

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, 1996

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, 1996 74,410,445

PARKER-HANNIFIN CORPORATION

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

PART I - FINANCIAL INFORMATION

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
Net sales	\$ 969,587	\$ 824,376	\$ 1,928,915	\$ 1,663,430
Cost of sales	761,323	641,481	1,515,821	1,287,090
Gross profit	<u>208,264</u>	<u>182,895</u>	<u>413,094</u>	<u>376,340</u>
Selling, general and administrative expenses	119,543	101,189	233,987	198,908
Income from operations	<u>88,721</u>	<u>81,706</u>	<u>179,107</u>	<u>177,432</u>
Other income (deductions):				
Interest expense	(11,942)	(7,241)	(24,256)	(15,229)
Interest and other income, net	5,351	2,355	7,131	5,688
	<u>(6,591)</u>	<u>(4,886)</u>	<u>(17,125)</u>	<u>(9,541)</u>
Income before income taxes	<u>82,130</u>	<u>76,820</u>	<u>161,982</u>	<u>167,891</u>
Income taxes	29,566	28,424	58,313	62,120
Net income	<u>\$ 52,564</u> =====	<u>\$ 48,396</u> =====	<u>\$ 103,669</u> =====	<u>\$ 105,771</u> =====
Earnings per share	\$.70	\$.66	\$ 1.39	\$ 1.43
Cash dividends per common share	\$.18	\$.18	\$.36	\$.36

See accompanying notes to consolidated financial statements.

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

	December 31, 1996	June 30, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,732	\$ 63,953
Accounts receivable, net	526,867	538,645
Inventories:		
Finished products	343,797	332,213
Work in process	263,904	269,934
Raw materials	107,143	105,078
	714,844	707,225
Prepaid expenses	14,176	16,031
Deferred income taxes	83,974	76,270
Total current assets	1,382,593	1,402,124
Plant and equipment	2,112,068	2,048,293
Less accumulated depreciation	1,119,619	1,056,516
	992,449	991,777
Excess cost of investments over net assets acquired	312,819	320,152
Investments and other assets	199,761	173,071
Total assets	\$ 2,887,622	\$ 2,887,124
LIABILITIES		
Current liabilities:		
Notes payable	\$ 145,811	\$ 173,789
Accounts payable, trade	192,351	236,871
Accrued liabilities	309,012	306,504
Accrued domestic and foreign taxes	44,185	49,718
Total current liabilities	691,359	766,882
Long-term debt	429,534	439,797
Pensions and other postretirement benefits	258,323	253,616
Deferred income taxes	25,558	24,683
Other liabilities	21,524	18,188
Total liabilities	1,426,298	1,503,166
SHAREHOLDERS' EQUITY		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	--	--
Common stock, \$.50 par value; authorized 300,000,000 shares; issued 74,410,445 shares at December 31 and 74,291,917 shares at June 30	37,205	37,146
Additional capital	166,680	165,259
Retained earnings	1,237,731	1,160,828
Currency translation adjustment	19,708	20,725
Total shareholders' equity	1,461,324	1,383,958
Total liabilities and shareholders' equity	\$ 2,887,622	\$ 2,887,124

See accompanying notes to consolidated financial statements.

