

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 September 30, 2010

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 or organization)

6035 Parkland Blvd., Cleveland, Ohio
(Address of principal executive offices)

34-0451060
(IRS Employer
Identification No.)

44124-4141
(Zip Code)

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of Common Shares outstanding at September 30, 2010 161,331,980

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	September 30,	
	2010	2009
Net sales	\$2,829,273	\$2,237,165
Cost of sales	2,137,874	1,800,945
Gross profit	691,399	436,220
Selling, general and administrative expenses	333,584	301,843
Interest expense	24,633	25,723
Other (income), net	(3,182)	(5,375)
Income before income taxes	336,364	114,029
Income taxes	87,334	40,059
Net income	249,030	73,970
Less: Noncontrolling interest in subsidiaries' earnings	1,859	477
Net income attributable to common shareholders	\$ 247,171	\$ 73,493
Earnings per share attributable to common shareholders:		
Basic	\$ 1.53	\$.46
Diluted	\$ 1.51	\$.45
Cash dividends per common share	\$.27	\$.25

See accompanying notes to consolidated financial statements.

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

	(Unaudited) September 30, 2010	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 923,836	\$ 575,526
Accounts receivable, net	1,694,313	1,599,941
Inventories:		
Finished products	509,613	465,477
Work in process	623,866	564,204
Raw materials	161,658	141,974
	<u>1,295,137</u>	<u>1,171,655</u>
Prepaid expenses	104,216	111,545
Deferred income taxes	130,094	130,129
Total current assets	4,147,596	3,588,796
Plant and equipment	4,765,948	4,553,997
Less accumulated depreciation	2,994,965	2,856,116
	<u>1,770,983</u>	<u>1,697,881</u>
Goodwill	2,915,602	2,786,334
Intangible assets, net	1,180,021	1,150,051
Other assets	695,519	687,320
Total assets	<u>\$10,709,721</u>	<u>\$ 9,910,382</u>
LIABILITIES		
Current liabilities:		
Notes payable	\$ 391,303	\$ 363,272
Accounts payable, trade	953,259	888,743
Accrued payrolls and other compensation	310,462	371,393
Accrued domestic and foreign taxes	195,455	176,349
Other accrued liabilities	431,625	405,134
Total current liabilities	2,282,104	2,204,891
Long-term debt	1,745,812	1,413,634
Pensions and other postretirement benefits	1,327,195	1,500,928
Deferred income taxes	149,701	135,321
Other liabilities	212,332	196,208
Total liabilities	5,717,144	5,450,982
EQUITY		
Shareholders' equity:		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	—	—
Common stock, \$.50 par value; authorized 600,000,000 shares; issued 181,046,128 shares at September 30 and June 30	90,523	90,523
Additional capital	664,265	637,442
Retained earnings	6,284,148	6,086,545
Accumulated other comprehensive (loss)	(910,884)	(1,208,561)
Treasury shares, at cost; 19,714,148 shares at September 30 and 19,790,110 at June 30	(1,233,107)	(1,237,984)
Total shareholders' equity	4,894,945	4,367,965
Noncontrolling interests	97,632	91,435
Total equity	4,992,577	4,459,400
Total liabilities and equity	<u>\$10,709,721</u>	<u>\$ 9,910,382</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2010	2009
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 249,030	\$ 73,970
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	57,738	64,165
Amortization	27,248	28,798
Share incentive plan compensation	29,242	26,436
Deferred income taxes	31,033	(16,011)
Foreign currency transaction loss (gain)	7,934	(4,096)
(Gain) on sale of plant and equipment	(209)	(2,194)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(20,281)	(2,682)
Inventories	(68,538)	17,863
Prepaid expenses	10,764	42,962
Other assets	(7,243)	25,690
Accounts payable, trade	33,863	110
Accrued payrolls and other compensation	(68,653)	(82,069)
Accrued domestic and foreign taxes	13,099	29,760
Other accrued liabilities	8,843	35,792
Pensions and other postretirement benefits	(169,958)	25,177
Other liabilities	(11,032)	(3,618)
Net cash provided by operating activities	<u>122,880</u>	<u>260,053</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisitions (less acquired cash of \$1 in 2010)	(8,129)	
Capital expenditures	(52,690)	(30,099)
Proceeds from sale of plant and equipment	2,169	4,422
Other	(318)	(1,334)
Net cash (used in) investing activities	<u>(58,968)</u>	<u>(27,011)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from exercise of stock options	3,585	2,868
(Payments for) common shares	(10,000)	(5,000)
Tax benefit from share incentive plan compensation	3,110	886
(Payments of) notes payable, net	(539)	(190,983)
Proceeds from long-term borrowings	294,551	679
(Payments of) long-term borrowings	(60)	(6,975)
Dividends	(43,648)	(40,171)
Net cash provided by (used in) financing activities	<u>246,999</u>	<u>(238,696)</u>
Effect of exchange rate changes on cash	37,399	7,892
Net increase in cash and cash equivalents	348,310	2,238
Cash and cash equivalents at beginning of year	575,526	187,611
Cash and cash equivalents at end of period	<u>\$ 923,836</u>	<u>\$ 189,849</u>

See accompanying notes to consolidated financial statements.

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

The Company operates in three reportable business segments: Industrial, Aerospace and Climate & Industrial Controls. The Industrial Segment is the largest and includes a significant portion of 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, agricultural and military machinery and equipment. Sales are made directly 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, business jet, 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.

Climate & Industrial Controls - This segment manufactures motion-control systems and components for use primarily in the refrigeration and air conditioning and transportation industries.

	Three Months Ended September 30,	
	2010	2009
Net sales		
Industrial:		
North America	\$1,064,915	\$ 783,085
International	1,092,981	850,250
Aerospace	436,680	416,856
Climate & Industrial Controls	234,697	186,974
Total	<u>\$2,829,273</u>	<u>\$2,237,165</u>
Segment operating income		
Industrial:		
North America	\$ 189,362	\$ 76,171
International	183,800	61,823
Aerospace	43,776	53,146
Climate & Industrial Controls	21,552	10,497
Total segment operating income	438,490	201,637
Corporate general and administrative expenses	33,354	26,302
Income from operations before interest expense and other	405,136	175,335
Interest expense	24,633	25,723
Other expense	44,139	35,583
Income before income taxes	<u>\$ 336,364</u>	<u>\$ 114,029</u>

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

1. Management representation

In the opinion of the management 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 September 30, 2010, the results of operations for the three months ended September 30, 2010 and 2009 and cash flows for the three months then ended. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2010 Annual Report on Form 10-K. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year.

The Company has evaluated subsequent events that have occurred through the date these financial statements were issued. No subsequent events occurred that required either adjustment to or disclosure in these financial statements.

2. Product warranty

In the ordinary course of business, the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual as of September 30, 2010 and June 30, 2010 is immaterial to the financial position of the Company and the change in the accrual for both the current-year quarter and prior-year quarter was immaterial to the Company's results of operations and cash flows.

3. Earnings per share

The following table presents a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three months ended September 30, 2010 and 2009.

	Three Months Ended September 30,	
	2010	2009
<u>Numerator:</u>		
Net income attributable to common shareholders	\$ 247,171	\$ 73,493
<u>Denominator:</u>		
Basic - weighted average common shares	161,272,536	160,629,291
Increase in weighted average from dilutive effect of stock-based awards	2,834,684	1,411,494
Diluted - weighted average common shares, assuming exercise of stock-based awards	164,107,220	162,040,785
Basic earnings per share	\$ 1.53	\$.46
Diluted earnings per share	\$ 1.51	\$.45

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

3. Earnings per share, continued

At September 30, 2010 and 2009, 4,566,836 and 10,031,236 common shares, respectively, subject to stock-based awards were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

4. Share repurchase program

The Company has a program to repurchase its common shares. Under the program, the Company is authorized to repurchase an amount of common shares each fiscal year equal to the greater of 7.5 million shares or five percent of the shares outstanding as of the end of the prior fiscal year. Repurchases are funded primarily from operating cash flows and commercial paper borrowings, and the shares are initially held as treasury stock. The Company repurchased 161,364 shares of its common stock at an average price of \$61.97 during the three-month period ended September 30, 2010 under this program.

5. Business realignment charges

During the first quarter of fiscal 2011, the Company recorded a \$3.1 million charge for the costs to structure its businesses in light of current and anticipated customer demand. The charge primarily consists of severance costs related to plant closures as well as general work force reductions implemented by various operating units throughout the world. The Company believes the realignment actions will positively impact future results of operations but will have no material effect on liquidity and sources and uses of capital. The Industrial Segment recognized \$2.8 million of the total charge primarily for severance costs related to approximately 170 employees and the Aerospace Segment recognized \$0.3 million of the total charge primarily for severance costs related to approximately 20 employees. The charge is presented primarily in the Cost of sales caption in the Consolidated Statement of Income for the three months ended September 30, 2010. As of September 30, 2010, \$1.1 million of severance payments have been made with the majority of the remaining payments expected to be made by December 31, 2010.

During the first quarter of fiscal 2010, the Company recorded a \$19.3 million charge for the costs to structure its businesses in light of current and anticipated customer demand. The charge primarily consists of severance costs related to plant closures as well as general work force reductions implemented by various operating units throughout the world. The Company believes the realignment actions will positively impact future results of operations but will have no material effect on liquidity and sources and uses of capital. The Industrial Segment recognized \$17.0 million of the total charge primarily for severance costs related to approximately 820 employees and the Climate & Industrial Controls Segment recognized \$2.3 million of the total charge primarily for severance costs related to approximately 235 employees. The charge is presented primarily in the Cost of sales caption in the Consolidated Statement of Income for the three months ended September 30, 2009. All required severance payments have been made.

Additional charges to be recognized in future periods related to specific actions discussed above are not expected to be material.

