for the Aerospace Segment decreased slightly from a year ago, but increased 3.1 percent since June 30, 1994.

### CONSOLIDATED BALANCE SHEET

Working capital decreased to \$506.4 million at December 31, 1994 from \$513.9 million at June 30, 1994 with the ratio of current assets to current liabilities decreasing slightly to 1.9 to 1. A \$38.0 million decrease in Cash and cash equivalents and a \$68.8 million increase in Notes payable contributed to the decrease in working capital, but were partially offset by increases in Accounts receivable, net and Inventories. Acquisitions caused more than the \$20.4 million increase in Accounts receivable, net and slightly less than half of the \$59.7 million increase in Inventories. The remaining increase in Inventories was due to the increased volume in the Industrial operations as months supply increased only slightly.

The increases in Plant and equipment, net and Other assets are also the result of acquisitions.

The debt to debt-equity ratio, excluding the effect of the ESOP loan guarantee on both Long-term debt and Shareholders' equity, increased to 23.5 percent at December 31, 1994 from 20.7 percent at June 30, 1994 as a result of the increase in Notes payable. The additional Notes payable were used to fund recent acquisitions.

### CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$76.4 million for the six months ended December 31, 1994, slightly higher than the \$70.5 million for the same six months in 1993 primarily as a result of higher Net income which was offset by an increase in cash used for working capital items. Changes in the principal working capital items - Accounts receivable, Inventories, and Accounts payable, trade - resulted in the use of \$45.2 million cash in fiscal 1995 as compared to providing cash of \$9.0 million in fiscal 1994. This change reflects the building of Inventories and Accounts Payable as a result of higher volume.

Net cash used in investing activities increased to \$152.8 million from \$64.4 million for the six months ended December 31, 1994 and 1993 as a result of several acquisitions and increased capital expenditures in fiscal 1995.

Financing activities provided cash of \$37.9 million for the six months ended December 31, 1994 and used cash of \$135.1 million for the same period in 1993. Additional borrowings in the current year were used to fund recent acquisitions. During the prior-year period, the Company aggressively retired debt.

PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

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

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

Exhibit 10(a) - Non-Employee Directors' Stock Plan

Exhibit 10(b) - Deferred Compensation Plan for Directors

Exhibit 10(c) - Executive Deferral Plan

Exhibit 10(d) - Savings Restoration Plan

Exhibit 10(e) - Pension Restoration Plan

Exhibit 11 - Statement regarding computation of per share earnings.

Exhibit 27 - Financial Data Schedule

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

SIGNATURE

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

PARKER-HANNIFIN CORPORATION  
(Registrant)

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

Date: February 13, 1995

EXHIBIT INDEX

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\*A management compensation plan.



PARKER-HANNIFIN CORPORATION NON-EMPLOYEE DIRECTORS'  
STOCK PLAN

ARTICLE A -- Purpose.

The purpose of the Parker Hannifin Non-Employee Directors' Stock Plan (hereinafter referred to as the "Plan") is to strengthen the alignment of interests between non-employee directors (hereinafter referred to as "Participants") and the shareholders of Parker Hannifin Corporation (hereinafter referred to as the "Company") through the increased ownership of shares of the Company's Common Stock. This will be accomplished by allowing Participants to elect voluntarily to convert a portion of their fees for services as a director into Common Stock.

ARTICLE B -- Administration.

1. The Plan shall be administered by the Compensation and Management Development Committee (hereinafter referred to as the "Committee") of the Board of Directors of the Company (hereinafter referred to as the "Board"), or such other committee as may be designated by the Board. The Committee shall consist of not less than four (4) members of the Board who are not full-time employees of the Company, appointed by the Board from time to time and to serve at the discretion of the Board.

2. It shall be the duty of the Committee to administer this Plan in accordance with its provisions and to make such recommendations of amendments or otherwise as it deem necessary or appropriate. A decision by a majority of the Committee shall govern all actions of the Committee.

3. Subject to the express provisions of this Plan, the Committee shall have authority to allow Participants the right to elect to receive fees for services as a director partly in cash and partly in whole shares of the Common Stock of the Company, subject to such conditions or restrictions, if any, as the Committee may determine. The Committee also has the authority to make all other determinations it deems necessary or advisable for administering this Plan.

4. The Committee may establish from time to time such regulations, provisions, and procedures within the terms of this Plan as, in its opinion, may be advisable in the administration of this Plan.

5. The Committee may designate the Secretary of the Company or other employees of the Company to assist the Committee in the administration of this Plan and may grant authority to such persons to execute documents on behalf of the Committee.

ARTICLE C -- Participation.

Participation in the Plan shall be limited to Directors who are not full-time employees of the Company.

ARTICLE D -- Limitation on Number of Shares for the Plan.

1. The total number of shares of Common Stock of the Company that may be awarded each year shall not exceed 5,000 shares.

2. Shares transferred or reserved for purposes of the Plan will be subject to appropriate adjustment in the event of future stock splits, stock dividends or other changes in capitalization; following

any such change, the term "Common Stock" or "shares of Common Stock" of the Company, as used in the Plan, shall be deemed to refer to such class of shares or other securities as may be applicable.

ARTICLE E -- Shares Subject to Use Under the Plan.

Shares of Common Stock to be awarded under the terms of this Plan shall be treasury shares.

ARTICLE F -- Transfer of Shares.

1. The Committee may transfer Common Stock of the Company under the Plan subject to such conditions or restrictions, if any, as the Committee may determine. The conditions and restrictions may vary from time to time and may be set forth in agreements between the Company and the Participant or in the awards of stock to them, all as the Committee determines.

2. The shares awarded shall be valued at the average of the high and low quotations for Common Stock of the Company on the New York Stock Exchange on the day of the transfer to a Participant. All shares awarded shall be full shares, rounded up to the nearest whole share.

ARTICLE G -- Additional Provisions.

1. The Board may, at any time, repeal this Plan or may amend it from time to time except that no such amendment may amend this paragraph, increase the annual aggregate number of shares subject to this Plan, or alter the persons eligible to participate in this Plan. The Participants and the Company shall be bound by any such amendments as of their effective dates, but if any outstanding awards are affected, notice thereof shall be given to the holders of such awards and such amendments shall not be applicable to such holder without his or her written consent. If this Plan is repealed in its entirety, all theretofore awarded shares subject to conditions or restrictions transferred pursuant to this Plan shall continue to be subject to such conditions or restrictions.

2. Every recipient of shares pursuant to this Plan shall be bound by the terms and provisions of this Plan and the transfer of shares agreement referable thereto, and the acceptance of any transfer of shares pursuant to this Plan shall constitute a binding agreement between the recipient and the Company.

ARTICLE H --Duration of Plan.

This Plan shall become effective as of October 26, 1994 subject to ratification before December 31, 1995 by the affirmative vote of the holders of a majority of the Common Stock of the Company present, or represented, and entitled to vote at a meeting duly held. Any shares awarded prior to approval of the Plan by the shareholders must be restricted until such approval is obtained and shall be subject to immediate forfeiture in the event such approval is not obtained in which case the Participants would receive the fees they would have received for their services as Directors since October 26, 1994. This Plan will terminate on December 31, 2004 unless a different termination date is fixed by the shareholders or by action of the Board but no such termination shall affect the prior rights under this Plan of the Company or of anyone to whom shares have been transferred prior to such termination.





DEFERRED COMPENSATION PLAN  
FOR DIRECTORS OF PARKER-HANNIFIN CORPORATION

Parker-Hannifin Corporation has established the Deferred Compensation Plan for Directors of Parker-Hannifin Corporation to provide Directors with the opportunity to defer payment of their directors' fees in accordance with the provisions of this Plan.

ARTICLE I  
DEFINITIONS

For the purposes hereof, the following words and phrases shall have the meaning indicated.

1. The "Plan" shall mean the deferred compensation plan as set forth herein, together with all amendments hereto, which Plan shall be called the Deferred Compensation Plan for Directors of Parker-Hannifin Corporation.
2. The "Corporation" shall mean 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.
3. "Director" shall mean any member of the board of Directors of the Corporation who is not an officer or common-law employee of the Corporation.
4. "Fees" shall mean the retainer and cash meeting fees earned by the Director for his services as such.
5. "Year" shall mean a calendar year.
6. A "Participant" shall mean any Director who has at any time elected to defer the receipt of Fees in accordance with the Plan.
7. "Account" shall mean the bookkeeping account on which the amount of the Fees which are deferred by a Participant shall be recorded and on which interest shall be credited in accordance with the Plan.
8. "Beneficiary" shall mean the person designated by a Participant in accordance with the Plan to receive payment of the remaining balance of the Account in the event of the death of the Participant prior to receipt of the entire amount credited to the Participant's Account.
9. "Change in Control" shall mean any of the following events shall have occurred:

(i) Any person (as that term is defined in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) has become the beneficial owner (as that term is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing twenty-five percent (25%) of the combined voting power of the then outstanding securities entitled to vote generally in the election of the directors of the Company ("Voting Stock"), which ownership of securities has not been specifically approved by the Company's Board of Directors with specific reference to this Plan;

(ii) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to the applicable disclosure requirements of Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred or will occur in the future pursuant to any then existing contract or transaction; provided, however that if the report or proxy statement reports a prospective change in control, any consequences of a Change in Control as set forth elsewhere in this Plan will not occur until the reported change in control has actually occurred;

(iii) If, during any period of twenty-four (24) consecutive months, beginning before or after the effective date of this Plan, individuals who at the beginning of any such period constitute the directors of the Company cease for any reasons (other than death,

disability, or retirement pursuant to the Company's policy relating to retirement of directors, if any, in effect on the date of this Plan) to constitute at least a majority of the Board of Directors of the Company; provided, however, that for purposes of this clause (iii) if a person is first elected, or first nominated for election by the Company's stockholders, by a vote of at least two-thirds of the Board of Directors of the Company (or a committee thereof) then still in office who were directors of the Company at the beginning of any such period, then such person will be deemed to have been a director of the Company at the beginning of such period.