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

	Six Months Ended December 31,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 103,669	\$ 105,771
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	75,807	63,969
Amortization	12,195	4,731
Deferred income taxes	(10,401)	(8,615)
Foreign currency transaction loss	918	751
Gain on sale of plant and equipment	(10,877)	(33)
Changes in assets and liabilities:		
Accounts receivable	34,538	37,897
Inventories	589	(28,384)
Prepaid expenses	2,314	1,094
Other assets	(8,784)	(7,292)
Accounts payable, trade	(45,762)	(41,819)
Accrued liabilities	(2,597)	(15,213)
Accrued domestic and foreign taxes	(5,308)	2,894
Pensions and other postretirement benefits	5,820	(5,489)
Other liabilities	3,412	479
Net cash provided by operating activities	<u>155,533</u>	<u>110,741</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions (excluding cash of \$697 in 1996 and \$68 in 1995)	(17,926)	(13,030)
Capital expenditures	(83,051)	(100,625)
Proceeds from sale of plant and equipment	8,419	7,649
Other	(14,566)	(3,468)
Net cash used in investing activities	<u>(107,124)</u>	<u>(109,474)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments) proceeds from common share activity	(2,618)	28
(Payments) proceeds from notes payable, net	(27,827)	39,766
Proceeds from long-term borrowings	171	1,016
Payments of long-term borrowings	(11,532)	(5,011)
Dividends	(26,766)	(26,677)
Net cash (used in) provided by financing activities	<u>(68,572)</u>	<u>9,122</u>
Effect of exchange rate changes on cash	(1,058)	(442)
Net (decrease) increase in cash and cash equivalents	<u>(21,221)</u>	<u>9,947</u>
Cash and cash equivalents at beginning of year	63,953	63,830
Cash and cash equivalents at end of period	<u>\$ 42,732</u> =====	<u>\$ 73,777</u> =====

See accompanying notes to consolidated financial statements.

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

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

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

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

Results by Business Segment:

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
Net sales, including intersegment sales				
Industrial:				
North America	\$ 498,975	\$ 462,576	\$ 1,002,725	\$ 936,649
International	264,603	227,405	524,363	457,168
Aerospace	206,257	134,563	402,193	269,894
Intersegment sales	(248)	(168)	(366)	(281)
Total	<u>\$ 969,587</u>	<u>\$ 824,376</u>	<u>\$ 1,928,915</u>	<u>\$ 1,663,430</u>
	=====	=====	=====	=====
Income from operations before corporate general and administrative expenses				
Industrial:				
North America	\$ 66,422	\$ 59,848	\$ 135,025	\$ 126,410
International	9,190	16,549	22,119	38,733
Aerospace	25,315	17,073	46,239	35,452
Total	<u>100,927</u>	<u>93,470</u>	<u>203,383</u>	<u>200,595</u>
Corporate general and administrative expenses	12,206	11,764	24,276	23,163
Income from operations	<u>\$ 88,721</u>	<u>\$ 81,706</u>	<u>\$ 179,107</u>	<u>\$ 177,432</u>
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except per share amounts

1. Management Representation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of December 31, 1996, the results of operations for the three and six months ended December 31, 1996 and 1995 and cash flows for the six months then ended.

2. Earnings per share

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

The Board of Directors has reaffirmed the repurchase, from time to time, of up to 2.8 million shares of the Company's common stock on the open market, at prevailing prices. The repurchase will be funded from operating cash flows and the shares will initially be held as treasury stock. The Company purchased 102,000 shares of its common stock at an average price of \$37.48 during the three-month period ended September 30, 1996. No further purchases occurred during the three-month period ended December 31, 1996.

3. Acquisitions

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

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

Both acquisitions are being accounted for by the purchase method.

4. Contingencies

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

PARKER-HANNIFIN CORPORATION

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

FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1996
 AND COMPARABLE PERIODS ENDED DECEMBER 31, 1995

CONSOLIDATED STATEMENT OF INCOME

Net sales increased 17.6 percent for the second quarter and 16.0 percent for the six-month period ended December 31, 1996. Without the effect of acquisitions the increases would have been 5.7 percent and 5.0 percent, respectively. Revenue growth is occurring in all segments of the business, with the Aerospace operations achieving significant gains.

Income from operations was \$88.7 million for the current second quarter and \$179.1 million for the current six months, an increase of 8.6 percent for the quarter and .9 percent for the six months. As a percent of sales, Income from operations decreased to 9.2 percent from 9.9 percent for the quarter and 9.3 percent from 10.7 percent for the six months. Cost of sales as a percent of sales increased to 78.5 percent from 77.8 percent for the quarter and 78.6 percent from 77.4 percent for the six-month period. The decline in gross profit is partially due to lower margins achieved by newly acquired operations, but is also the result of lower volume, and therefore lower absorption of fixed costs, within certain businesses in Europe. Selling, general and administrative expenses, as a percent of sales, remained steady for both the three and six month periods.