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

6. Equity

Changes in equity for the three months ended September 30, 2010 and September 30, 2009 are as follows:

	Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance June 30, 2010	\$4,367,965	\$ 91,435	\$4,459,400
Net income	247,171	1,859	249,030
Other comprehensive income:			
Foreign currency translation	279,400	4,338	283,738
Retirement benefits plan activity	18,218		18,218
Net realized loss	59		59
Total comprehensive income	544,848	6,197	551,045
Dividends paid	(43,648)		(43,648)
Stock incentive plan activity	35,780		35,780
Shares purchased at cost	(10,000)		(10,000)
Balance September 30, 2010	<u>\$4,894,945</u>	<u>\$ 97,632</u>	<u>\$4,992,577</u>
Balance June 30, 2009	\$4,268,199	\$ 82,241	\$4,350,440
Net income	73,493	477	73,970
Other comprehensive income:			
Foreign currency translation	137,968	4,911	142,879
Retirement benefits plan activity	8,887		8,887
Net unrealized (loss)	(36)		(36)
Total comprehensive income	220,312	5,388	225,700
Dividends paid	(40,171)		(40,171)
Stock incentive plan activity	29,575		29,575
Shares purchased at cost	(5,000)		(5,000)
Retirement benefits plan activity	9,069		9,069
Balance September 30, 2009	<u>\$4,481,984</u>	<u>\$ 87,629</u>	<u>\$4,569,613</u>

With regard to other comprehensive income for shareholders' equity, foreign currency translation is net of taxes of \$29,884 and \$9,995 for the three months ended September 30, 2010 and September 30, 2009, respectively. Retirement benefits plan activity is net of taxes of \$10,641 and \$5,022 for the three months ended September 30, 2010 and September 30, 2009, respectively. Net realized loss relates to hedging activities and is net of taxes of \$36 for the three months ended September 30, 2010. Net unrealized (loss) relates to marketable equity securities and hedging activities and is net of taxes of \$20 for the three months ended September 30, 2009. In Note 7 of the Company's Quarterly Report on Form 10-Q for the first quarter of fiscal 2010, net income was inadvertently excluded from the reported amount of total comprehensive income. Such amount has been corrected in the table above.

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

7. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2010 are as follows:

	Industrial Segment	Aerospace Segment	Climate & Industrial Controls Segment	Total
Balance June 30, 2010	\$2,380,640	\$ 98,856	\$306,838	\$2,786,334
Acquisitions			1,183	1,183
Foreign currency translation	123,128	36	4,493	127,657
Goodwill adjustments	428			428
Balance September 30, 2010	<u>\$2,504,196</u>	<u>\$ 98,892</u>	<u>\$312,514</u>	<u>\$2,915,602</u>

Goodwill adjustments primarily represented final adjustments to the purchase price allocation for acquisitions during the measurement period subsequent to the acquisition date.

Goodwill is tested for impairment on an annual basis, as of December 31, and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may not exceed its fair value. No such events or circumstances occurred during the three months ended September 30, 2010.

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

	September 30, 2010		June 30, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 120,431	\$ 52,914	\$ 114,935	\$ 48,682
Trademarks	301,990	93,919	289,017	83,936
Customer lists and other	1,180,404	275,971	1,125,782	247,065
Total	<u>\$ 1,602,825</u>	<u>\$ 422,804</u>	<u>\$ 1,529,734</u>	<u>\$ 379,683</u>

Total intangible amortization expense for the three months ended September 30, 2010 was \$26,663. The estimated amortization expense for the five years ending June 30, 2011 through 2015 is \$104,369, \$95,325, \$87,828, \$82,274 and \$79,564, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. No such events or circumstances occurred during the three months ended September 30, 2010.

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

8. Retirement benefits

Net periodic pension cost recognized included the following components:

	Three Months Ended September 30,	
	2010	2009
Service cost	\$ 21,870	\$ 19,067
Interest cost	43,271	43,207
Expected return on plan assets	(48,733)	(43,332)
Amortization of prior service cost	3,129	3,155
Amortization of net actuarial loss	25,798	15,507
Amortization of initial net (asset) obligation	(14)	6
Net periodic benefit cost	<u>\$ 45,321</u>	<u>\$ 37,610</u>

Postretirement benefit cost recognized included the following components:

	Three Months Ended September 30,	
	2010	2009
Service cost	\$ 139	\$ 151
Interest cost	982	926
Net amortization and deferral and other	(114)	(114)
Net periodic benefit cost	<u>\$ 1,007</u>	<u>\$ 963</u>

During the first three months of fiscal 2011, the Company made approximately \$200 million in cash contributions to its qualified defined benefit plans and expects to contribute approximately \$50 million in cash to its qualified defined benefit plans during the last nine months of fiscal 2011. The majority of the cash contributions are discretionary.

9. Debt

During the first quarter of fiscal 2011, the Company issued \$300,000 aggregate principal amount of Medium-Term Notes. The notes are due in a balloon payment in September 2022 and carry an annual interest rate of 3.5%. Interest payments are due semiannually. The Company used the net proceeds from the Medium-Term Note issuance to repay outstanding commercial paper borrowings.

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

10. Income taxes

As of September 30, 2010, the Company had gross unrecognized tax benefits of \$75,624. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$73,196. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, was \$9,376.

The Company and its subsidiaries file income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is no longer subject to examinations of its federal income tax returns by the Internal Revenue Service for fiscal years through 2007. All significant state and local and foreign tax returns have been examined for fiscal years through 2001. The Company does not anticipate that the total amount of unrecognized tax benefits will significantly change due to the settlement of examinations and the expiration of statutes of limitations within the next twelve months.

11. Financial instruments

The Company's financial instruments consist primarily of Cash and cash equivalents, long-term investments, and Accounts receivable, net as well as obligations under Accounts payable, trade, Notes payable and Long-term debt. Due to their short-term nature, the carrying values for Cash and cash equivalents, Accounts receivable, net, Accounts payable, trade and Notes payable approximate fair value. The carrying value of Long-term debt (excluding leases) was \$2,118,788 and \$1,758,845 at September 30, 2010 and June 30, 2010, respectively, and was estimated to have a fair value of \$2,362,849 and \$1,925,397 at September 30, 2010 and June 30, 2010, respectively. The fair value of Long-term debt was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

The Company utilizes derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges, to manage foreign currency transaction and translation risk. The derivative financial instrument contracts are with major investment grade financial institutions and the Company does not anticipate any material non-performance by any of the counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company's euro bonds and Japanese yen credit facility have been designated as a hedge of the Company's net investment in certain foreign subsidiaries. The translation of the euro bonds and Japanese yen credit facility into U.S. dollars is recorded in accumulated other comprehensive income (loss) and remains there until the underlying net investment is sold or substantially liquidated.

Derivative financial instruments are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Cost of sales caption in the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through Accumulated other comprehensive income (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings.

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

11. Financial instruments, continued

In September 2010, the Company entered into 10-year cross-currency swap contracts with an aggregate notional amount of approximately €235 million and designated the cross-currency swap contracts as a hedge of the Company's net investment in certain foreign subsidiaries whose functional currency is the euro. Also in September 2010, the Company entered into forward exchange contracts with an aggregate notional amount of €200 million. The forward exchange contracts were entered into to hedge against foreign currency movements prior to the repayment of the Company's euro bonds that mature in November 2010.

The following summarizes the location and fair value of derivative financial instruments reported in the Consolidated Balance Sheet as of September 30, 2010 and June 30, 2010:

	<u>Balance Sheet Caption</u>	<u>September 30, 2010</u>	<u>June 30, 2010</u>
Net investment hedges			
Cross-currency swap contracts	Other liabilities	\$ 23,990	\$
Cash flow hedges			
Costless collar contracts	Accounts receivable	503	1,624
Costless collar contracts	Other accrued liabilities	3,683	2,334
Forward exchange contracts	Accounts receivable	15,803	

The cross-currency swap contracts have been designated as hedging instruments. The costless collar contracts and forward exchange contracts have not been designated as hedging instruments and are considered to be economic hedges of forecasted transactions.

Gains (losses) on derivative financial instruments that were recorded in the Consolidated Statement of Income are as follows:

	<u>Three Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Costless collar contracts	\$(3,536)	\$(3,535)
Forward exchange contracts	15,803	

Gains (losses) on derivative and non-derivative financial instruments that were recorded in accumulated other comprehensive income (loss) in the Consolidated Balance Sheet are as follows:

	<u>Three Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Cross-currency swap contracts	\$(14,821)	\$
Foreign denominated debt	(36,560)	(17,489)

There was no ineffectiveness of the cross-currency swap contracts or foreign denominated debt, nor were any portion of these financial instruments excluded from the effectiveness testing, during the three months ending September 30, 2010 and 2009.

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

12. Fair value measurement

The fair value of financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2010 follows:

	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>				
Available for sale securities	\$ 3,542	\$	\$	\$ 3,542
Derivatives	16,306		16,306	
<u>Liabilities:</u>				
Deferred compensation plans	110,364		110,364	
Derivatives	27,673		27,673	

The fair value of financial assets and liabilities that were measured at fair value on a recurring basis at June 30, 2010 follows:

	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>				
Available for sale securities	\$ 3,542	\$	\$	\$ 3,542
Derivatives	1,624		1,624	
<u>Liabilities:</u>				
Deferred compensation plans	112,189		112,189	
Derivatives	2,334		2,334	

Available for sale securities consist of an investment in stock in an electronic and electrical equipment company the fair value of which was estimated using a market and income approach with equal weighting given to each approach. The market approach estimates a fair value by applying price-to-earnings multiples for similar companies that are publicly traded while the income approach estimates a fair value using a discounted cash flow analysis. There were no purchases, sales, issuances or settlements of available for sale securities during the three months ended September 30, 2010.

The fair value of derivatives is calculated using a present value cash flow model that utilizes market observable inputs, including both spot and forward prices for the same underlying currencies, and have been adjusted to reflect the credit risk of either the Company or the counterparty.

The Company has established nonqualified deferred compensation programs that permit officers, directors and certain management employees to defer a portion of their compensation, on a pre-tax basis, until their termination of employment. Changes in the value of the compensation deferred under these programs are recognized based on the fair value of the participant's investment elections.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010
AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 2009

OVERVIEW

The Company is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets.

The Company's order rates provide a near-term perspective of the Company's outlook particularly when viewed in the context of prior and future order rates. The Company publishes its order rates on a quarterly basis. The lead time between the time an order is received and revenue is realized generally ranges from one day to 12 weeks for mobile and industrial orders and from one day to 18 months for aerospace orders. The Company believes the leading economic indicators of these markets that have a strong correlation to the Company's future order rates are as follows:

- Purchasing Managers Index (PMI) on manufacturing activity specific to regions around the world with respect to most mobile and industrial markets;
- Aircraft miles flown and revenue passenger miles for commercial aerospace markets and Department of Defense spending for military aerospace markets; and
- Housing starts with respect to the North American residential air conditioning market and certain mobile construction markets.