Notwithstanding the foregoing provisions of Sections 1.4(i) or 1.4(ii), unless otherwise determined in a specific case by a majority vote of the Board of Directors, a Change in Control shall not be deemed to have occurred for purposes of Sections 1.4(i) or 1.4(ii) solely because (1) the Company, (2) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting equity securities (a "Subsidiary"), or (3) any employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary (an "Employee Plan") either files or

becomes obligated to file a report or proxy statement under or in response to the applicable disclosure requirements of Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 25% or otherwise, or because the Company, a Subsidiary or an Employee Plan reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership.

## ARTICLE II ELECTION TO DEFER

1. Eligibility. Any Director may elect to defer receipt of all or a specified part of his or her Fees for any Year in accordance with Section 2 of this Article. A Director's entitlement to defer shall cease with respect to the Year following the Year in which he or she ceases to be a Director.

2. Election to Defer. A Director who desires to defer the payment of all or a portion of his or her Fees earned in any Year must complete and deliver an Election Agreement substantially in the form attached hereto as Exhibit A to the Secretary of the Corporation prior to January 1 of such Year; provided, however, that any Director newly elected to the Board of Directors of the Corporation may make an election to defer payment of Fees earned from the date of such election through December 31 of that Year if the new Director delivers an executed Election Agreement to the Secretary of the Corporation within 30 days of his election to the Board of Directors. A Director who timely delivers the Election Agreement to the Secretary of the Corporation shall be a Participant. A Director shall be required to execute an Election Agreement with respect to each Year for which he or she defers Fees, which Election Agreement shall be delivered to the Secretary of the Corporation prior to January 1 of such Year.

3. Amount Deferred; Period of Deferral. A Participant shall designate on the Election Agreement the percentage of his or her Fees that are to be deferred. That percentage of Fees shall be deferred until the date specified by the Participant in his Election Agreement, at which time payment of the amount deferred shall be made in accordance with Section 5 or 6 of this Article; provided, however, that except as set forth in Section 8 of this Article, no payment shall be made while a Participant is still serving as a Director. Notwithstanding the foregoing, the Corporation reserves the right to commence payment of the amount deferred in the calendar quarter following the date the Participant ceases to be a Director, whether by death, retirement or otherwise.

4. Account; Interest.

(a) The percentage of Fees which a Participant elects to defer shall be credited to a bookkeeping Account under the Plan as of the date the Fees otherwise would have been paid to the Participant. A Participant's Account shall be credited with gains or losses each calendar quarter based on the applicable Crediting Rate as described below.

(b) The Crediting Rate shall mean any notional gains or losses equal to those that would have been generated if part or all of the Account balance had been invested in one or more of the investment portfolios sponsored by The Prudential Series Fund, Inc. and designated as available by the Corporation, and/or as if part or all of the Account balance were credited with interest at the prime rate, as elected by the Participant, less any separate account fees and less any applicable administrative charges determined annually by the Administrator.

(c) The allocation of the Account shall be determined by the Participant among one or more of the available options pursuant to rules determined by the Corporation. The gains or losses shall be credited based upon the daily unit values from the Prudential portfolio(s) selected by the Participant and/or the average prime rate as in effect for the preceding month, as applicable. Gains and losses will be compounded daily and will be credited to Participants' Accounts as of the first day of the calendar quarter following the quarter to which they relate. Notwithstanding the method of calculating the Crediting Rate, the Company shall be under no obligation to purchase any investments designated by a Participant.

5. Payment of Account. The amount of a Participant's Account shall be paid to the Participant in a lump sum or in a number of approximately equal quarterly installments (not to exceed 20), as designated by the Participant on the Election Agreement. The amount of the Account remaining unpaid shall continue to bear interest, as provided in Section 4 of this Article. The lump sum payment or the first quarterly installment, as the case may be, shall be made on the first day of the calendar quarter following the end of the period of deferral as specified in Section 3 of this Article. The election as to the time for and method of payment of the amount of the Account relating to Fees deferred for a particular Year shall be made on the Election Agreement(s) and may not thereafter be altered.

6. Death of Participant. In the event of the death of a Participant, the amount of the Participant's Account shall be paid to the Beneficiary or Beneficiaries designated in a writing substantially in the form attached hereto as Exhibit B, in accordance with the Participant's Election Agreement and Section 5 of this Article. A Participant's Beneficiary

designation may be changed at any time prior to his death by execution and delivery of a new Beneficiary designation form. The form on file with the Corporation at the time of the Participant's death which bears the latest date shall govern. In the absence of a Beneficiary designation or the failure of any Beneficiary to survive the Participant, the amount of the Participant's Account shall be paid to the Participant's estate in a lump sum within ninety days after the appointment of an executor or administrator. In the event of the death of a Beneficiary or all of the Beneficiaries after the death of a Participant, but before all amount of the Participant's Account have been paid to such Beneficiary or Beneficiaries according to the Participant's designation, the remaining applicable amount of the Account shall be paid in a lump sum to the estate of the deceased Beneficiary or estates of the deceased Beneficiaries ninety days after the appointment of an executor or administrator.

7. Small Payments. Notwithstanding the foregoing, if the quarterly installment payments elected by a Participant would result in a quarterly payment of less than \$1,000, the entire amount of the Account shall be paid in a lump sum in accordance with Section 5 of this Article.

8. Acceleration. Notwithstanding the foregoing, (i) the entire amount of a Participant's Account will be paid in a lump sum to the Participant or his Beneficiary in the event of a Change in Control; and (ii) the Board of Directors of the Corporation may, in its sole discretion, accelerate payment of the amount of the Account of a Participant in the event of financial hardship of the Participant due to causes not within the control of the Participant.

9. Noncompetition. During the time any Participant is a Director of Parker-Hannifin, he shall not, directly or indirectly, as officer, director, shareholder (other than an interest of less than 1% of the stock of any publicly held company), partner, employee or in any other capacity, engage in competition with the Corporation in the manufacture, sale or distribution of products or parts thereof. In the event of a breach of this provision, a Participant shall forfeit all right and interest in the moneys in his Account, and shall not be entitled to any distribution of any deferred Fees.

### ARTICLE III ADMINISTRATION

The Corporation shall be responsible for the general administration of the Plan and for carrying out the provisions hereof. The Corporation shall have all such powers as may be necessary to carry out the provisions of the Plan, including the power to determine all questions relating to eligibility for and the amount in the Account and all questions pertaining to claims for benefits and procedures for claim review; to resolve all other questions arising under the Plan, including any questions of construction; and to take such further action as the Corporation shall deem advisable in the administration of the Plan. The actions taken and the decisions made by the Corporation hereunder shall be final and

binding upon all interested parties. The Corporation shall provide a procedure for handling claims of Participants or their Beneficiaries under this Plan. Such procedure shall provide adequate written notice within a reasonable period of time with respect to the denial of any such claim as well as a reasonable opportunity upon a Participant's request for a full and fair review by the Corporation of any such denial.

ARTICLE IV  
AMENDMENT AND TERMINATION

The Corporation reserves the right to amend or terminate the Plan at any time by action of its Board of Directors; provided, however, that no such action shall adversely affect any Participant who has an Account or any Beneficiary.

ARTICLE V  
PRIOR PLANS OR AGREEMENTS

The Plan supersedes all prior deferred compensation plans for Directors and all prior deferred compensation arrangements with any individual Director, except as to the obligation to make payment of the amount of the accounts of participants in the prior plans or under the prior arrangements in accordance with their respective terms. Fees earned after termination of the prior plan or arrangement will not be eligible for deferral under such plan or arrangement and deferral elections under the prior plan or arrangement will be of no force or effect with respect to Fees earned after termination.

ARTICLE VI  
MISCELLANEOUS

1. Nonalienation of Deferred Compensation. No Participant or Beneficiary shall encumber or dispose of the right to receive any payments hereunder.

2. Interest of Directors. The obligation of the Corporation under the Plan to make payment of amounts reflected on an Account merely constitutes the unsecured promise of the Corporation to make payments from its general assets as provided herein, and no Participant or Beneficiary shall have any interest in, or a lien or prior claim upon, any property of the Corporation.

3. Claims of Other Persons. The provisions of the Plan shall in no event be construed as giving any person, firm or corporation any legal or equitable right as against the Corporation, or the officers, employees, or directors of the Corporation, except any such rights as are specifically provided for in the Plan or are hereafter created in accordance with the terms and provisions of the Plan.

4. Severability. The invalidity and unenforceability of any particular provision of the Plan shall not affect any other provision hereof, and the Plan shall be construed in all respects as if such invalid or unenforceable provision were omitted herefrom.

5. Governing Law. The provisions of the Plan shall be governed and construed in accordance with the laws of the State of Ohio.





PARKER-HANNIFIN CORPORATION

EXECUTIVE DEFERRAL PLAN

PARKER-HANNIFIN CORPORATION

EXECUTIVE DEFERRAL PLAN

Parker-Hannifin Corporation, an Ohio corporation, (the "Company"), hereby establishes this Executive Deferral Plan (the "Plan"), effective October 1, 1994, for the purpose of attracting high quality executives and promoting in its executives increased efficiency and an interest in the successful operation of the Company by offering a deferral opportunity to accumulate capital on favorable economic terms. The benefits provided under the Plan shall be provided in consideration for services to be performed after the effective date of the Plan, but prior to the executive's retirement.