Interest expense increased \$4.7 million for the quarter and \$9.0 million for the six months ended December 31, 1996, compared to the same periods ended December 31, 1995, due to the increased borrowings incurred to complete recent acquisitions.

Interest and other income for the quarter ended December 31, 1996 includes \$17.1 million income from the sale of real estate in California. This income was substantially offset by \$13.3 million accrued for exit costs and charges for impaired assets related to the relocation of the corporate headquarters.

Net income increased 8.6 percent for the quarter, but decreased 2.0 percent for the half, as compared to the prior year. As a percent of sales, Net income decreased to 5.4 percent from 5.9 percent for the quarter and to 5.4 percent from 6.4 percent for the six months.

Backlog increased to \$1.4 billion at December 31, 1996 as compared to \$1.0 billion the prior year and \$1.3 billion at June 30, 1996. A majority of the increase in backlog over the prior year was due to acquisitions, while the remaining increase was the result of growth within the Aerospace Segment.

BUSINESS SEGMENT INFORMATION BY INDUSTRY

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

	Period ending December 31,	
	Three Months	Six Months
Industrial North America	7.9 %	7.1 %
Industrial International	16.4 %	14.7 %
Total Industrial	10.7 %	9.6 %

Without the effect of currency-rate changes, International sales would have increased over 20 percent for the quarter and 18 percent for the six months. Without the effect of acquisitions completed within the past 12 months, the fluctuations in Net sales would have been:

	Period ending December 31,	
	Three Months	Six Months
Industrial North America	6.1 %	5.1 %
Industrial International	(1.3) %	(0.6) %
Total Industrial	3.7 %	3.2 %

Operating income for the Industrial Segment was down 1.0 percent for the quarter and 4.8 percent for the six months. Industrial North American Operating income increased 11.0 percent for the quarter and 6.8 percent for the six months while Industrial International results decreased 44.5 percent for the quarter and 42.9 percent for the six months. Without the effect of acquisitions the total Industrial Segment Operating income would have remained relatively flat for the quarter and would have decreased 4.2 percent for the six months. As a percent of sales, Industrial North American Operating income increased to 13.3 percent from 12.9 percent for the quarter and remained at 13.5 percent for the six months. Industrial International Operating income decreased to 3.5 percent from 7.3 percent for the quarter, and 4.2 percent from 8.5 percent for the six months.

On balance, North American Industrial markets remain healthy. Demand for products from industries such as factory automation, agricultural and construction equipment, and for electromagnetic interference-prevention products offset slowness in sales of components to large-truck and semiconductor manufacturers. International earnings were affected by continued weak demand in Europe, resulting in lower capacity utilization and reduced operating margins. The International operations experienced lower-than-anticipated results from several European operations, including VOAC, an acquisition within the industrial hydraulics business. VOAC was faced with a sharp decline in demand for some of its products, due to recessionary conditions in the forest and pulp and paper industries. Sales volume within the Asia Pacific and Latin American operations remains encouraging.

Total Industrial Segment backlog increased 9.7 percent compared to December 31, 1995 and 5.5 percent since June 30, 1996. The increase from the prior year is primarily the result of acquisitions, while the growth since June 30 is internal to the North American operations.

Management expects continuing favorable economic conditions in North America and Asia Pacific, a gradual recovery in Europe and a continuation of recent improvement in selective countries in Latin America during the second half of the fiscal year.

AEROSPACE - Aerospace Segment Net sales were up 53.3 percent for the quarter and 49.0 percent for the six months. Without the effect of the Abex acquisition the increases would have been 16.0 percent and 12.6 percent, respectively. The spares, repair and overhaul business and commercial original equipment manufacturer market continue to contribute to increased growth and profitability within Aerospace.

Operating income for the Aerospace Segment increased 48.3 percent for the quarter and 30.4 percent for the six-month period. As a percent of sales Operating income declined to 12.3 percent from 12.7 percent for the quarter and to 11.5 percent from 13.1 percent for the six-month period. The decrease in margins was primarily the result of lower margins contributed by the Abex acquisition. Plans have been announced to consolidate these operations to strive for more cost-effective manufacturing and administrative functions.