A PMI above 50 indicates that the manufacturing activity specific to a region around the world in the mobile and industrial markets is expanding. A PMI below 50 indicates the opposite. The PMI for the United States at the end of September 2010 was 54.4, the PMI for the Eurozone countries at the end of September 2010 was 53.7 and the PMI at the end of September 2010 for China was 52.9. Since June 30, 2010, the PMI for the United States and the Eurozone countries have declined and the PMI for China has increased.

Aircraft miles flown have increased approximately six percent and revenue passenger miles have increased approximately four percent from their comparable fiscal 2010 levels. The Company anticipates that Department of Defense spending in fiscal 2011 will be about two percent higher than the comparable fiscal 2010 level.

Housing starts in September 2010 were approximately four percent higher than housing starts in September 2009.

The Company also believes that there is a high negative correlation between interest rates and industrial manufacturing activity. Increases in interest rates typically have a negative impact on industrial production thereby lowering future order rates while decreases in interest rates typically have the opposite effect.

The Company remains focused on maintaining its financial strength by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash. The Company's Win Strategy initiatives relating to growth and margin improvement as well as the implementation of a number of business realignment initiatives continue to help meet this objective.

The financial condition of the Company remains strong. The Company continues to generate substantial cash flows from operations, has controlled capital spending and has proactively managed working capital. The Company has been able to borrow needed funds at affordable interest rates as demonstrated by the issuance of \$300 million aggregate principal amount of Medium-Term Notes in September 2010, and currently has a debt to debt-shareholders' equity ratio of 30.4 percent.

While the uncertainty of the current worldwide economic environment necessitates that the Company continue to concentrate its efforts on maintaining financial strength, the Company believes many opportunities for growth remain available. The Company will evaluate these opportunities as appropriate in the current economic environment. Major opportunities for growth are as follows:

- Leveraging the Company's broad product line with customers desiring to consolidate their vendor base and outsource system engineering;
- Marketing systems solutions for customer applications;
- Expanding the Company's business presence outside of North America;
- Introducing new products, including those resulting from the Company's innovation initiatives;
- Completing strategic acquisitions in a consolidating motion and control industry; and
- Expanding the Company's vast distribution network.

During the first quarter of fiscal 2011, the Company completed one acquisition. Acquisitions will continue to be considered from time to time to the extent there is a strong strategic fit, while at the same time, maintaining the Company's strong financial position. The Company will also continue to assess its existing businesses and initiate efforts to divest businesses that are not considered to be a good long-term strategic fit for the Company. Future business divestitures could have a negative effect on the Company's results of operations.

The discussion below is structured to separately discuss the Consolidated Statement of Income, Results by Business Segment, Consolidated Balance Sheet and Consolidated Statement of Cash Flows.

CONSOLIDATED STATEMENT OF INCOME

<u>(in millions)</u>	Three Months Ended	
	September 30,	
	<u>2010</u>	<u>2009</u>
Net sales	\$2,829.3	\$2,237.2
Gross profit	\$ 691.4	\$ 436.2
Gross profit margin	24.4%	19.5%
Selling, general and administrative expenses	\$ 333.6	\$ 301.8
Selling general and administrative expenses, as a percent of sales	11.8%	13.5%
Interest expense	\$ 24.6	\$ 25.7
Other (income), net	\$ (3.2)	\$ (5.4)
Effective tax rate	26.0%	35.1%
Net income attributable to common shareholders	\$ 247.2	\$ 73.5

Net sales for the first quarter of fiscal 2011 increased 26.5 percent over the prior-year first quarter reflecting higher volume experienced in all Segments, with the largest increase in net sales occurring in the Industrial Segment. Acquisitions made in the last 12 months did not materially impact the sales level in the first quarter of fiscal 2011. The effect of currency rate changes decreased net sales by approximately \$25 million in the first quarter of fiscal 2011.

Gross profit margin increased primarily due to the higher sales volume, resulting in manufacturing efficiencies as well as lower business realignment charges recorded in the current-year quarter.

Selling, general and administrative expenses increased primarily due to the higher sales volume as well as higher incentive compensation, partially offset by benefits realized from past business realignment activities.

Interest expense for the current-year quarter decreased 4.2 percent from the prior-year first quarter primarily due to lower average debt outstanding in the current-year quarter.

Other (income), net in the prior-year quarter included income of \$3.2 million related to the restructuring of the Company's executive life insurance program.

Effective tax rate for the current-year quarter was lower than the prior-year quarter primarily due to discrete tax items in the current-year quarter having a more favorable impact on the tax rate than those recorded in the prior-year quarter. Discrete tax items primarily relate to the settlement of tax audits. The Company expects the effective tax rate for fiscal 2011 to be approximately 29 percent.

RESULTS BY BUSINESS SEGMENT

Industrial Segment

<u>(in millions)</u>	Three months ended September 30,	
	2010	2009
Net sales		
North America	\$1,064.9	\$ 783.1
International	1,093.0	850.3
Operating income		
North America	189.4	76.2
International	\$ 183.8	\$ 61.8
Operating income, as a percent of sales		
North America	17.8%	9.7%
International	16.8%	7.3%
Backlog	\$1,596.9	\$1,310.7

The Industrial Segment operations experienced the following percentage changes in net sales in the current-year compared to the equivalent prior-year period:

	Three months ended September 30, 2010
Industrial North America – as reported	36.0%
Acquisitions	0.0%
Currency	0.4%
Industrial North America – without acquisitions and currency	35.6%
Industrial International – as reported	28.5%
Acquisitions	0.0%
Currency	(3.2)%
Industrial International – without acquisitions and currency	31.7%
Total Industrial Segment – as reported	32.1%
Acquisitions	0.0%
Currency	(1.5)%
Total Industrial Segment – without acquisitions and currency	33.6%

The above presentation reconciles the percentage changes in net sales of the Industrial operations reported in accordance with U.S. GAAP to percentage changes in net sales adjusted to remove the effects of acquisitions made within the prior four fiscal quarters as well as the effects of currency exchange rates. The effects of acquisitions and currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage changes in net sales on a comparable basis from period to period.

Excluding the effects of acquisitions and currency exchange rates, the increase in Industrial North American sales reflects higher demand experienced from distributors and end-users in virtually all markets, particularly in the construction equipment, heavy-duty truck, farm and agriculture equipment, machine tool and semiconductor markets. The increase in Industrial International sales is primarily attributed to higher end-user demand experienced across most markets, with the largest increase in volume occurring in Europe.

The increase in both Industrial North American and Industrial International margins is primarily due to the higher sales volume, benefits realized from past restructuring initiatives, and lower business realignment expenses in the current-year quarter.

Included in Industrial North American operating income are business realignment charges of \$2.3 million and \$4.7 million in the current-year quarter and prior-year quarter, respectively. Included in Industrial International operating income are business realignment charges of \$0.5 million and \$12.3 million in the current-year quarter and prior-year quarter, respectively. The business realignment expenses consist primarily of severance costs resulting from plant closures as well as general reductions in the work force. The Company anticipates realizing cost savings resulting from the severance costs taken in the current-year quarter of approximately \$2.0 million in fiscal 2011 and \$3.0 million in fiscal 2012. The amount of savings that is actually realized may be lower than expected, particularly if the Company needs to hire employees in the future as a result of an increase in end-user demand. The Company expects to continue to take the actions necessary to structure appropriately the operations of the Industrial Segment. Such actions may include the necessity to record additional business realignment charges in fiscal 2011, the timing and amount of which have not been finalized at this time.

The increase in backlog from the prior-year quarter is primarily due to higher order rates in both the Industrial North American and Industrial International businesses. The increase in backlog from the June 30, 2010 amount of \$1,505.0 million is primarily due to higher order rates for Industrial International businesses. The Company anticipates Industrial North American sales for fiscal 2011 will increase between 13.4 percent and 16.4 percent from the fiscal 2010 level and Industrial International sales for fiscal 2011 will increase between 13.3 percent and 16.3 percent from the fiscal 2010 level. The expected higher sales levels for fiscal 2011 are primarily due to higher end-user demand expected in most markets. Industrial North American operating margins for fiscal 2011 are expected to range from 16.4 percent to 17.0 percent and Industrial International operating margins are expected to range from 15.2 percent to 16.1 percent.

Aerospace Segment

<u>(in millions)</u>	Three months ended September 30,	
	2010	2009
Net sales	\$ 436.7	\$ 416.9
Operating income	\$ 43.8	\$ 53.1
Operating income, as a percent of sales	10.0%	12.7%
Backlog	\$1,601.0	\$1,496.4

The increase in net sales in the Aerospace Segment is primarily due to an increase in both commercial original equipment manufacturer (OEM) and aftermarket volume partially offset by lower military OEM and aftermarket volume. The decline in margin was primarily due to a higher concentration of commercial OEM volume in the current-year quarter product mix as well as higher engineering development and operating costs.

The increase in backlog from the prior-year quarter and the June 30, 2010 amount of \$1,474.4 million was primarily due to higher order rates in the commercial OEM businesses. For fiscal 2011, sales are expected to increase between 4.1 percent and 6.7 percent from the fiscal 2010 level primarily due to anticipated higher commercial OEM and aftermarket volume. Operating margins are expected to range from 12.0 percent to 12.8 percent. A higher than expected concentration of commercial OEM volume in future product mix and higher than expected new product development costs could result in lower margins.

Climate & Industrial Controls Segment

<u>(in millions)</u>	Three months ended September 30,	
	2010	2009
Net sales	\$234.7	\$187.0
Operating income	\$ 21.6	\$ 10.5
Operating income, as a percent of sales	9.2%	5.6%
Backlog	\$154.7	\$121.5

The increase in net sales in the Climate & Industrial Controls Segment is primarily due to higher end-user demand in the residential air conditioning, heavy-duty truck and automotive markets. Margins in the current-year quarter were higher than the prior-year level primarily due to the higher sales volume resulting in manufacturing efficiencies and a favorable product mix. Included in the prior-year quarter operating income were business realignment charges of \$2.3 million. The Company may take further actions to structure appropriately the operations of the Climate & Industrial Controls Segment. Such actions may include the necessity to record business realignment charges in fiscal 2011.