ARTICLE 1

Definitions

1.1 Administrator shall mean the Company or, if applicable, the committee appointed by the Board of Directors of the Company to administer the Plan pursuant to Article 12 of the Plan.

1.2 Annual Deferral shall mean the amount of Compensation which the Participant elects to defer for a Plan Year pursuant to Articles 2 and 3 of the Plan.

1.3 Beneficiary shall mean the person or persons or entity designated as such in accordance with Article 13 of the Plan.

1.4 Bonuses shall mean amounts paid in cash to the Participant by the Company in the form of annual and/or long-term incentive bonuses before reductions for deferrals under the Plan or the Savings Restoration Plan or the Savings Plan.

1.5 Change in Control shall mean any of the following events shall have occurred:

(i) Any person (as that term is defined in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) has become the beneficial owner (as that term is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing twenty-five percent (25%) of the combined voting power of the then outstanding securities entitled to vote generally in the election of the directors of the Company ("Voting Stock"), which ownership of securities has not been specifically approved by the Company's Board of Directors with specific reference to this Plan;

(ii) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to the applicable disclosure requirements of Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company

has occurred or will occur in the future pursuant to any then existing contract or transaction; provided, however, that if the report or proxy statement reports a prospective change in control, any consequences of a Change in Control as set forth elsewhere in this Plan will not occur until the reported change in control has actually occurred;

(iii) If, during any period of twenty-four (24) consecutive months, beginning before or after the effective date of this Plan, individuals who at the beginning of any such period constitute the directors of the Company cease for any reasons (other than death, disability, or retirement pursuant to the Company's policy relating to retirement of directors, if any, in effect on the date of this Plan) to constitute at least a majority of the Board of Directors of the Company; provided, however, that for purposes of this clause (iii) if a person is first elected, or first nominated for election by the Company's stockholders, by a vote of at least two-thirds of the Board of Directors of the Company (or a committee thereof) then still in office who were directors of the Company at the beginning of any such period, then such person will be deemed to have been a director of the Company at the beginning of such period.

Notwithstanding the foregoing provisions of Sections 1.4(i) or 1.4(ii), unless otherwise determined in a specific case by a majority vote of the Board of Directors, a Change in Control shall not be deemed to have occurred for purposes of Sections 1.4(i) or 1.4(ii) solely because (1) the Company, (2) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting equity securities (a "Subsidiary"), or (3) any employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary (an "Employee Plan") either files or becomes obligated to file a report or proxy statement under or in response to the applicable disclosure requirements of Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 25% or otherwise, or because the Company, a Subsidiary or an Employee Plan reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership.

1.6 Compensation shall mean the sum of the Participant's base salary and anticipated bonuses (including profit-sharing, RONA, and incentive bonuses paid in cash) for a Plan Year before reductions for deferrals under the Plan, or the Savings Restoration Plan, or the Savings Plan, or the Benefits Plus Program.

1.7 Crediting Rate shall mean any notional gains or losses equal to those generated as if the Deferral Account balance attributable to Annual Deferrals under Article 3 had been invested in one or more of the investment portfolios sponsored by The Prudential Series Fund, Inc. and designated as available by the Administrator, less separate account fees and less applicable administrative charges determined annually by the Administrator.

The allocation of the Deferral Account shall be determined by the Participant among one or more of the available portfolios. The gains or losses shall be credited based upon the daily unit values for the portfolio(s) selected by the Participant. The rules and procedures for allocating the Deferral Account balance among the portfolios shall be determined by the Administrator. Notwithstanding the method of calculating the Crediting Rate, the Company shall be under no obligation to purchase any investments designated by the Participant.

1.8 Deferral Account shall mean the notional account established for record keeping purposes for a Participant pursuant to Article 4 of the Plan.

1.9 Disability shall mean any long term disability as defined under the Company's long term disability plan. The Administrator, in its complete and sole discretion, shall determine a Participant's Disability. The Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Administrator to confirm Disability. On the basis of such medical evidence, the determination of the Administrator as to whether or not a condition of Disability exists or continues shall be conclusive.

1.10 Early Retirement Date shall mean age 55 with ten or more years of employment with the Company.

1.11 Eligible Executive shall mean a key employee of the Company or any of its subsidiaries who (i) is designated by the Administrator as eligible to participate in the Plan (subject to the restriction in Sections 9.2, 10.3 and 11.2 of the Plan), and (ii) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.

1.12 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.13 Financial Hardship shall mean an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence as determined by the Administrator. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children shall not, alone, be considered a Financial Hardship.

1.14 Fixed Crediting Rate shall mean an effective annual yield equal to ninety percent (90%) of the sixty (60) month rolling average of the Ten-Year United States Treasury Note as determined by the Administrator on September 30 of the preceding year. Notwithstanding the preceding sentence, with respect to the first Plan Year, the Fixed Crediting Rate shall be determined as of September 30, 1994.

1.15 Savings Plan shall mean The Parker-Hannifin Employees' Savings Plus Stock Ownership Plan as it currently exists and as it may subsequently be amended.

1.16 Savings Restoration Plan shall mean the Parker-Hannifin Corporation Savings Restoration Plan as it currently exists and as it may subsequently be amended.

1.17 In-Service Distribution shall mean a distribution elected by the Participant pursuant to Article 10 of the Plan.

1.18 Normal Retirement Date shall mean the date on which a Participant attains age 65.

1.19 Participant shall mean an Eligible Executive who has elected to participate and has completed a Participation Agreement pursuant to Article 2 of the Plan.

1.20 Participation Agreement shall mean the Participant's written election to participate in the Plan.

1.21 Plan Year shall mean the calendar year, except that the first Plan Year shall be the year commencing October 1, 1994 and ending December 31, 1994.

1.22 Retirement shall mean a termination of employment following Normal or Early Retirement Date.

1.23 Salary shall mean the Participant's annual basic rate of pay from the Company (excluding Bonuses, commissions and other non-regular forms of compensation) before reductions for deferrals under the Plan or under the Savings Restoration Plan or under the 401(k)/ESOP Plan.

1.24 Scheduled Withdrawal shall mean a distribution of all or a portion of the entire amount credited to the Participant's Deferral Account requested by the Participant pursuant to the provisions of Article 10 of the Plan.

1.25 Termination of Employment shall mean the Participant's employment with the Company ceases for any reason whatsoever, whether voluntary or involuntary, other than Retirement or death.

1.26 Unscheduled Withdrawal shall mean a distribution of all or a portion of the entire amount credited to the Participant's Deferral Account requested by the Participant pursuant to the provisions of Article 10 of the Plan.

1.27 Valuation Date shall mean the end of the month in which the Retirement, Termination of Employment, or death occurs, except in the event of an election to delay retirement benefits under Article 5, in which case the Valuation Date shall mean the November 30 of the year preceding commencement of benefit payments.

## ARTICLE 2

### Participation

2.1 Participation Agreement/Annual Deferral. An Eligible Executive shall become a Participant in the Plan on the first day of the Plan Year following appointment as an Eligible Executive and submission to the Administrator of a Participation Agreement. To be effective, the Eligible Executive must submit the Participation Agreement to the Administrator during the enrollment period designated by the Administrator. In the Participation Agreement, and subject to the restrictions in Article 3, the Eligible Executive shall designate the Annual Deferral for the covered Plan Year.

2.2 Continuation of Participation. An Eligible Executive who has elected to participate in the Plan by making an Annual Deferral shall continue as a Participant in the Plan for purposes of such Annual Deferral even though such executive ceases to be an Eligible Executive. However, a Participant shall not be eligible to elect a new Annual Deferral unless the Participant is an Eligible Executive for the Plan Year for which the election is made.

## ARTICLE 3

### Executive Deferrals

3.1 Deferral Commitment. A Participant may elect in the Participation Agreement to defer an amount equal to a specified percentage of Salary and a specified percentage of Bonuses to be earned by such Participant during the next Plan Year. The Participant may also elect to defer a percentage of Bonuses to be earned during the next Plan Year up to a specified maximum dollar amount. Annual Deferrals under this Plan shall be irrevocable.

3.2 Minimum Annual Deferral. The Annual Deferral for a Plan Year must equal at least five thousand dollars (\$5,000), from either Salary or Bonuses or a combination of Salary and Bonuses.

Where a Participant elects to defer a specified percentage of Salary and/or Bonuses, the determination of whether the Annual Deferral is at least five thousand dollars (\$5,000) shall be made by multiplying the applicable elected percentages of Salary and Bonuses to be deferred by the Participant's Salary and Bonuses in the Plan Year immediately preceding the Deferral Contribution Period. The Administrator may, in its sole discretion, permit Participants to elect to defer amounts in the form of a percentage based on anticipated future Salary and Bonuses.

3.3 Maximum Deferral Commitment. The Annual Deferral for any Plan Year may not exceed 20% of Salary plus 100% of Bonuses. Notwithstanding the foregoing, the Annual Deferral may not reduce the Participant's income to an amount below the old age, survivor, and disability insurance wage base under Social Security.

3.4 Vesting. The Participant's right to receive Compensation deferred (and gains or losses thereon) under this Article 3 shall be 100% vested at all times.

#### ARTICLE 4

##### Deferral Accounts

4.1 Deferral Accounts. Solely for recordkeeping purposes, the Company shall maintain a Deferral Account for each Participant.

4.2 Timing of Credits -- Pre-Termination. The Company shall credit to the Deferral Account the Annual Deferrals under Article 3 at the time the deferrals would otherwise have been paid to the Participant but for the deferral election. The Company shall also credit gains or losses to the Deferral Account each calendar quarter, or as of the Valuation Date, using the Crediting Rate in effect.