The Aerospace markets are expected to continue to grow through the second half of the fiscal year. Backlog for the Aerospace Segment increased 56.3 percent from December 31, 1995, primarily as a result of the Abex acquisition, and increased 4.1 percent since June 30, 1996.

CONSOLIDATED BALANCE SHEET

Working capital increased to \$691.2 million at December 31, 1996 from \$635.2 million at June 30, 1996 with the ratio of current assets to current liabilities increasing slightly to 2.0 to 1. The increase was primarily due to decreases in Accounts payable, trade and Notes payable, partially offset by decreases in Cash and Accounts receivable, net.

Accounts receivable were lower on December 31, 1996 than on June 30, 1996 primarily due to the lower level of sales in the month of December as a result of the holidays. The December 31, 1996 Accounts receivable balance also includes a noncash receivable of \$21.5 million related to a transaction the Company entered into in December 1996 to sell real estate in California. The proceeds from the sale will be used in a Section 1031 tax-free exchange for the new corporate headquarters.

Accounts payable, trade decreased \$44.5 million since June 30, 1996 with the reduction occurring consistently throughout the operations. A portion of the decrease was the result of lower production in the month of December.

The debt to debt-equity ratio decreased to 28.2 percent at December 31, 1996 from 30.7 percent at June 30, 1996 as a result of decreases in both Notes payable and Long-term debt.

CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$155.5 million for the six months ended December 31, 1996, as compared to \$110.7 million for the same six months in 1995. Net income for fiscal 1997 included noncash Depreciation and Amortization expenses of \$88.0 million as compared to \$68.7 million in fiscal 1996. Net income for fiscal 1997 also included a net gain on sale of plant and equipment of \$10.9 million compared to a gain of less than \$.1 million in fiscal 1996.

The principal working capital items - Accounts receivable, Inventories, and Accounts payable, trade - used cash of \$10.6 million in fiscal 1997 compared to \$32.3 million in fiscal 1996. An increase in Other accrued liabilities provided cash of \$18.1 million in fiscal 1997 as compared to \$5.7 in fiscal 1996. Pensions and other postretirement benefits provided cash of \$5.8 million in fiscal 1997 compared to using cash of \$5.4 million in the same period for fiscal 1996.

Net cash used in investing activities was relatively the same for the six months ended December 31, 1996 and 1995. Capital expenditures were \$17.6 million lower in fiscal 1997, but this decrease was partially offset by an increase in cash used for Other investing activities. This increase is due to cash placed in an escrow account pending Mexican government approval of an acquisition.

Financing activities used cash of \$68.6 million for the six months ended December 31, 1996 compared to providing cash of \$9.1 million for the same period in 1995. Payments of Notes payable were \$27.8 million in fiscal 1997 while proceeds from Notes payable were \$39.8 million in fiscal 1996.

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 11 - Statement regarding computation of per share earnings.

Exhibit 27 - Financial Data Schedule

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

SIGNATURE

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

PARKER-HANNIFIN CORPORATION
(Registrant)

Michael J. Hiemstra
Michael J. Hiemstra
Vice President - Finance and Administration
and Chief Financial Officer

Date: February 13, 1997

EXHIBIT INDEX

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

PARKER-HANNIFIN CORPORATION

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
Net income applicable to common shares	\$ 52,564	\$ 48,396	\$ 103,669	\$ 105,771
Weighted average common shares outstanding for the period	74,384,515	74,157,805	74,343,790	74,114,333
Increase in weighted average from dilutive effect of exercise of stock options	558,260	488,250	569,743	649,986
Weighted average common shares, assuming issuance of the above securities	74,942,775 =====	74,646,055 =====	74,913,533 =====	74,764,319 =====
Earnings per common share:				
Primary	\$.70	\$.66	\$ 1.39	\$ 1.43
Fully diluted (A)	\$.70	\$.64	\$ 1.38	\$ 1.41

(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, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	103,669	
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