The increase in backlog from the prior-year quarter is primarily due to higher order rates in the automotive, heavy-duty truck and residential air conditioning markets. A decline in order rates in the residential air conditioning market resulted in a decline in backlog from the June 30, 2010 amount of \$161.9 million. For fiscal 2011, sales are expected to increase between 12.3 percent and 15.3 percent from the fiscal 2010 level and operating margins are expected to range from 8.8 percent to 9.4 percent.

Corporate and Other

Corporate general and administrative expenses increased to \$33.4 million in the current-year quarter compared to \$26.3 million in the prior-year quarter. As a percent of sales, corporate general and administrative expenses for the current-year quarter and prior-year quarter was 1.2 percent. The higher expense in the current-year quarter is primarily due to higher incentive compensation expenses.

Other expense (in the Business Segment Results) included the following:

<u>(in millions)</u>	Three months ended	
	September 30,	
	2010	2009
Expense (income)		
Currency transaction (gain) loss	\$ (0.1)	\$ 2.9
Stock compensation	25.1	23.1
Pensions	18.2	11.2
Other items, net	0.9	(1.6)
	<u>\$44.1</u>	<u>\$35.6</u>

The increase in pension expense in the current-year quarter primarily results from a higher amount of actuarial losses, primarily related to the domestic defined benefit plans, being recognized in the current-year quarter as compared to the prior-year quarter.

CONSOLIDATED BALANCE SHEET

<u>(dollars in millions)</u>	September 30,	June 30,
	2010	2010
Accounts receivable	\$ 1,694.3	\$1,599.9
Inventories	1,295.1	1,171.7
Plant and equipment, net of accumulated depreciation	1,771.0	1,697.9
Goodwill	2,915.6	2,786.3
Intangible assets, net	1,180.0	1,150.1
Accounts payable, trade	953.3	888.7
Accrued payrolls and other compensation	310.5	371.4
Shareholders' equity	4,894.9	4,368.0
Working capital	\$ 1,865.5	\$1,383.9
Current ratio	1.82	1.63

Accounts receivable are primarily receivables due from customers for sales of product (\$1,513 million at September 30, 2010 and \$1,443 million at June 30, 2010). Days sales outstanding relating to trade accounts receivable was 50 days at September 30, 2010 and 48 days at June 30, 2010. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

Inventories increased \$123 million, primarily in the Industrial Segment, in response to positive order trends. Days supply of inventory increased to 61 days from 58 days at June 30, 2010.

Accounts payable, trade increased from June 30, 2010 primarily due to increased production levels and the timing of payments.

Accrued payrolls and other compensation decreased primarily due to the payment during the current-year quarter of incentive compensation amounts that had been accrued as of June 30, 2010.

Shareholders' equity included an increase of \$279 million related to foreign currency translation adjustments and primarily affected Accounts receivable, Inventories, Plant and equipment, Goodwill, Intangible assets, Accounts payable, trade and Long-term debt.

CONSOLIDATED STATEMENT OF CASH FLOWS

<u>(in millions)</u>	<u>Three months ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash provided by (used in):		
Operating activities	\$ 122.9	\$ 260.0
Investing activities	(59.0)	(27.0)
Financing activities	247.0	(238.7)
Effect of exchange rates	37.4	7.9
Net increase in cash and cash equivalents	348.3	2.2

Cash flows from operating activities decreased primarily as a result of a \$200 million voluntary contribution made to the Company's qualified defined benefit pension plan. Also, cash flow used for working capital increased primarily due to higher inventory and accounts receivable levels. The Company continues to focus on managing its inventory and other working capital requirements.

Cash flow used in investing activities increased as economic uncertainties in the prior-year quarter resulted in the Company reducing its acquisition activity and limiting capital expenditures. The Company completed one acquisition and increased capital expenditures in the current-year quarter.

Cash flow used in financing activities in the current-year quarter included net cash proceeds of approximately \$294.5 million from the issuance of Medium-Term Notes that mature in September 2022. The net cash proceeds were used to repay outstanding commercial paper borrowings.

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

<u>Debt to Debt-Shareholders' Equity Ratio (in millions)</u>	<u>September 30,</u> <u>2010</u>	<u>June 30,</u> <u>2010</u>
Debt	\$ 2,137	\$ 1,777
Debt & Shareholders' equity	7,032	6,145
Ratio	30.4%	28.9%

The Company has a line of credit totaling \$1,500 million through a multi-currency revolving credit agreement with a group of banks, of which \$1,482 million was available as of September 30, 2010. The credit agreement expires in September 2012; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. A portion of the credit agreement supports the Company's commercial paper note program, which is rated A-1 by Standard & Poor's, P-1 by Moody's and F-1 by Fitch Ratings. These ratings are considered investment grade. The revolving credit agreement requires a facility fee of 4.5/100ths of one percent of the commitment per annum at the Company's present rating level. The revolving credit agreement contains provisions that increase the facility fee of the credit agreement in the event the Company's credit ratings are lowered. Although a lowering of the Company's credit ratings would likely increase the cost of future debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company's credit agreements and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the credit agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. At the Company's present rating level, the most restrictive financial covenants provide that the ratio of secured debt to net tangible assets be less than 10 percent. However, the Company currently does not have secured debt in its debt portfolio. The Company is in compliance with all covenants and expects to remain in compliance during the term of the credit agreements and indentures.

The Company's principal sources of liquidity are its cash flows provided from operating activities and borrowings either from or directly supported by its line of credit. The Company's ability to borrow has not been affected by a lack of general credit and the Company does not foresee any impediments to borrow funds at favorable interest rates in the near future. The Company expects that its ability to generate cash from its operations and ability to borrow directly from its line of credit or sources directly supported by its line of credit should be sufficient to support working capital needs, planned growth, benefit plan funding, dividend payments and share repurchases in the near term.

CRITICAL ACCOUNTING POLICIES

Impairment of Goodwill and Long-Lived assets - Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may exceed its fair value. For the Company, a reporting unit is one level below the operating segment level. Determining whether an impairment has occurred requires the valuation of the respective reporting unit, which the Company has consistently estimated using a discounted cash flow model. The Company believes that the use of a discounted cash flow model results in the most accurate calculation of a reporting unit's fair value because the market value for a reporting unit is not readily available. The discounted cash flow analysis requires several assumptions, including future sales growth and operating margin levels, as well as assumptions regarding future industry specific market conditions. Each reporting unit regularly prepares discrete operating forecasts and uses these forecasts as the basis for the assumptions used in the discounted cash flow analyses. The Company has consistently used a discount rate commensurate with its cost of capital, adjusted for inherent business risks and has consistently used a terminal growth factor of 2.5 percent. The Company also reconciles the estimated aggregate fair value of its reporting units as derived from the discounted cash flow analyses to the Company's overall market capitalization.

The Company continually monitors its reporting units for impairment indicators and updates assumptions used in the most recent calculation of the fair value of a reporting unit as appropriate. The Company is unaware of any current market trends that are contrary to the assumptions made in the most recent estimation of the fair value of any of its reporting units. If the recovery of the current economic environment is not consistent with the Company's current expectations, it is possible that the estimated fair value of certain reporting units could fall below their carrying value resulting in the necessity to conduct additional goodwill impairment tests.

Long-lived assets held for use, which primarily includes finite lived intangible assets and property, plant and equipment, are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition are less than their net carrying value. The long-term nature of these assets requires the estimation of their cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test. During the first three months of fiscal 2011, there were no events or circumstances that indicated that the net carrying value of the Company's long-lived assets was not recoverable.

FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the Company, including its individual segments, may differ materially from current expectations, depending on economic conditions within its mobile, industrial and aerospace markets, and the Company's ability to maintain and achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins, actions taken to combat the effects of the current economic environment, and growth, innovation and global diversification initiatives. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance.

Among other factors which may affect future performance are:

- changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, and changes in contract cost and revenue estimates for new development programs,
- uncertainties surrounding timing, successful completion or integration of acquisitions,
- ability to realize anticipated costs savings from business realignment activities,
- threats associated with and efforts to combat terrorism,
- uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals,
- competitive market conditions and resulting effects on sales and pricing,
- increases in raw material costs that cannot be recovered in product pricing,
- the Company's ability to manage costs related to insurance and employee retirement and health care benefits, and
- global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability.

The Company makes these statements as of the date of this disclosure, and undertakes no obligation to update them unless otherwise required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company utilizes derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts and cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges, to manage foreign currency transaction and translation risk. The derivative financial instrument contracts are with major investment grade financial institutions and the Company does not anticipate any material non-performance by any of the counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Notes 11 and 12 to the Consolidated Financial Statements. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive income (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive income (loss) and remains there until the underlying net investment is sold or substantially liquidated.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the first quarter of fiscal 2011. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective.

There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings. Parker ITR S.r.l. (Parker ITR), a subsidiary acquired on January 31, 2002, has been the subject of a number of lawsuits and regulatory investigations. The lawsuits and investigations relate to allegations that for a period of up to 21 years, the Parker ITR business unit that manufactures and sells marine hose, typically used in oil transfer, conspired with competitors in unreasonable restraint of trade to artificially raise, fix, maintain or stabilize prices, rig bids and allocate markets and customers for marine oil and gas hose in the United States and in other jurisdictions. Parker ITR and the Company have cooperated with all of the regulatory authorities investigating the activities of the Parker ITR business unit that manufactures and sells marine hose and continue to cooperate with the investigations that remain ongoing. All of the lawsuits and several of the investigations have concluded. The following investigations remain pending or were resolved after June 30, 2010.

Brazilian competition authorities commenced their investigations on November 14, 2007. Parker ITR filed a procedural defense in January 2008. The Brazilian competition authorities have not yet responded to Parker ITR's filing. The Brazilian competition authorities' investigation is ongoing and the Company and Parker ITR continue to cooperate. The Brazilian authorities appear to be investigating the period from 1999 through May 2007. Because the Brazilian competition authorities have not yet responded to Parker ITR's initial filing, the potential outcome of this investigation is uncertain and will depend on the resolution of numerous issues not yet addressed at the current preliminary stage of the investigation.

On May 15, 2007, the European Commission issued its initial Request for Information to the Company and Parker ITR. On January 28, 2009, the European Commission announced the results of its investigation of the alleged cartel activities. As part of its decision, the European Commission found that Parker ITR infringed Article 81 of the European Commission treaty from April 1986 to May 2, 2007 and fined Parker ITR 25.61 million euros. The European Commission also determined that the Company was jointly and severally responsible for 8.32 million euros of the total fine which related to the period from January 2002, when the Company acquired Parker ITR, to May 2, 2007, when the cartel activities ceased. Parker ITR and the Company filed an appeal to the Court of First Instance of the European Communities on April 10, 2009.