4.3 Mid-Year Terminations. If a Participant's Termination of Employment occurs other than at the end of a Plan Year, the Company shall credit gains or losses to the Deferral Account from the first day of such Plan Year to the Valuation Date.

4.4 Statement of Accounts. The Administrator shall provide periodically to each Participant a statement setting forth the balance of the Deferral Account maintained for such Participant.

#### ARTICLE 5

##### Retirement Benefits

5.1 Amount. Upon Retirement, the Company shall pay to the Participant a retirement benefit in the form provided in Section 5.2 of the Plan, based on the balance of the Deferral Account as of the Valuation Date. If paid as a lump sum, the retirement benefit shall be equal to such balance. If paid in installments, the installments shall be paid in amounts that will amortize such balance with interest credited at the Crediting Rate over the period of time benefits are to be paid. For purposes of calculating installments, an assumed rate of interest established by the Administrator shall be applied to the balance and reconciled once annually with the actual Crediting Rate for the period; any excess earnings shall be paid in an additional payment once per year, and any overpayments shall be deducted pro rata over the remaining installments.

5.2 Form of Retirement Benefits. The retirement benefit shall be paid monthly over a period of one hundred eighty (180) months or the number of months required to result in a monthly benefit of one thousand dollars \$1,000.00, if less. Notwithstanding anything herein to the contrary, the Participant may elect in the Participation Agreement to have the retirement benefit paid in a lump sum or in installments paid monthly over a period of sixty (60) or one hundred twenty (120) months. Payment shall be made or shall begin as of the first day of the calendar quarter next following the date sixty (60)

days after the Participant's Retirement unless the Participant elects in the Participation Agreement for payments to begin on January 1 of a later year. However, in all events payments shall commence on or before the earlier of the date the retired Participant attains age seventy (70) or the January 1 five years after Retirement. Except as provided under Section 9.2, Participants may elect an alternative form of payout as available under this Section 5.2 by written election filed with the Administrator; provided, however, that if the Participant files the election less than thirteen (13) months prior to the date benefit payments are to commence, the Deferral Account shall be reduced by ten percent (10%).

5.3 Small Benefit Exception. Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant is less than or equal to five thousand dollars (\$5,000), the Company may, in its sole discretion, elect to pay such benefits in a single lump sum.

## ARTICLE 6

### Termination Benefits

6.1 Amount. As of the first day of the calendar quarter beginning at least sixty (60) days after Termination of Employment, the Company shall pay to the Participant a termination benefit equal to the balance of the Deferral Account as of the Valuation Date.

6.2 Form of Termination Benefits. The Company shall pay the termination benefits in a single lump sum; provided, however, that except following a Change in Control the Company may, in its sole discretion, elect to pay the termination benefits over a period of three (3) years in monthly installments, in which event the Company shall credit interest on the unpaid balance of the Deferral Account after the Valuation Date at the Fixed Crediting Rate in effect at the time of Termination of Employment.

## ARTICLE 7

### Survivor Benefits

7.1 Pre-Commencement Survivor Benefit. If the Participant dies prior to the time installment payments have commenced, the Company shall pay to the Participant's Beneficiary within ninety (90) days after the Participant's death a benefit equal to the balance of the Participant's Deferral Account as of the Valuation Date.

7.2 Post-Commencement Survivor Benefit. If the Participant dies after the time installment payments have commenced, the Company shall pay to the Participant's Beneficiary an amount equal to the remaining benefits payable to the Participant under the Plan over the same period such benefits would have been paid to the Participant, in which event the Company shall credit interest on the unpaid balance of the Deferral Account at the Fixed Crediting Rate in effect at the date of the Participant's death.

7.3 Small Benefit Payment. Notwithstanding any of the foregoing, in the event the sum of all benefits payable to the Beneficiary is less than or equal to five thousand dollars (\$5,000), the Company may, in its sole discretion, elect to pay such benefits in a single lump sum.

## ARTICLE 8

### Disability

If a Participant suffers a Disability, the Company shall pay the benefit described in Article 5 to the Participant as if the date of the Participant's Termination of Employment for Disability were the Participant's Normal Retirement Date.

## ARTICLE 9

### Change in Control

9.1 Election. At the time the Participant is completing his initial Participation Agreement, the Participant may elect that, if a Change in Control occurs, the Participant (or after the Participant's death the Participant's Beneficiary) shall receive a lump sum payment of the balance of the Deferral Account within thirty (30) days after the Change of Control. Such balance shall be determined as of end of the month sixty (60) days prior to the month in which the Change of Control occurs.

9.2 Benefit Reduction on Withdrawal. If a Participant has not made the election described in Section 9.1 above and, within thirty (30) days after a Change of Control, the Participant (or Beneficiary) elects to receive a distribution of the balance of the Deferral Account (determined as described in Section 10.2 herein), the lump sum payment shall be reduced by an amount equal to five percent (5%) of the total vested balance of the Deferral Account (instead of the ten percent (10%) reduction otherwise provided for in Section 10.3). If a Participant elects such a withdrawal, any on-going Annual Deferral shall cease, and the Participant may not again be designated as an Eligible Executive until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

## ARTICLE 10

### Scheduled and Unscheduled Withdrawals

10.1 Payment of Scheduled Withdrawal. No later than the last day of February of the Plan Year designated in the initial Participation Agreement for a Scheduled Withdrawal, the Company shall pay to the Participant, in a lump sum or four approximately equal annual installments, all or a portion of the vested balance in the Participant's Deferral Account.



10.2 Election. A Participant (or Beneficiary if the Participant is deceased) may request an Unscheduled Withdrawal of all or any portion of the entire amount credited to the Participant's Deferral Account, which shall be paid in a single lump sum; provided, however, (i) that the minimum withdrawal shall be twenty-five percent (25%) of the Deferral Account balance, and (ii) that an election to withdraw seventy-five percent (75%) or more of the Deferral Account balance shall be deemed to be an election to withdraw the entire Deferral Account balance.

10.3 Withdrawal Penalty. There shall be a penalty deducted from the Deferral Account prior to an Unscheduled Withdrawal equal to ten percent (10%) of the Unscheduled Withdrawal. If a Participant elects such a withdrawal, any on-going Annual Deferral shall cease, and the Participant may not again be designated as an Eligible Executive until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

10.4 Small Benefit Exception. Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant or Beneficiary who has requested the Unscheduled Withdrawal is less than or equal to five thousand dollars (\$5,000), the Company may, in its sole discretion, elect to pay out the entire Deferral Account balance (reduced by the ten percent (10%) penalty) in a single lump sum.

## ARTICLE 11

### Conditions Related to Benefits

11.1 Nonassignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, at any time or any manner whatsoever. These benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders, decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law.

11.2 Financial Hardship Distribution. Upon a finding that the Participant or the Beneficiary has suffered a Financial Hardship, the Administrator may in its sole discretion, permit the Participant to cease any on-going deferrals and accelerate distributions of benefits under the Plan in the amount reasonably necessary to alleviate such Financial Hardship. If a distribution is to be made to a Participant on account of Financial Hardship, the Participant may not make deferrals under the Plan until one entire Plan Year following the Plan Year in which a distribution based on Financial Hardship has elapsed.

11.3 No Right to Company Assets. The benefits paid under the Plan shall be paid from the general funds of the Company, and the Participant and any Beneficiary shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder.

11.4 Protective Provisions. The Participant shall cooperate with the Company by furnishing any and all information requested by the Administrator, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Administrator may deem necessary and taking such other actions as may be requested by the Administrator. If the Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan. In the event of a Participant's suicide during the first two (2) years of participation in the Plan, or if the Participant makes any material misstatement of information or nondisclosure of medical history, then no benefits shall be payable to the Participant or the Participant's Beneficiary or estate under the Plan beyond the sum of the Participant's Annual Deferrals.

11.5 Withholding. The Participant or the Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the payment of benefits under the Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

## ARTICLE 12

### Administration of Plan

The Company shall administer the Plan, provided, however, that the Company may elect by action of its Board of Directors to appoint a committee of three (3) or more individuals to administer the Plan. All references to the Administrator herein shall refer to the Company or, if such committee has been appointed, the committee.

The Administrator shall administer the Plan and interpret, construe and apply its provisions in accordance with its terms. The Administrator shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrator shall be final and binding. The individuals serving on the committee shall, except as prohibited by law, be indemnified and held harmless by the Company from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any member of the committee with respect to the Plan, unless such liability arises from the individual's own gross negligence or willful misconduct.

## ARTICLE 13

### 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 Administrator during the Participant's lifetime on a form prescribed by the Administrator.

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 Administrator shall direct the distribution of such benefits to the Participant's estate.

#### ARTICLE 14

##### Amendment and Termination of Plan

14.1 Amendment of Plan. Except as provided in Section 14.3, the Company may at any time amend the Plan in whole or in part, provided, however, that such amendment (i) shall not decrease the balance of the Participant's Deferral Account at the time of such amendment and (ii) shall not retroactively decrease the applicable Crediting Rate of the Plan prior to the time of such amendment. The Company may amend the Crediting Rate or Fixed Crediting Rate of the Plan prospectively, in which case, the Company shall notify the Participant of such amendment in writing within thirty (30) days after such amendment.

14.2 Termination of Plan. Except as provided in Section 14.3, the Company may at any time terminate the Plan. If the Company terminates the Plan, the date of such termination shall be treated as the date of Retirement or Termination of Employment for the purpose of calculating Plan benefits, and the Company shall pay to the Participant the benefits the Participant is entitled to receive under the Plan in monthly installments over a thirty-six (36) month period. Interest at the Fixed Crediting Rate will be credited to the Participant's Deferral Account prospectively commencing as of the date of the Plan's termination and continuing until distribution under this Section is completed.