An additional related action was brought against the Company and Parker ITR on May 25, 2010 under the False Claims Act in the Central District of California: The United States of America ex rel. Douglas Farrow v. Trelleborg, AB et al. The United States declined to intervene against the Company or Parker ITR in the case. Plaintiff generally seeks treble damages, penalties for each false claim and attorneys' fees. On September 16, 2010, the court dismissed the complaint as to the Company. The complaint has been dismissed with prejudice.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (a) **Unregistered Sales of Equity Securities.** Not applicable.
 (b) **Use of Proceeds.** Not applicable.
 (c) **Issuer Purchases of Equity Securities.**

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid Per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 1, 2010 through July 31, 2010	125,372(2)	\$ 58.15	57,100	9,165,222
August 1, 2010 through August 31, 2010	79,822(3)	\$ 62.91	54,500	9,110,722
September 1, 2010 through September 30, 2010	49,764	\$ 65.67	49,764	9,060,958
Total:	254,958	\$ 61.11	161,364	9,060,958

- (1) On August 16, 1990, the Company publicly announced that its Board of Directors authorized the repurchase by the Company of up to 3.0 million shares of its common stock. From time to time, the Board of Directors has adjusted the number of shares authorized for repurchase under this program. On January 28, 2009, the Finance Committee of the Board of Directors of the Company approved an increase in the number of shares authorized for repurchase under this program so that, beginning on such date, the aggregate number of shares authorized for repurchase was equal to 10 million. Subject to this overall limitation, each fiscal year the Company is authorized to repurchase an amount of common shares equal to the greater of 7.5 million shares or five percent of the shares outstanding as of the end of the prior fiscal year. There is no expiration date for this program.
- (2) Includes 68,272 shares surrendered to the Company by an executive officer to satisfy tax withholding obligations on restricted stock issued under the Company's Long Term Incentive Awards.
- (3) Includes 25,322 shares surrendered to the Company by certain executive officers to satisfy tax withholding obligations on restricted stock issued under the Company's Long Term Incentive Awards.

ITEM 6. Exhibits.

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

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10(a)	Parker-Hannifin Corporation Amended and Restated 2005 Performance Bonus Plan.*
10(b)	Parker-Hannifin Corporation Amended and Restated 2003 Stock Incentive Plan.*
10(c)	Parker-Hannifin Corporation Amended and Restated 2009 Omnibus Stock Incentive Plan.*
10(d)	Parker-Hannifin Corporation Target Incentive Plan.*
10(e)	Parker-Hannifin Corporation Target Incentive Plan Subject to Performance Bonus Plan.*
10(f)	Parker-Hannifin Corporation RONA Plan Subject to Performance Bonus Plan.*
10(g)	Parker-Hannifin Corporation Stock Appreciation Rights Award Agreement for executive officers incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 17, 2010 (Commission File No. 1-4982).
10(h)	Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions for executive officers incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Commission on August 17, 2010 (Commission File No. 1-4982).
10(i)	Terms and Conditions of Restricted Stock Issued as a Payout Under the LTI Plan.*
12	Computation of Ratio of Earnings to Fixed Charges as of September 30, 2010.*
31(i)(a)	Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
31(i)(b)	Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. *

101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the three months ended September 30, 2010 and 2009, (ii) Consolidated Balance Sheet at September 30, 2010 and June 30, 2010, (iii) Consolidated Statement of Cash Flows for the three months ended September 30, 2010 and 2009 and (iv) Notes to Consolidated Financial Statements for the three months ended September 30, 2010.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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)

/s/ Timothy K. Pistell

Timothy K. Pistell
Executive Vice President - Finance and Administration
and Chief Financial Officer

Date: November 8, 2010

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10(a)	Parker-Hannifin Corporation Amended and Restated 2005 Performance Bonus Plan.*
10(b)	Parker-Hannifin Corporation Amended and Restated 2003 Stock Incentive Plan.*
10(c)	Parker-Hannifin Corporation Amended and Restated 2009 Omnibus Stock Incentive Plan.*
10(d)	Parker-Hannifin Corporation Target Incentive Plan.*
10(e)	Parker-Hannifin Corporation Target Incentive Plan Subject to Performance Bonus Plan.*
10(f)	Parker-Hannifin Corporation RONA Plan Subject to Performance Bonus Plan.*
10(g)	Parker-Hannifin Corporation Stock Appreciation Rights Award Agreement for executive officers incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 17, 2010 (Commission File No. 1-4982).
10(h)	Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions for executive officers incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Commission on August 17, 2010 (Commission File No. 1-4982).
10(i)	Terms and Conditions of Restricted Stock Issued as a Payout Under the LTI Plan.*
12	Computation of Ratio of Earnings to Fixed Charges as of September 30, 2010.*
31(i)(a)	Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
31(i)(b)	Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*

* Submitted electronically herewith.

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PARKER-HANNIFIN CORPORATION
AMENDED AND RESTATED
PERFORMANCE BONUS PLAN
As of July 8, 2010

1. **Purpose.** The purpose of the Performance Bonus Plan (the "Plan") is to attract and retain key executives for Parker-Hannifin Corporation, an Ohio corporation (the "Corporation"), and its Subsidiaries and to provide such persons with incentives for superior performance. Incentive Bonus payments made under the Plan are intended to constitute qualified "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, and Section 1.162-27 of the Treasury Regulations promulgated thereunder, and the Plan shall be construed consistently with such intention.

2. **Definitions.** As used in this Plan,

"**Annual Incentive Bonus**" shall mean, for each Eligible Executive, an Incentive Bonus payable with respect to a fiscal year.

"**Board**" means the Board of Directors of the Corporation.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time.

"**Committee**" means the Management Development and Compensation Committee of the Board or any other committee appointed by the Board to administer the Plan; provided, however, that in any event the Committee shall be comprised of not less than two directors of the Corporation, each of whom shall qualify as an "outside director" for purposes of Section 162(m) of the Code and Section 1.162-27(e)(3) of the Regulations.

“Common Shares” means the Corporation’s common shares of the par value of \$.50 per share.

“Eligible Executive” means the Corporation’s Chief Executive Officer and any other executive officer or other employee of the Corporation designated by the Committee.

“Incentive Bonus” shall mean, for each Eligible Executive, a bonus amount determined by the Committee pursuant to Section 5 below, which may be an Annual Incentive Bonus or a Long-Term Incentive Bonus.

“Long-Term Incentive Bonus” shall mean, for each Eligible Executive, an Incentive Bonus payable with respect to a Performance Period longer than one fiscal year.

“Management Objectives” means the achievement of an annual or long-term performance objective or objectives established pursuant to this Plan for Eligible Executives. Management Objectives may be described in terms of Corporation-wide objectives or objectives that are related to the performance of the individual Eligible Executive or of the Subsidiary, division, department or function within the Corporation or Subsidiary in which the Eligible Executive is employed. The Management Objectives shall be limited to specified levels of, growth in, or relative peer company performance in one or more of the following:

- (i) earnings per share;
- (ii) return on invested capital;
- (iii) return on total capital;
- (iv) return on total assets;
- (v) return on net assets;
- (vi) return on equity;
- (vi) total shareholder return;
- (vii) revenue;
- (viii) cash flow or free cash flow;
- (ix) net income;

- (x) operating profit;
- (xi) pre-tax income;
- (xii) earnings before interest, taxes, depreciation and/or amortization costs;
- (xiii) productivity;
- (xiv) customer satisfaction;
- (xv) employee satisfaction;
- (xvi) economic value added; and
- (xvii) stock price.

“Performance Period” means a period of time equal to or greater than one (1) fiscal year which is established at the discretion of the Committee.

“Regulations” mean the Treasury Regulations promulgated under the Code, as amended from time to time.

“Subsidiary” means a corporation, partnership, joint venture, unincorporated association or other entity in which the Corporation has a direct or indirect ownership or other equity interest.

3. **Administration of the Plan.** The Plan shall be administered by the Committee, which shall have full power and authority to construe, interpret and administer the Plan and shall have the exclusive right to establish Management Objectives and the amount of Incentive Bonus payable to each Eligible Executive upon the achievement of the specified Management Objectives.

4. **Eligibility.** Eligibility under this Plan is limited to Eligible Executives designated by the Committee in its sole and absolute discretion.

5. Awards.

(a) Not later than the 90th day of each Performance Period, the Committee shall establish the Management Objective or Management Objectives for each Eligible Executive and the amount of Incentive Bonus payable (or formula for determining such amount) upon full achievement of the specified Management Objectives. The Committee may further specify in respect of the specified Management Objectives a minimum acceptable level of achievement below which no Incentive Bonus payment will be made and shall set forth a formula for determining the amount of any payment to be made if performance is at or above the minimum acceptable level but falls short of full achievement of the specified Management Objectives. The Committee may not modify any terms of awards established pursuant to this section, except to the extent that after such modification the Incentive Bonus would continue to constitute qualified "performance-based compensation" for purposes of Section 162(m) of the Code.

(b) The Committee retains the discretion to reduce the amount of any Incentive Bonus that would be otherwise payable to an Eligible Executive (including a reduction in such amount to zero).

(c) Notwithstanding any other provision of the Plan to the contrary, in no event shall (i) the Annual Incentive Bonus paid to the Chief Executive Officer under the Plan for a fiscal year exceed either \$4 million or 300% of base salary; (ii) the Annual Incentive Bonus paid to an Eligible Executive (other than the Chief Executive Officer) under the Plan for a fiscal year exceed either \$2 million or 200% of base salary; (iii) the Long-Term Incentive Bonus paid to the Chief Executive Officer under the Plan for a Performance Period exceed \$8.5 million in cash or 200,000 Common Shares; or (iv) the Long-Term Incentive Bonus paid to an Eligible Executive (other than the Chief Executive Officer) under the Plan for a Performance Period exceed \$3.5 million in cash or 100,000 Common Shares. The limit on the number of Common Shares that may be paid to an Eligible Executive as a Long-Term Incentive Bonus and the kind of shares covered thereby shall be adjusted by the Committee as it may deem equitable to reflect any (a) stock dividend, stock split, combination of Common Shares, recapitalization or other change in the capital structure of the Corporation, or (b) merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets,

issuance of rights or warrants to purchase securities, or (c) other corporate transaction or event having an effect similar to any of the foregoing.

6. Committee Certification. As soon as reasonably practicable after the end of each Performance Period, the Committee shall determine whether each Management Objective has been achieved and the amount of the Incentive Bonus to be paid to each Eligible Executive for such Performance Period and shall certify such determinations in writing.

7. Payment of Incentive Bonuses. Subject to a valid election made by an Eligible Executive with respect to the deferral of all or a portion of his or her Incentive Bonus, Incentive Bonuses shall be paid within 30 days after written certification pursuant to Section 6, but in no event later than two and a half months from the end of the Corporation's last fiscal year to which the award relates. Annual Incentive Bonuses shall be paid in cash. Long-Term Incentive Bonuses may, at the discretion of the Committee, be paid in cash and/or Common Shares pursuant to the Corporation's 2003 Stock Incentive Plan, 2009 Omnibus Stock Incentive Plan, or any successor plan thereto. Incentive Bonuses paid in cash may be deferred under the Corporation's Executive Deferral Plan, and, if so deferred, will be subject to the terms and conditions of such plan. An election to defer payment of all or any part of an Incentive Bonus under the Plan shall be made in accordance with such rules as may be established by the Committee in order to comply with Section 409A of the Code and such other requirements as the Committee shall deem applicable to the deferral.

8. No Right to Bonus or Continued Employment. Neither the establishment of the Plan, the provision for or payment of any amounts hereunder nor any action of the Corporation, the Board or the Committee with respect to the Plan shall be held or construed to confer upon any person (a) any legal right to receive, or any interest in, an Incentive Bonus or any other benefit under the Plan or (b) any legal right to continue to serve as an officer or employee of the Corporation or any Subsidiary of the Corporation.

9. Withholding. The Corporation shall have the right to withhold, or require an Eligible Executive to remit to the Corporation, an amount sufficient to satisfy any applicable

federal, state, local or foreign withholding tax requirements imposed with respect to the payment of any Incentive Bonus. If any Long-Term Incentive Bonus is paid in Common Shares pursuant to the 2003 Stock Incentive Plan, it shall be a condition to the obligation of the Corporation to deliver the Common Shares upon payment of any such Long-Term Incentive Bonus that the Eligible Executive pay to the Corporation such amount as may be requested by the Corporation for the purpose of satisfying any liability for withholding taxes. The Eligible Executive may elect to, or shall, at the discretion of the Committee, pay a portion or all of the amount of such withholding taxes in Common Shares.

10. **Nontransferability.** Except as expressly provided by the Committee, the rights and benefits under the Plan shall not be transferable or assignable other than by will or the laws of descent and distribution.

11. **Amendment and Termination.** The Committee may amend the Plan from time to time, provided that any such amendment is subject to approval by the shareholders of the Corporation to the extent required to satisfy the requirements of Section 162(m) of the Code and the Regulations promulgated thereunder and provided further that any such amendment shall not, after the end of the 90-day period described in Section 5(a) of the Plan, cause the amount payable under an Incentive Bonus to be increased as compared to the amount that would have been paid in accordance with the terms established within such period. The Committee may also terminate the Plan, on a prospective basis only, at any time.

12. **Effective Date.** Subject to its approval by the shareholders, this Plan shall become effective for the 2006 fiscal year, and shall remain effective until the first annual meeting of shareholders held in the 2011 fiscal year, subject to any further stockholder approvals (or reapprovals) mandated for performance-based compensation under Section 162(m) of the Code, and subject to the right of the Board to terminate the Plan, on a prospective basis only, at any time.

PARKER-HANNIFIN CORPORATION
AMENDED & RESTATED
2003 STOCK INCENTIVE PLAN

1. Purpose

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

2. Definitions

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

- (a) "Award" means a Stock Option, a Stock Appreciation Right, Restricted Stock, Unrestricted Stock or a Dividend Equivalent Right.
- (b) "Board" means the Board of Directors of the Corporation.
- (c) "Change in Control" means the occurrence of one of the following events:
 - (i) any "person" (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding securities eligible to vote for the election of the Board (the "Corporation's Voting Securities"); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Corporation or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Corporation or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) as pertains to an individual Grantee, any acquisition by the Grantee or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Grantee (or any entity in which the Grantee or a group of persons including the Grantee, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Corporation Voting Securities from the Corporation, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);
 - (ii) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; provided, that (A) any person becoming a

director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Corporation's shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Corporation in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;

- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Corporation or any Subsidiary that requires the approval of the Corporation's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Corporation Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Corporation Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Corporation Voting Securities among the holders thereof immediately prior to the Business Combination, (2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (3) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "Non-Control Transaction") or (B) the Business Combination is effected by means of the acquisition of Corporation Voting Securities from the Corporation, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or
- (iv) the stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation and its Subsidiaries. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Corporation Voting Securities as a result of the acquisition of Corporation Voting

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

Notwithstanding anything in this Plan to the contrary, if a Grantee's employment is terminated prior to a Change in Control, and the Grantee reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party"), then for all purposes of this Plan, the date immediately prior to the date of such termination of employment shall be deemed to be the date of a Change in Control for such Grantee.

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

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

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

3. Eligibility

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

4. Administration

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

appropriate authority. Each Award to an Insider under this Plan shall be deemed issued subject to the foregoing qualification.

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

5. Awards That May Be Granted

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

- (c) The aggregate number of Shares of Restricted Stock and Unrestricted Stock that may be issued hereunder is 5,000,000 (increased to 7,500,000 as of 10/1/07 stock split pursuant to adjustments provided in Section 6).
- (d) To the extent that Shares subject to an outstanding Award are not delivered to a Grantee by reason of the expiration, termination, cancellation or forfeiture of such Award or by reason of the tendering or withholding of Shares to satisfy all or a portion the tax withholding obligations relating to an Award, then such Shares shall not be deemed to have been delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. If the exercise price of any Stock Option granted under the Plan is satisfied by tendering Shares (by actual delivery or attestation), only the number of shares issued to the participant net of the Shares tendered shall be deemed to be delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. When an unexercised Award lapses, expires, terminates or is forfeited, the related Shares may be available for distribution in connection with future Awards. If the benefit provided by any Award is paid in cash, any Shares covered by the Award will be available for distribution in connection with future Awards.
- (e) The assumption of Awards granted by an organization acquired by the Corporation, or the grant of Awards under this Plan in substitution for any such Awards, will not reduce the number of Shares available for the grant of Awards under this Plan.

6. Adjustments

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

7. Stock Options

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

consideration, or any combination thereof, in accordance with the terms of this Plan and any applicable regulations of the Committee in effect at the time and valued at Fair Market Value on the exercise date. The Fair Market Value on the exercise date shall be determined pursuant to administrative rules established by the Committee from time to time in accordance with applicable law. All Stock Options granted hereunder shall have a maximum life of no more than ten (10) years from the date of issuance of the Award. In no event shall any Stock Option vest sooner than one (1) year from date of issuance of the Award except in the event of a Change in Control, the death of the Grantee or the Grantee becoming eligible for disability income under the Corporation's long-term disability plan.

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

8. Stock Appreciation Rights

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

(which shall in no instance be less than 100 percent of Fair Market Value at the time of the Award) (the "Appreciation") times the number of Shares specified in such SAR, or portion thereof, which is so exercised. The Fair Market Value at exercise shall be determined pursuant to administrative rules established by the Committee from time to time in accordance applicable law.

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

9. Restricted Stock and Unrestricted Stock

- (a) An Award of Restricted Stock or Unrestricted Stock may be granted hereunder to an eligible Employee for such consideration, if any, as may be required by applicable law. The terms and conditions of Restricted Stock, including the vesting period, shall be specified by the Committee, at its sole discretion, in the Award. In no event shall any Restricted Stock vest sooner than three (3) years from the date of the issuance of the Restricted Stock except, to the extent specified in the Award, (i) in the event of a Change in Control; (ii) upon the death of the Grantee; or (iii) if the Grantee Terminates Normally.
- (b) Any Shares of Restricted Stock or Unrestricted Stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.
- (c) The grant of any Award of Unrestricted Stock shall be conditioned upon the achievement of performance-based criteria. The grant of any Award of Restricted Stock may be conditioned upon the achievement of performance-based criteria. Further, any Award of Restricted Stock may specify performance-based criteria which, if achieved by the Corporation, will result in termination or early termination of the restrictions applicable to such Shares.

10. Dividend Equivalent Rights; Interest Equivalents

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

11. Deferral of Payment

With the approval of the Committee, the delivery of Shares, cash or any combination thereof subject to an award may be deferred, either in the form of installments or a single future delivery. The Committee may also permit or require selected Grantees to defer payment of some

or all of their Awards, as well as other compensation, in accordance with procedures established by the Committee to assure that recognition of taxable income is deferred under the Code.

12. Termination of Employment

If the employment of a Grantee terminates for any reason, all unexercised, deferred and unpaid Awards may be exercisable and paid only as specified in the Award and in accordance with rules established by the Committee. These rules may provide, as the Committee deems appropriate, subject to the terms of the Plan, for the expiration, continuation, or acceleration of the vesting of all or part of the Awards.

13. Detrimental Activity

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

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

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

14. Change in Control

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

between the consideration per Share payable pursuant to the terms of the transaction resulting in the Change in Control and the exercise price specified in the Award.

15. Substitute Awards

The Committee may grant Awards in substitution for, or upon the assumption of, Awards granted by another corporation that is merged into, consolidated with, or all or a substantial part of the assets or stock of which is acquired by the Corporation or a Subsidiary. The terms and provisions of any Awards granted under this Section 15 may vary from the terms and provisions otherwise specified in this Plan and may, instead, correspond to the terms and provisions of the awards granted by the other corporation.

16. Amendments to This Plan; Amendments of Outstanding Awards

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

17. Withholding Taxes

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

18. Grants of Awards to Employees Who are Foreign Nationals

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

19. Rights of Employees

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

20. Effective Date

This Plan was approved by the Board on August 14, 2003 and became effective upon approval by the shareholders of the Corporation on October 22, 2003. As authorized by Section 16(a) herein, this Plan was amended and restated pursuant to Board approval on August 10, 2005, on January 29, 2009 and on August 12, 2010.