14.3 Amendment or Termination After Change in Control. Notwithstanding the foregoing, the Company shall not amend or terminate the Plan without the prior written consent of affected Participants for a period of two calendar years following a Change in Control and shall not thereafter amend or terminate the Plan in any manner which affects any Participant (or Beneficiary of a deceased Participant) who commences receiving payment of benefits under the Plan prior to the end of such two year period following a Change in Control.

14.4 Company Action. Except as provided in Section 14.3 or 14.5, the Company's power to amend or terminate the Plan shall be exercisable by the Company's Board of Directors or by the committee or individual authorized by the Company's Board of Directors to exercise such powers.

14.5 Constructive Receipt Termination. In the event the Administrator determines that amounts deferred under the Plan have been constructively received by Participants and must be recognized as income for federal income tax purposes, the Plan shall terminate and distributions shall be made to Participants in accordance with the Provisions of Section 14.2 or as may be determined by the Administrator. The determination of the Administrator under this Section shall be binding and conclusive.

## ARTICLE 15

### Miscellaneous

15.1 Successors of the Company. The rights and obligations of the Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.

15.2 ERISA Plan. The Plan 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.

15.3 Trust. The Company shall be responsible for the payment of all benefits under the Plan. At its discretion, the Company may establish one or more grantor trusts for the purpose of providing for payment of benefits under the Plan. 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 the Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.

15.4 Employment Not Guaranteed. Nothing contained in the Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Participant any right to continued employment with the Company.

15.5 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.

15.6 Captions. The captions of the articles and sections of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

15.7 Validity. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.

15.8 Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

15.9 Applicable Law. The Plan shall be governed and construed in accordance with the laws of Ohio except where the laws of Ohio are preempted by ERISA.

15.10 Notice. Any notice or filing required or permitted to be given to the Company under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail to the principal office of the Company, directed to the attention of the Administrator. Such notice shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

## ARTICLE 16

### Claims and Review Procedures

16.1 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 Plan. If the Company determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Plan on which the denial is based, (3) 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 (4) an explanation of the Plan'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.

16.2 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. Said 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 orally or 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 Plan on which the decision is based. If, because of the need for a hearing, 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 beneficiaries.

PARKER-HANNIFIN CORPORATION

SAVINGS RESTORATION PLAN

PARKER-HANNIFIN CORPORATION

SAVINGS RESTORATION PLAN

Parker-Hannifin Corporation, an Ohio corporation, (the "Company"), hereby establishes this Savings Restoration Plan (the "Plan"), effective October 1, 1994, for the purpose of attracting high quality executives and promoting in its executives increased efficiency and an interest in the successful operation of the Company by restoring some of the deferral opportunities and employer-provided benefits that are lost under The Parker-Hannifin Employees' Savings Plus Stock Ownership Plan due to legislative limits. The benefits provided under the Plan shall be provided in consideration for services to be performed after the effective date of the Plan, but prior to the executive's retirement.

ARTICLE 1

Definitions

1.1 Administrator shall mean the Company or, if applicable, the committee appointed by the Board of Directors of the Company to administer the Plan pursuant to Article 13 of the Plan.

1.2 Annual Deferral shall mean the amount of Compensation which the Participant elects to defer for a Plan Year pursuant to Articles 2 and 3 of the Plan.

1.3 Beneficiary shall mean the person or persons or entity designated as such in accordance with Article 14 of the Plan.

1.4 Change in Control shall mean any of the following events shall have occurred:

(i) Any person (as that term is defined in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) has become the beneficial owner (as that term is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing twenty-five percent (25%) of the combined voting power of the then outstanding securities entitled to vote generally in the election of the directors of the Company ("Voting Stock"), which ownership of securities has not been specifically approved by the Company's Board of Directors with specific reference to this Plan;

(ii) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to the applicable disclosure requirements of Form 8-K or Schedule

14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred or will occur in the future pursuant to any then existing contract or transaction; provided, however that if the report or proxy statement reports a prospective change in control, any consequences of a Change in Control as set forth elsewhere in this Plan will not occur until the reported change in control has actually occurred;

(iii) If, during any period of twenty-four (24) consecutive months, beginning before or after the effective date of this Plan, individuals who at the beginning of any such period constitute the directors of the Company cease for any reasons (other than death, disability, or retirement pursuant to the Company's policy relating to retirement of directors, if any, in effect on the date of this Plan) to constitute at least a majority of the Board of Directors of the Company; provided, however, that for purposes of this clause (iii) if a person is first elected, or first nominated for election by the Company's stockholders, by a vote of at least two-thirds of the Board of Directors of the Company (or a committee thereof) then still in office who were directors of the Company at the beginning of any such period, then such person will be deemed to have been a director of the Company at the beginning of such period.

Notwithstanding the foregoing provisions of Sections 1.4(i) or 1.4(ii), unless otherwise determined in a specific case by a majority vote of the Board of Directors, a Change in Control shall not be deemed to have occurred for purposes of Sections 1.4(i) or 1.4(ii) solely because (1) the Company, (2) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting equity securities (a "Subsidiary"), or (3) any employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary (an "Employee Plan") either files or becomes obligated to file a report or proxy statement under or in response to the applicable disclosure requirements of Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 25% or otherwise, or because the Company, a Subsidiary or an Employee Plan reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership.

1.5 Compensation shall mean the sum of the Participant's base salary and anticipated bonuses (including profit-sharing, RONA, and incentive bonuses paid in cash) for a Plan Year before reductions for deferrals under the Plan, or the Executive Deferral Plan, or the Savings Plan, or the Benefits Plus Program.

1.6 Crediting Rate shall mean (i) the amount described in Section 1.7.1 to the extent the Restoration Account Balance represents either Annual Deferrals under Article 3 or earnings previously credited on such deferrals under Section 5.2 or (ii) the amount described in Section 1.7.2 to the extent the Restoration Account balance



represents either Matching Credits under Article 4 or interest previously credited on such Matching Credits under Section 5.2:

1.6.1 Crediting Rate for Annual Deferrals shall mean any notional gains or losses equal to those generated as if the Restoration Account balance attributable to Annual Deferrals under Article 3 had been invested in one or more of the investment portfolios sponsored by The Prudential Series Fund, Inc. and designated as available by the Administrator, less separate account fees and less applicable administrative charges determined annually by the Administrator.

The allocation of the Restoration Account shall be determined by the Participant among one or more of the available portfolios. The gains or losses shall be credited based upon the daily unit values for the portfolio(s) selected by the Participant. The rules and procedures for allocating the Restoration Account balance among the portfolios shall be determined by the Administrator. The Participant's allocation is solely for the purpose of calculating the Crediting Rate. Notwithstanding the method of calculating the Crediting Rate, the Company shall be under no obligation to purchase any investments designated by the Participant.

1.6.2 Crediting Rate for Matching Credits shall mean any notional gains or losses equal to those generated as if the Restoration Account balance attributable to Matching Credits under Article 4 had been invested in the Common Stock of the Company, including reinvestment of dividends. The rules and procedures for determining the value of the Common Stock of the Company shall be determined by the Administrator. The rules and procedures for re-allocating the Restoration Account balance attributable to the Matching Credits among the other portfolios offered under the Plan shall be determined by the Administrator.

1.7 Disability shall mean any long term disability as defined under the Company's long term disability plan. The Administrator, in its complete and sole discretion, shall determine a Participant's Disability. The Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Administrator to confirm Disability. On the basis of such medical evidence, the determination of the Administrator as to whether or not a condition of Disability exists or continues shall be conclusive.

1.8 Early Retirement Date shall mean age 55 with ten or more years of employment with Company.

1.9 Eligible Executive shall mean a key employee of the Company or any of its subsidiaries who (i) participates in the Savings Plan and makes the maximum permissible pre-tax contributions of compensation, (ii) is designated by the Administrator as eligible to participate in the Plan (subject to the restriction in Sections 10.2 and 12.2 of the Plan), and (iii) qualifies as a member of the "select

group of management or highly compensated employees" under ERISA.

1.10 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.11 Executive Deferral Plan shall mean the Parker-Hannifin Corporation Executive Deferral Plan as it currently exists and as it may subsequently be amended.

1.12 Financial Hardship shall mean an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence as determined by the Administrator. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children shall not, alone, be considered a Financial Hardship.

1.13 Fixed Crediting Rate shall mean an effective annual yield equal to ninety percent (90%) of the sixty (60) month rolling average of the Ten-Year United States Treasury Note as determined by the Administrator on September 30 of the preceding year. Notwithstanding the preceding sentence, with respect to the first Plan Year, the Fixed Crediting Rate shall be determined as of September 30, 1994. The Fixed Crediting Rate in effect as of the Participant's Termination of Employment or death shall be held constant for the remainder of the period for which benefits are paid.

1.14 Matching Credit shall mean the Company's credit to the Participant's Restoration Account under Article 4.

1.15 Normal Retirement Date shall mean the date on which a Participant attains age 65.

1.16 Participant shall mean an Eligible Executive who has elected to participate and has completed a Participation Agreement pursuant to Article 2 of the Plan.

1.17 Participation Agreement shall mean the Participant's written election to participate in the Plan.

1.18 Plan Year shall mean the calendar year, except that the first Plan Year shall be the year commencing October 1, 1994 and ending December 31, 1994.

1.19 Restoration Account shall mean the notional account established for record keeping purposes for a Participant pursuant to Article 5 of the Plan.