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

**PARKER-HANNIFIN CORPORATION
AMENDED AND RESTATED
2009 OMNIBUS STOCK INCENTIVE PLAN**

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

- 1.1. Establishment.** The 2009 Omnibus Stock Incentive Plan (the “Plan”) is hereby established effective as of October 28, 2009.
- 1.2. Purpose.** The purpose of the Plan is to advance the interests of the Company and its shareholders by providing an incentive to attract, retain and reward persons performing services for the Company and its Subsidiaries by motivating such persons to contribute to the growth and profitability of the Company and its Subsidiaries. The Company intends that Awards granted pursuant to the Plan be exempt from or comply with Section 409A of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.
- 1.3. Term of Plan.** The Plan shall continue in effect until its termination by the Committee; provided, however, that, to the extent required by applicable law, all Awards shall be granted, if at all, within ten (10) years from the date the Plan is adopted by the Company’s shareholders.

2. DEFINITIONS AND CONSTRUCTION.

2.1. Definitions. The following terms shall have their respective meanings set forth below:

- (a) **Award** means any Option, Stock Appreciation Right, Restricted Stock Award, Unrestricted Stock Award, Restricted Stock Unit or Dividend Equivalent Right granted under the Plan.
- (b) **Award Agreement** means a written or electronic agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant.
- (c) **Board** means the Board of Directors of the Company.
- (d) **Change in Control** means the occurrence of one of the following events:
- (i) any “person” (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of the Board (the “**Company Voting Securities**”); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Company or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) as pertains to an individual Participant, any acquisition by the Participant or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Participant (or any entity in which the Participant or a group of persons including the Participant, directly or indirectly, holds a majority of the voting power of such entity’s outstanding voting interests); or (F) the acquisition of Company Voting Securities from the Company, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);
- (ii) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority thereof; provided, that (A) any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Company’s shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents

by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;

- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "**Business Combination**"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "**Surviving Corporation**") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "**Parent Corporation**"), is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (3) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "**Non-Control Transaction**") or (B) the Business Combination is effected by means of the acquisition of Company Voting Securities from the Company, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or
- (iv) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries.

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

Notwithstanding anything in this Plan to the contrary, if a Participant's employment is terminated prior to a Change in Control and the Participant reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (such a termination of employment an "**Anticipatory Termination**"), then for all purposes of this Plan, the date immediately prior to the date of such Anticipatory Termination shall be deemed to be the date of a Change in Control for such Participant.

- (e) **Code** means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
- (f) **Committee** means the Human Resources and Compensation Committee or such other committee or subcommittee of the Board, if any, duly appointed to administer the Plan and having such powers in each instance as shall be specified by the Board consisting of two or more members of the Board each of whom is intended to be a "non-employee director" within the meaning of Rule 16b-3 (or any successor rule) of the Exchange Act, an "outside director" under regulations promulgated under Section 162(m) of the Code, and an "independent director" under the New York Stock Exchange listing rules. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board.
- (g) **Common Stock** means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3.
- (h) **Company** means Parker-Hannifin Corporation, an Ohio corporation, or any successor corporation.

- (i) **Detrimental Activity** means any conduct or activity, whether or not related to the business of the Company or a Subsidiary, that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Company or a Subsidiary, including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Company; (ii) the disclosure to any one outside of the Company, or the use for any purpose other than the Company's business, of confidential information or material related to the Company, whether acquired by the Participant during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Company's Code of Ethics or other policies.
- (j) **Director** means a member of the Board.
- (k) **Disability**, except as provided in Section 15(d) below, has the same meaning as provided under the applicable Long-term Disability Plan, or other Company policy.
- (l) **Dividend Equivalent Right** means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a cash payment or a credit for the account of such Participant in an amount equal to the cash dividends paid on one share of Common Stock for each share of Common Stock represented by an Award held by such Participant. No Dividend Equivalent Rights shall relate to shares underlying an Option or SAR unless such Dividend Equivalent Rights are explicitly set forth as a separate arrangement and do not cause any such Option or SAR to be subject to Section 409A.
- (m) **Employee** means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of an individual's rights, if any, under the terms of the Plan as of the time of the Company's determination of whether or not the individual is an Employee, all such determinations by the Company shall be final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency may subsequently make a contrary determination as to such individual's status as an Employee.
- (n) **Exchange Act** means the Securities Exchange Act of 1934, as amended.
- (o) **Fair Market Value** means, as of any date, the value of a share of Common Stock or other property as determined by the Committee, in its discretion; provided, however, that the Fair Market Value as established by the Committee from time to time shall be determined in accordance with applicable laws and regulations (which determination shall, to the extent applicable, be made in a manner that complies with Section 409A), and such determination shall be conclusive and binding for all purposes.
- (p) **Grant Date** means the date as of which an Award is determined to be effective and designated in a resolution by the Committee and is granted pursuant to the Plan. The Grant Date shall not be earlier than the date of the resolution and action therein by the Committee.
- (q) **Grant Date Fair Market Value** means, as of any date, the value of a share of Common Stock determined as follows: (i) the closing sale price per share of Common Stock as reported on the New York Stock Exchange—Composite Transactions or the principal exchange on which shares are then trading, if any, or if there are no sales on such day, on the next preceding trading day during which a sale occurred; and (ii) in the absence of such markets for the shares of Common Stock, the Grant Date Fair Market Value shall be determined by the Committee in good faith (which determination shall, to the extent applicable, be made in a manner that complies with Section 409A), and such determination shall be conclusive and binding for all purposes.
- (r) **Incentive Stock Option** means any Option that is designated in the applicable Award Agreement as an "incentive stock option" within the meaning of Section 422 of the Code and that meets the requirements of Section 422 of the Code.
- (s) **Insider Trading Policy** means the written policy of the Company pertaining to the purchase, sale, transfer or other disposition of the Company's equity securities by Directors, Officers, Employees or other service providers who may possess material, nonpublic information regarding the Company or its securities.
- (t) **Net-Exercise** means a procedure by which the Participant will be issued a number of whole shares of Stock upon the exercise of an Option or SAR determined in accordance with the following formula:

$N = X(A-B)/A$, where:

N = the number of shares of Common Stock to be issued to the Participant upon exercise;

X = the total number of shares with respect to which the Participant has elected to exercise;

A = the Fair Market Value of one (1) share of Common Stock determined on the exercise date; and

B = the exercise price per share (as defined in the Participant's Award Agreement).

- (u) **Nonstatutory Stock Option** means any Option awarded under this plan that is not specifically designated as an Incentive Stock Option (as set forth in the Award Agreement) or which does not qualify as an Incentive Stock Option.
- (v) **Officer** means any person designated by the Board as an officer of the Company.
- (w) **Option** means a right granted under Section 6 to purchase Common Stock pursuant to the terms and conditions of the Plan. Options may be either Nonstatutory Stock Options or Incentive Stock Options.
- (x) **Participant** means any eligible person who has been granted one or more Awards.
- (y) **Performance-Based Exception** means the performance-based exception from the tax deductibility limitations of Section 162(m) of the Code.
- (z) **Performance Bonus Plan** means the Parker-Hannifin Corporation Performance Bonus Plan, as the same may be amended from time to time, or any successor thereto.
- (aa) **Performance Goals** mean the measurable performance objective or objectives established by the Committee pursuant to this Plan, including, for an Award intended to qualify for the Performance-Based Exception, any "Management Objectives" (as such term is defined in the Performance Bonus Plan) established for such Award pursuant to the Performance Bonus Plan.
- (bb) **Restricted Stock Award** means an Award granted pursuant to Section 8, other than an Unrestricted Stock Award granted pursuant to Section 8.4.
- (cc) **Restricted Stock Unit** means a right granted to a Participant pursuant to Section 9 to receive a share of Common Stock on a date determined in accordance with the provisions of such Section and the Participant's Award Agreement.
- (dd) **Retirement** shall have the meaning set forth in the applicable Award Agreement.
- (ee) **Section 409A** means Section 409A of the Code.
- (ff) **Securities Act** means the Securities Act of 1933, as amended.
- (gg) **Service** means, except as provided in Section 15, a Participant's employment or service with the Company and its Subsidiaries, whether in the capacity of an Employee or a Director. A participant's service for purpose of this Plan is deemed to have terminated in accordance with the Company's policies on termination as may be in effect from time to time. The Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of and reason for such termination.
- (hh) **Stock Appreciation Right** (or "SAR") means an Award granted under Section 7.
- (ii) **Subsidiary** means a corporation, company or other entity (i) more than fifty percent (50%) of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are now or hereafter, owned or controlled, directly or indirectly, by the Company, or (ii) which does not have outstanding shares or securities (as may be the case in a partnership, limited liability company, joint venture or unincorporated association), but more than fifty percent (50%) of whose ownership interest representing the right generally to make decisions for such other entity is now or hereafter, owned or controlled, directly or indirectly, by the Company; provided, however, that for purposes of determining whether any person may be a Participant for purposes of any grant of Incentive Stock Options, the term "Subsidiary" shall have the meaning given to such term in Section 422(f) of the Code.

- (jj) **Substitute Awards** means Awards that are granted in assumption of, or in substitution or exchange for, outstanding awards previously granted by an entity acquired directly or indirectly by the Company or with which the Company directly or indirectly combines.
- (kk) **Ten Percent Shareholder** means any Participant who owns more than 10% of the combined voting power of all classes of stock of the Company (or, as applicable, of any “parent” or “subsidiary” as defined in Sections 422(e) and (f) of the Code), within the meaning of Section 422 of the Code.
- (ll) **Unrestricted Stock Award** means an Award granted pursuant to Section 8.4.
- (mm) **Vesting Conditions** mean those conditions established by the Award Agreement in accordance with the Plan prior to the satisfaction of which shares subject to an Award remain subject to forfeiture or a repurchase option in favor of the Company exercisable for the Participant’s monetary purchase price, if any, for such shares upon the Participant’s termination of Service.

2.2. **Construction.** Captions and titles contained in this Plan are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term or is not intended to be exclusive, unless the context clearly requires otherwise.