1.20 Retirement shall mean a termination of employment following Normal or Early Retirement Date.

1.21 Savings Plan shall mean The Parker-Hannifin Employees' Savings Plus Stock Ownership Plan as it currently exists and as it may subsequently be amended.

1.22 Statutory Limit shall mean any statutory or regulatory limit on salary reduction contributions to savings plans, or on compensation taken into account in calculating employer or employee contributions to savings plans with the exception of Internal Revenue Code Section 415(c), as adjusted for inflation, which shall be deemed to apply to the combination of both employer and employee contributions made in combination to the Plan and the Savings Plan. The impact of such limits on the Participants shall be determined by the Company prior to the beginning of each Plan Year based upon its best estimates and according to procedures determined by the Administrator. Once the Company has determined the impact of the Statutory Limits, no adjustment shall be made to increase deferrals or matching credits under this Plan notwithstanding any adjustments ultimately required under the Savings Plan due to actual employee contributions or other factors.

1.23 Termination of Employment shall mean the Participant's employment with the Company ceases for any reason whatsoever, whether voluntary or involuntary, other than Retirement or death.

1.24 Unscheduled Withdrawal shall mean a distribution of all or a portion of the entire amount credited to the Participant's Restoration Account requested by the Participant pursuant to the provisions of Article 11 of the Plan.

1.25 Valuation Date shall mean the end of the month in which Retirement, Termination of Employment, or death occurs, except in the event of an election to delay retirement benefits under Article 6, in which case the Valuation Date shall mean the November 30 of the year preceding commencement of benefit payments.

## ARTICLE 2

### Participation

2.1 Participation Agreement / Annual Deferral. An Eligible Executive shall become a Participant in the Plan on the first day of the Plan Year coincident with or next following the later of the date the individual becomes an Eligible Executive and the date the individual begins to participate in the Savings Plan, provided such Eligible Executive has submitted to the Administrator a Participation Agreement. To be effective, the Eligible Executive must submit the Participation Agreement to the Administrator during the enrollment period designated by the Administrator. In the Participation Agreement, and subject to the restrictions in Article 3, the Eligible Executive shall designate the Annual Deferral for the covered Plan Year.

2.2 Continuation of Participation. An Eligible Executive who has elected to participate in the Plan by making an Annual Deferral shall continue as a Participant in the Plan for purposes of such Annual Deferral even though such executive ceases to be an Eligible Executive. However, a Participant shall not be eligible to elect a new Annual Deferral unless the Participant is an Eligible Executive for the Plan Year for which the election is made.

### ARTICLE 3

#### Executive Deferrals

3.1 Deferral Election. A Participant who has elected to contribute under the Savings Plan, but whose pre-tax contributions to the Savings Plan are limited by the Statutory Limit, may elect an Annual Deferral under this Plan to defer all or a portion of the Compensation that he or she cannot defer under the Savings Plan due to the Statutory Limit. Such election shall designate a specified percentage of Compensation to be deferred. Such percentage shall include anticipated contributions to the Savings Plan as well as to this Plan. Annual Deferrals under this Plan shall be irrevocable.

3.2 Maximum Annual Deferral. The Annual Deferral for a Plan Year, when combined with the amount the Participant has elected to contribute to the Savings Plan on a pre-tax basis, may not exceed the stated percentage of Compensation that could be deferred in the Savings Plan but for the Statutory Limits. In addition, the Administrator shall, in its sole discretion and prior to the first day of the Plan Year, decrease the deferral as needed to allow the Participant to receive the optimal Matching Credit within the Statutory Limits as defined for purpose of the Plan.

3.3 Discontinuation of Deferral. In the event that a Participant elects to make after-tax contributions of Compensation to the Savings Plan, deferrals under this Plan shall cease for the remainder of the Plan Year.

3.4 Vesting. The Participant's right to receive Compensation deferred (and gains or losses thereon) under this Article 3 shall be 100% vested at all times.

### ARTICLE 4

#### Company Matching Credits

4.1 Amount. The Company's Matching Credit in each Plan Year shall equal one hundred percent (100%) of the first three percent (3%) of Compensation deferred and twenty-five percent (25%) of the next two (2%) of Compensation deferred, reduced by the matching contributions credited to the Participant's account under the Savings Plan.

4.2 Discontinuation of Matching Credits. Notwithstanding the foregoing, if the Participant decreases or ceases pre-tax contributions and/or makes after-tax contributions to the Savings Plan in any Plan Year, additional Matching Credits shall not be credited to the Participant's Restoration Account for the remainder of that Plan Year.

4.3 Vesting. The Participant's right to receive Matching Credits (and gains or losses thereon) credited to the Participant's Restoration Account shall be one hundred percent (100%) vested.

## ARTICLE 5

### Restoration Accounts

5.1 Restoration Accounts. Solely for record keeping purposes, the Company shall maintain a Restoration Account for each Participant.

5.2 Timing of Credits -- Pre-Termination. The Company shall credit to the Restoration Account the Annual Deferrals under Article 3 at the time the deferrals would otherwise have been paid to the Participant but for the deferral election. Matching Credits under Article 4 shall be credited to the Restoration Account quarterly as of the first day of the following quarter. The Company shall also credit gains or losses to the Restoration Account each calendar quarter, or as of the Valuation Date, using the Crediting Rate in effect.

5.3 Mid-Year Terminations. If a Participant's Termination of Employment occurs other than at the end of a Plan Year, the Company shall credit gains or losses to the Restoration Account from the first day of such Plan Year to the Valuation Date.

5.4 Statement of Accounts. The Administrator shall provide periodically to each Participant a statement setting forth the balance of the Restoration Account maintained for such Participant.

## ARTICLE 6

### Retirement Benefits

6.1 Amount. Upon Retirement, the Company shall pay to the Participant a retirement benefit in the form provided in Section 6.2 of the Plan, based on the balance of the Restoration Account as of the Valuation Date. If paid as a lump sum, the retirement benefit shall be equal to such balance. If paid in installments, the installments shall be paid in amounts that will amortize such balance with interest credited at the Crediting Rate over the period of time benefits are to be paid. For

purposes of calculating installments, an assumed rate of interest established by the Administrator shall be applied to the balance and reconciled once annually with the actual Crediting Rate for the period; any excess earnings shall be paid in an additional payment once per year, and any overpayments shall be deducted pro rata over the remaining installments.

6.2 Form of Retirement Benefits. The retirement benefit shall be paid monthly over a period of one hundred eighty (180) months or the number of months required to result in a monthly benefit of one thousand dollars (\$1,000.00), if less. Notwithstanding anything herein to the contrary, the Participant may elect in the Participation Agreement to have the retirement benefit paid in a lump sum or in installments paid monthly over a period of sixty (60) or one hundred twenty (120) months. Payments shall be made or shall begin as of the first day of the calendar quarter next following the date sixty (60) days after the Participant's Retirement unless the Participant elects in the Participation Agreement for payments to begin on January 1 of a later year. However, in all events payments shall commence on or before the earlier of the date the retired Participant attains age seventy (70) or the January 1 five years after Retirement. Except as provided under Section 10.2, Participants may elect an alternative form of payout as available under this Section 6.2 by written election filed with the Administrator; provided, however, that if the Participant files the election less than thirteen (13) months prior to the date benefit payments are to commence, the Participant's Restoration Account shall be reduced by ten percent (10%).

6.3 Small Benefit Exception. Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant is less than or equal to five thousand dollars (\$5,000.00), the Company may, in its sole discretion, elect to pay such benefits in a single lump sum.

## ARTICLE 7

### Termination Benefits

7.1 Amount. As of the first day of the calendar quarter beginning at least sixty (60) days after Termination of Employment, the Company shall pay to the Participant a termination benefit equal to the balance of the Restoration Account as of the Valuation Date.

7.2 Form of Termination Benefits. The Company shall pay the termination benefits in a single lump sum; provided, however, that except following a Change in Control the Company may, in its sole discretion, elect to pay the termination benefits over a period of three (3) years in monthly installments, in which event the Company shall credit interest on the unpaid balance of the Restoration Account after the Valuation Date at the Fixed Crediting Rate in effect at the time of Termination of Employment.

## ARTICLE 8

### Survivor Benefits

8.1 Pre-Commencement Survivor Benefit. If the Participant dies prior to the time installment payments have commenced, the Company shall pay to the Participant's Beneficiary within ninety (90) days after the Participant's death a benefit equal to the balance of the Participant's Restoration Account as of the Valuation Date.

8.2 Post-Commencement Survivor Benefit. If the Participant dies after the time installment payments have commenced, the Company shall pay to the Participant's Beneficiary an amount equal to the remaining benefits payable to the Participant under the Plan over the same period such benefits would have been paid to the Participant, in which event the Company shall credit interest on the unpaid balance of the Restoration Account at the Fixed Crediting Rate in effect at the date of the Participant's death.

8.3 Small Benefit Payment. Notwithstanding any of the foregoing, in the event the sum of all benefits payable to the Beneficiary is less than or equal to five thousand dollars (\$5,000.00), the Company may, in its sole discretion, elect to pay such benefits in a single lump sum.

## ARTICLE 9

### Disability

If a Participant suffers a Disability, the Company shall pay the benefit described in Article 6 to the Participant as if the date of the Participant's Termination of Employment for Disability were the Participant's Normal Retirement Date.

## ARTICLE 10

### Change in Control

10.1 Election. At the time the Participant is completing his initial Participation Agreement, the Participant may elect that, if a Change in Control occurs, the Participant (or after the Participant's death the Participant's Beneficiary) shall receive a lump sum payment of the balance of the Restoration Account within thirty (30) days after the Change of Control. Such balance shall be determined as of end of the month sixty (60) days prior to the month in which the Change of Control occurs.

10.2 Benefit Reduction on Withdrawal. If a Participant has not made the election described in Section 10.1 above and, within thirty (30) days after a Change of Control, the Participant (or Beneficiary) elects to receive a distribution of the balance of the Restoration Account (determined as described in Section 10.1 herein), the lump sum payment shall be reduced by an amount equal to five percent (5%) of the total balance of the Restoration Account (instead of the ten percent (10%) reduction otherwise provided for in Section 11.2). If a Participant elects such a withdrawal, any on-going Annual Deferral shall cease, and the Participant may not again be designated as an Eligible Executive until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

## ARTICLE 11

### Unscheduled Withdrawals

11.1 Election. A Participant (or Beneficiary if the Participant is deceased) may request an Unscheduled Withdrawal of all or a portion of the entire amount credited to the Participant's Restoration Account, which shall be paid in a single lump sum; provided, however, (i) that the minimum withdrawal shall be twenty-five percent (25%) of the Restoration Account balance, and (ii) that an election to withdraw seventy-five percent (75%) or more of the balance shall be deemed to be an election to withdraw the entire balance.

11.2 Withdrawal Penalty. There shall be a penalty deducted from the Restoration Account prior to an Unscheduled Withdrawal equal to ten percent (10%) of the Unscheduled Withdrawal. If a Participant elects such a withdrawal, any on-going Annual Deferral shall cease, and the Participant may not again be designated as an Eligible Executive until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

11.3 Small Benefit Exception. Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant or Beneficiary who has requested the Unscheduled Withdrawal is less than or equal to five thousand dollars (\$5,000.00), the Company may, in its sole discretion, elect to pay out the entire Restoration Account balance (reduced by the ten percent (10%) penalty) in a single lump sum.

## ARTICLE 12

### Conditions Related to Benefits

12.1 Nonassignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, at any time or any manner whatsoever. These benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders,



decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law.

12.2 Financial Hardship Distribution. Upon a finding that the Participant or the Beneficiary has suffered a Financial Hardship, the Administrator may in its sole discretion, permit the Participant to cease any on-going deferrals and accelerate distributions of benefits under the Plan in the amount reasonably necessary to alleviate such Financial Hardship. If a distribution is to be made to a Participant on account of Financial Hardship, the Participant may not make deferrals under the Plan until one entire Plan Year following the Plan Year in which a distribution based on Financial Hardship was made has elapsed.

12.3 No Right to Company Assets. The benefits paid under the Plan shall be paid from the general funds of the Company, and the Participant and any Beneficiary shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder.

12.4 Protective Provisions. The Participant shall cooperate with the Company by furnishing any and all information requested by the Administrator, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Administrator may deem necessary and taking such other actions as may be requested by the Administrator. If the Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan. In the event of a Participant's suicide during the first two (2) years of participation in the Plan, or if the Participant makes any material misstatement of information or nondisclosure of medical history, then no benefits shall be payable to the Participant or the Participant's Beneficiary or estate under the Plan beyond the sum of the Participant's Annual Deferrals.

12.5 Withholding. The Participant or the Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the payment of benefits under the Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

## ARTICLE 13

### Administration of Plan

The Company shall administer the Plan, provided, however, that the Company may elect by action of its Board of Directors to appoint a committee of three (3) or more individuals to administer the Plan. All references to the Administrator herein shall refer to the Company or, if such committee has been appointed, the committee.

The Administrator shall administer the Plan and interpret, construe and apply its provisions in accordance with its terms. The Administrator shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrator shall be final and binding. The individuals serving on the committee shall, except as prohibited by law, be indemnified and held harmless by the Company from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any member of the committee with respect to the Plan, unless such liability arises from the individual's own gross negligence or willful misconduct.

#### ARTICLE 14

##### 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 Administrator during the Participant's lifetime on a form prescribed by the Administrator.

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 Administrator shall direct the distribution of such benefits to the Participant's estate.

#### ARTICLE 15

##### Amendment and Termination of Plan

15.1 Amendment of Plan. Except as provided in Section 15.3, the Company may at any time amend the Plan in whole or in part, provided, however, that such amendment (i) shall not decrease the balance of the Participant's Restoration Account at the time of such amendment and (ii) shall not retroactively decrease the

applicable Crediting Rate of the Plan prior to the time of such amendment. The Company may amend the Crediting Rate or Fixed Crediting Rate of the Plan prospectively, in which case the Company shall notify the Participant of such amendment in writing within thirty (30) days after such amendment.

15.2 Termination of Plan. Except as provided in Section 15.3, the Company may at any time terminate the Plan. If the Company terminates the Plan, the date of such termination shall be treated as the date of Retirement or Termination of Employment for the purpose of calculating Plan benefits, and the Company shall pay to the Participant the benefits the Participant is entitled to receive under the Plan in monthly installments over a thirty-six (36) month period. Interest at the Fixed Crediting Rate will be credited to the Participant's Restoration Account commencing as of the date of the Plan's termination and continuing until distribution under this Section is completed.

15.3 Amendment or Termination After Change in Control. Notwithstanding the foregoing, the Company shall not amend or terminate the Plan without the prior written consent of affected Participants for a period of two calendar years following a Change in Control and shall not thereafter amend or terminate the Plan in any manner which affects any Participant (or Beneficiary of a deceased Participant) who commences receiving payment of benefits under the Plan prior to the end of such two year period following a Change in Control.

15.4 Company Action. Except as provided in Section 15.3 or 15.5, the Company's power to amend or terminate the Plan shall be exercisable by the Company's Board of Directors or by the committee or individual authorized by the Company's Board of Directors to exercise such powers.

15.5 Constructive Receipt Termination. In the event the Administrator determines that amounts deferred under the Plan have been constructively received by Participants and must be recognized as income for federal income tax purposes, the Plan shall terminate and distributions shall be made to Participants in accordance with the Provisions of Section 15.2 or as may be determined by the Administrator. The determination of the Administrator under this Section 15.4 shall be binding and conclusive.

## ARTICLE 16

### Miscellaneous

16.1 Successors of the Company. The rights and obligations of the Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.

16.2 ERISA Plan. The Plan 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.

16.3 Trust. The Company shall be responsible for the payment of all benefits under the Plan. At its discretion, the Company may establish one or more grantor trusts for the purpose of providing for payment of benefits under the Plan. 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 the Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.

16.4 Employment Not Guaranteed. Nothing contained in the Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Participant any right to continued employment with the Company.

16.5 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.

16.6 Captions. The captions of the articles and sections of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

16.7 Validity. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.

16.8 Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

16.9 Applicable Law. The Plan shall be governed and construed in accordance with the laws of Ohio except where the laws of Ohio are preempted by ERISA.

16.10 Notice. Any notice or filing required or permitted to be given to the Company under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail to the principal office of the Company, directed to the attention of the Administrator. Such notice shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

## ARTICLE 17

### Claims and Review Procedures

17.1 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 Plan. If the Company determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Plan on which the denial is based, (3) 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 (4) an explanation of the Plan'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.

17.2 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. Said 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 orally or 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 Plan on which the decision is based. If, because of the need for a hearing, 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 beneficiaries.

Parker-Hannifin Corporation

PENSION RESTORATION PLAN

Parker-Hannifin Corporation

PENSION RESTORATION PLAN

Parker-Hannifin Corporation, an Ohio corporation (the "Company"), hereby establishes this Pension Restoration Plan (the "Plan"), effective July 1, 1994, for the purpose of attracting high quality executives and promoting in its executives increased efficiency and an interest in the successful operation of the Company by restoring benefits that are lost due to legislative limits on the Company's qualified retirement plan(s). The benefits provided under the Plan shall be provided in consideration for services to be performed after the effective date of the Plan, but prior to the executive's retirement.

ARTICLE 1

Definitions

1.1 Actuarial Value shall mean the actuarial present value of the benefits calculated by an actuary selected by the Administrator and using the actuarial assumptions employed under the Qualified Plan (other than the Pension Benefit Guaranty Corporation rates used to determine a lump sum benefit).

1.2 Administrator shall mean the Company or, if applicable, the committee appointed by the Board of Directors of the Company to administer the Plan pursuant to Article 6 of the Plan.

1.3 Beneficiary shall mean the person or persons or entity designated as such under the Qualified Plan.

1.4 Change in Control shall mean any of the following events shall have occurred:

(i) Any person (as that term is defined in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) has become the beneficial owner (as that term is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing twenty-five percent (25%) of the combined voting power of the then outstanding securities entitled to vote generally in the election of the directors of the Company ("Voting Stock"), which ownership of securities has not been specifically approved by the Company's Board of Directors with specific reference to this Plan;

(ii) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to the applicable disclosure requirements of Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred or will occur in the future pursuant to any then existing contract or transaction; provided, however, that if the report or proxy statement reports a prospective change in control, any consequences of a Change in Control as set forth elsewhere in this Plan will not occur until the reported change in control has occurred;

(iii) If, during any period of twenty-four (24) consecutive months, beginning before or after the effective date of this Plan, individuals who at the beginning of any such period constitute the directors of the Company cease for any reasons (other than death, disability, or retirement pursuant to the Company's policy relating to retirement of directors, if any, in effect on the date of this Plan) to constitute at least a majority of the Board of Directors of the Company; provided, however, that for purposes of this clause (iii) if a person is first elected, or first nominated for election by the Company's stockholders, by a vote of at least two-thirds of the Board of Directors of the Company (or a committee thereof) then still in office who were directors of the Company at the beginning of any such period, then such person will be deemed to have been a director of the Company at the beginning of such period.

Notwithstanding the foregoing provisions of paragraph 1.4(i) or 1.4(ii), unless otherwise determined in a specific case by a majority vote of the Board of Directors, a Change in Control shall not be deemed to have occurred for purposes of paragraph 1.4(i) or 1.4(ii) solely because (1) the Company, (2) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting equity securities (a "Subsidiary"), or (3) any employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary (an "Employee Plan") either files or becomes obligated to file a report or proxy statement under or in response to the applicable disclosure requirements of Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 25% or otherwise, or because the Company, a Subsidiary or an Employee Plan reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership.

1.5 Code shall mean the Internal Revenue Code of 1986, as amended, including any successor provisions.

1.6 Early Retirement Date shall mean the "Early Retirement Date" as defined in the Qualified Plan.

1.7 Eligible Executive shall mean an employee of the Company or any of its subsidiaries who (i) participates in the Qualified Plan, (ii) is designated by the Administrator as eligible to participate in the Plan, and (iii) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.

1.8 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.9 Normal Retirement Date shall mean the "Normal Retirement Date" as defined in the Qualified Plan.

1.10 Participant shall mean an Eligible Executive who has become a participant hereunder pursuant to Article 2.

1.11 Qualified Plan shall mean the Parker-Hannifin Corporation Retirement Plan as it currently exists and as it may subsequently be amended, or any other qualified defined benefit plan maintained by the Company and in which an Eligible Executive participates.

1.12 Statutory Limit shall mean any limit on compensation taken into account in calculating benefits under qualified retirement plans under Section 401(a)(17) of the Code or that directly or indirectly affects the amount of benefits payable from a Qualified Plan.

1.13 Termination of Employment shall mean the date of the cessation of the Participant's employment with the Company for any reason whatsoever, whether voluntary or involuntary, other than as a result of the Participant's death.

## ARTICLE 2

### Participation

Eligible Executives shall become Participants in the Plan on the first day of the month following their appointment as Eligible Executives.



### ARTICLE 3

#### Restoration Benefits

3.1 Amount. Upon Termination of Employment on or after Normal or Early Retirement Date, or after the Participant has a nonforfeitable right to a deferred benefit under the Qualified Plan, the Participant shall be entitled to a retirement benefit as provided in paragraph 3.2 of this Plan. The retirement benefit shall equal the benefits that would be payable to the Participant under the Qualified Plan calculated as if the Statutory Limit did not apply to such benefits, less the benefits that are payable under the Qualified Plan taking the Statutory Limit into account.

3.2 Form of Retirement Benefits. (a) Subject to (b) and (c) below, the retirement benefit shall be paid in the same form and at the same time as the Participant's benefits under the Qualified Plan.

(b) Notwithstanding (a) above, the Administrator may, in its sole discretion, elect to pay the Actuarial Value of the benefit under this Plan in a single lump sum if the monthly benefit otherwise due hereunder is less than \$50.00.

(c) Notwithstanding (a) above, a Participant who has retired at or after Normal or Early Retirement Date, or who reaches Normal or Early Retirement Date after a Termination of Employment may elect at any time thereafter to receive the remaining Actuarial Value of his benefit in a single lump sum, provided that his lump sum payment shall be reduced by 10%.

### ARTICLE 4

#### Survivor Benefits

4.1 Survivor Benefit. If benefits are payable to the Participant's Beneficiary under the Qualified Plan following the Participant's death (whether the Participant's death occurs before or after Termination of Employment), the Company shall pay to the Participant's Beneficiary a survivor benefit equal to the benefits that would be payable to the Beneficiary under the Qualified Plan calculated as if the Statutory Limit did not apply to such benefits, less the survivor benefits that are payable under the Qualified Plan taking the Statutory Limit into account.

4.2 Form of Survivor Benefit. The survivor benefit shall be paid in the same form and at the same time as the survivor benefits under the Qualified Plan; provided, however that the Administrator may, in its sole discretion, elect to pay the

Actuarial Value of the survivor benefit under this Plan in a single lump sum, if the monthly benefit otherwise payable hereunder is less than \$50.00

## ARTICLE 5

### Conditions Related to Benefits

5.1 Nonassignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, at any time or any manner whatsoever. These benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders, decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law.

5.2 No Right to Company Assets. The benefits paid under the Plan shall be paid from the general funds of the Company, and the Participant and any Beneficiary shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder.

5.3 Protective Provisions. The Participant shall cooperate with the Company by furnishing any and all information requested by the Administrator, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Administrator may deem necessary and taking such other actions as may be requested by the Administrator. If the Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan. In the event of a Participant's suicide during the first two (2) years of participation in the Plan, or if the Participant makes any material misstatement of information or nondisclosure of medical history, then no benefits shall be payable to the Participant or the Participant's Beneficiary or estate under the Plan.

5.4 Withholding. The Participant or the Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the payment of benefits under the Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

## ARTICLE 6

### Administration of Plan

The Company shall administer the Plan, provided, however, that the Company may elect by action of its Board of Directors to appoint a committee of three (3) or more individuals to administer the Plan. All references to the Administrator herein shall refer to the Company or, if such committee has been appointed, the committee.

The Administrator shall administer the Plan and interpret, construe and apply its provisions in accordance with its terms. The Administrator shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrator shall be final and binding. The individuals serving on the committee shall, except as prohibited by law, be indemnified and held harmless by the Company from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any member of the committee with respect to the Plan, unless such liability arises from the individual's own gross negligence or willful misconduct.

## ARTICLE 7

### Change in Control

In the event there is a Change in Control, each Participant shall receive the Actuarial Value of his benefit earned hereunder to the date of the Change in Control. Such benefit shall be paid in monthly installments over thirty-six (36) months commencing within 3 months of the Change in Control; provided, however, that the Administrator may elect, in its sole discretion, to make payment in a single lump sum.

## ARTICLE 8

### Amendment and Termination of Plan

8.1 Amendment of Plan. The Company may at any time amend the Plan in whole or in part, provided, however, that such amendment shall not decrease the value of benefits accrued under the Plan prior to the time of such amendment.

8.2 Termination of Plan. The Company may at any time terminate the Plan. If the Company terminates the Plan, the date of such termination shall be treated as the date of Termination of Employment for the purpose of calculating Plan benefits. The Company shall pay to the Participant the benefits the Participant

is entitled to receive under the Plan in monthly installments over a thirty-six (36) month period; provided, however, that the Administrator may elect, in its sole discretion, to make payment in a single lump sum.

8.3 Amendment or Termination After Change in Control.

Notwithstanding the foregoing, the Company shall not amend or terminate the Plan without the prior written consent of affected Participants for a period of two calendar years following a Change in Control and shall not thereafter amend or terminate the Plan in any manner which affects any Participant (or Beneficiary of a deceased Participant) who commences receiving payment of benefits under the Plan prior to the end of such two year period following a Change in Control.

8.4 Company Action. Except as provided in paragraph 8.5, the

Company's power to amend or terminate the Plan shall be exercisable by the Company's Board of Directors or by the committee or individual authorized by the Company's Board of Directors to exercise such powers.

8.5 Constructive Receipt Termination. In the event the Administrator

determines that benefits under the Plan have been constructively received by Participants and must be recognized as income for federal income tax purposes, the Plan shall terminate and distributions shall be made to Participants in accordance with the provisions of paragraph 8.2 or as may be determined by the Administrator. The determination of the Administrator under this paragraph 8.5 shall be binding and conclusive.

## ARTICLE 9

### Miscellaneous

9.1 Successors of the Company. The rights and obligations of the

Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.

9.2 ERISA Plan. The Plan 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.

9.3 Trust. The Company shall be responsible for the payment of all

benefits under the Plan. At its discretion, the Company may establish one or more grantor trusts for the purposes of providing for payment of benefits under the Plan.

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 the Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.

9.4 Employment Not Guaranteed. Nothing contained in the Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Participant any right to continued employment with the Company.

9.5 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.

9.6 Captions. The captions of the articles and paragraphs of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

9.7 Validity. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.

9.8 Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

9.9 Applicable Law. The Plan shall be governed and construed in accordance with the laws of the Ohio except where the laws of the Ohio are preempted by ERISA.

9.10 Notice. Any notice or filing required or permitted to be given to the Company under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail to the principal office of the Company, directed to the attention of the Administrator. Such notice shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

## ARTICLE 10

### Claims and Review Procedures

10.1 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 Plan. If the Company determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Plan on which the denial is based, (3) 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 (4) an explanation of the Plan'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.

10.2 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. Said 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 orally or 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 Plan on which the decision is based. If, because of the need for a hearing, 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 beneficiaries.

## PARKER-HANNIFIN CORPORATION

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	1994	1993	1994	1993
Net income (loss) applicable to common shares	\$ 41,084	\$ 9,854	\$ 84,733	\$ 25,919
Weighted average common shares outstanding for the period	49,128,037	48,671,373	49,048,437	48,643,784
Increase in weighted average from dilutive effect of exercise of stock options	378,219	262,733	357,461	233,678
Weighted average common shares, assuming issuance of the above securities	49,506,256	48,934,106	49,405,898	48,877,462
Earnings per common share:				
Primary	\$ .84	\$ .20	\$ 1.73	\$ .53
Fully diluted (A)	\$ .83	\$ .20	\$ 1.72	\$ .53

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PARKER-HANNIFIN CORPORATION'S REPORT ON FORM 10-Q FOR ITS QUARTERLY PERIOD ENDED DECEMBER 31, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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JUN-30-1995		
DEC-31-1994		
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	84,733	
	1.73	
	1.72	