3. **ADMINISTRATION.**

- 3.1. **Administration by the Committee.** The Plan shall be administered by the Committee. All questions of interpretation of the Plan, of any Award Agreement or of any other form of agreement or other document employed by the Company in the administration of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or such Award. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or Award Agreement or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest therein.
- 3.2. **Authority of the Board.** The Board may reserve to itself any or all of the authority and responsibility of the Committee under the Plan or may act as administrator of the Plan for any and all purposes. To the extent the Board has reserved any authority and responsibility or during any time that the Board is acting as administrator of the Plan, it shall have all the powers of the Committee hereunder, and any reference herein to the Committee (other than in this Section 3.2) shall include the Board. To the extent any action of the Board under the Plan conflicts with actions taken by the Committee, the actions of the Board shall control.
- 3.3. **Authority of Officers.** Notwithstanding the above, the Board or Committee may, by resolution, expressly delegate to a special committee, consisting of one or more Directors or Officers, the authority, within specified parameters established by the Board or Committee, to (i) designate Employees to be recipients of Awards under the Plan, and (ii) to determine the number of such Awards to be received by any such Participants; provided, however, that such delegation of duties and responsibilities to an Officer may not be made with respect to the grant of Awards to Employees who are subject to Section 16(a) of the Exchange Act on the Grant Date, or who as of the Grant Date are reasonably anticipated to become “covered employees” within the meaning of Section 162(m) of the Code during the term of the Award. The acts of such delegates shall be treated hereunder as acts of the Board or Committee, as applicable and such delegates shall report regularly to the Board or Committee, as applicable, regarding the delegated duties and responsibilities and any Awards so granted.
- 3.4. **Powers of the Committee.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee (or its delegate) shall have the full and final power and authority, in its discretion:
 - (a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Common Stock to be subject to each Award;
 - (b) to determine the type of Award granted;
 - (c) to determine the Fair Market Value of shares of Common Stock or other property;

- (d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) except for the procedures set forth herein relating to Options and SARs, the exercise or purchase price of shares pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Common Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the time of the expiration of any Award, (vi) the effect of the Participant's termination of Service on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;
- (e) to determine whether an Award will be settled in shares of Common Stock, cash, or in any combination thereof;
- (f) to approve one or more forms of Award Agreement;
- (g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired upon the exercise thereof;
- (h) to accelerate, continue, extend or defer the exercisability of any Award or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following a Participant's termination of Service;
- (i) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards;
- (j) to settle all disputes or controversies regarding the Plan and Awards granted under the Plan;
- (k) to amend the Plan, or any Award or Award Agreement granted under the Plan, in any respect that the Committee deems necessary or advisable to address or correct any administrative or compliance failure or potential failure, including in order to bring the Plan or any Awards granted under the plan in compliance with Code Section 409A.
- (l) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law;
- (m) to adopt such procedures and/or sub-plans as are necessary or appropriate for participation in the Plan by Employees or Directors who are foreign nationals or employed outside of the United States;
- (n) generally, to exercise such powers and to perform such acts as the Committee deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan; and
- (o) to delegate any of its authority to any other person or persons that it deems appropriate, provided the delegation does not cause the Plan or any Awards granted under this Plan to fail to qualify for the exemption provided by Rule 16b-3 or violate any independence standard contained in the New York Stock Exchange listing requirements.

3.5. Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as Officers or Employees of the Company and its Subsidiaries, members of the Board or the Committee and any officers or employees of the Company and its Subsidiaries to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

- 4.1. Maximum Number of Shares Issuable.** Subject to adjustment as provided in Sections 4.2 and 4.3, the maximum aggregate number of shares of Common Stock that may be issued under the Plan shall be five million five hundred thousand (5,500,000), which shall consist of authorized but unissued or reacquired shares of Common Stock or any combination thereof.
- 4.2. Share Counting.** Each share of Common Stock delivered pursuant to a Stock Option or Stock Appreciation Right with a per share exercise price or grant price equal to at least 100% of the Grant Date Fair Market Value, and each share of Common Stock delivered pursuant to a Restricted Stock Award with a per share purchase price equal to at least 100% of the Fair Market Value on the Grant Date, shall be counted against the share limit set forth in Section 4.1 as one (1) share for every one (1) share of Common Stock subject thereto. Each share of Common Stock delivered pursuant to a Restricted Stock Award, Unrestricted Stock Award, Restricted Stock Unit or Dividend Equivalent Right with a per share or per unit purchase price of less than 100% of the Fair Market Value on the Grant Date shall be counted against the share limit set forth in Section 4.1 as 1.87 shares for every one (1) share of Common Stock subject thereto. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Common Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company for an amount not greater than the Participant's purchase price, the shares of Common Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Common Stock shall again be available for issuance under the Plan. Shares of Common Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Notwithstanding the foregoing, the following shares of Common Stock shall not be added to the maximum share limit contained in Section 4.1: (i) shares tendered in payment of the exercise price of a stock option, (ii) shares withheld by the Company or any Subsidiary to satisfy a tax withholding obligation, and (iii) shares that are repurchased by the Company with Option proceeds. Moreover, all shares of Common Stock covered by a SAR, to the extent that it is exercised and settled in shares, or any Option subject to a Net-Exercise shall be considered delivered pursuant to the Plan, whether or not shares are actually delivered to the Participant upon exercise of the right. Shares of Common Stock delivered under the Plan as a Substitute Award or in settlement of a Substitute Award shall not reduce or be counted against the shares of Common Stock available for Awards under the Plan and will not count against the Plan limit as set forth in Section 4.1 to the extent that the rules and regulations of any stock exchange or other trading market on which the shares are listed or traded provide an exemption from shareholder approval for assumption, substitution, conversion, adjustment, or replacement of outstanding awards in connection with mergers, acquisitions, or other corporate combinations.
- 4.3. Adjustments for Changes in Capital Structure.** In the event of any equity restructuring (within the meaning of Financial Accounting Standards No. 123R as amended from time to time, or any successor financial standard regime that may be applicable to the Company), such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be an equitable adjustment in the numbers of shares of Common Stock specified in Section 4.1 of this Plan and the sub-limits specified in Sections 6, 7, 8 and 9 of the Plan, and with respect to outstanding Awards, in the number and kind of shares of Common Stock subject to outstanding Awards, the exercise price, grant price or other price of shares of Common Stock subject to outstanding Awards, in each case to prevent dilution or enlargement of the rights of Participants. In the event of any other change in corporate capitalization, such as a merger, consolidation, or liquidation, the Committee may, in its sole discretion, cause there to be such equitable adjustment as described in the foregoing sentence, to prevent dilution or enlargement of rights; provided, however, that, unless otherwise determined by the Committee, the number of shares of Common Stock subject to any Award shall always be rounded down to a whole number and the exercise price or grant price shall always be rounded up to the nearest whole cent. Notwithstanding the foregoing, the Committee shall not make any adjustment pursuant to this Section 4.3 that would (i) cause an Award that is otherwise exempt from Section 409A of the Code to become subject to Section 409A, (ii) cause an Award that is subject to Section 409A of the Code to fail to satisfy the requirements of Section 409A, or (iii) cause an award that is intended to qualify for the Performance-Based Exception to fail to qualify for the Performance-Based Exception. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan.

5. ELIGIBILITY AND LIMITATIONS.

- 5.1. Persons Eligible for Awards.** Awards may be granted only to Employees and Directors.
- 5.2. Participation in Plan.** Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, eligibility in accordance with this Section shall not entitle any person to be

granted an Award, or, having been granted an Award, to be granted an additional Award. Notwithstanding the foregoing provisions of this Section 5, eligible Participants who are service providers to a Subsidiary may be granted Options or Stock Appreciation Rights under this Plan only if the Subsidiary qualifies as an “eligible issuer of service recipient stock” within the meaning of Section 409A of the Code.

6. **OPTIONS.** Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered by the Award Agreement, in such form as the Committee shall from time to time establish. The Award Agreement for any Incentive Stock Options granted under the Plan shall contain such terms and conditions, consistent with the Plan, as the Committee may determine to be necessary to comply with Section 422 of the Code. An Option may be granted to an eligible Employee as a separate Award. Notwithstanding the foregoing, Incentive Stock Options may be granted only to eligible Participants who are Employees of the Company (or a “parent” or “subsidiary” as defined in Sections 422(e) and (f) of the Code). No Participant may be granted Options for more than 1,000,000 shares of Common Stock within a three (3) year period. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:
- 6.1. **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that the exercise price per share for an Option shall be not less than one hundred percent (100%) of the Grant Date Fair Market Value. In the case of an Incentive Stock Option granted to a Ten Percent Shareholder, the exercise price per share for such Incentive Stock Option shall not be less than one hundred ten percent (110%) of the Grant Date Fair Market Value.
- 6.2. **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, Vesting Conditions and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option. In the case of an Incentive Stock Option granted to a Ten Percent Shareholder, the Incentive Stock Option shall not be exercised after the expiration of five (5) years after the date of grant of such Incentive Stock Option. Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, any Option granted under this Plan shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.
- 6.3. **Payment of Exercise Price.**
- (a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Common Stock being purchased pursuant to any Option shall be made (i) in cash or by check or cash equivalent, (ii) subject to Section 6.3(b)(i), by tender to the Company, or attestation to the ownership, of shares of Common Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) subject to Section 6.3(b)(ii), by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a “*Cashless Exercise*”), (iv) by delivery of a properly executed notice electing a Net-Exercise, (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.
- (b) **Limitations on Forms of Consideration.**
- (i) **Tender of Common Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Common Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock.
- (ii) **Cashless Exercise.** The Cashless Exercise program is available only if, at the time of exercise, the offer and sale of shares of Common Stock pursuant to the Plan is registered on a then effective registration statement on Form S-8 under the Securities Act. The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or

procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

- 6.4. **Effect of Termination of Service.** Subject to earlier termination of the Option as otherwise provided in this Plan or the terms of the Award Agreement and unless otherwise provided by the Committee or in the Award Agreement, the Participant's termination of Service shall operate to terminate the Option.
 - 6.5. **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in the Award Agreement is prevented by the provisions of Section 14 below, the Option shall remain exercisable until thirty (30) days after the date such exercise first would no longer be prevented by such provisions, but in any event no later than ten (10) years after the effective date of grant of such Option.
 - 6.6. **Certain Provisions Regarding Incentive Stock Options.** Notwithstanding anything in this Section 6 to the contrary, Stock Options designated as Incentive Stock Options shall not be eligible for treatment under the Code as Incentive Stock Options, and shall instead be treated as Nonqualified Stock Options, to the extent that either (i) the aggregate Fair Market Value of Common Stock (determined as of the Grant Date) with respect to which such Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Subsidiary) exceeds \$100,000, taking Options into account in the order in which they were granted, or (ii) such Options otherwise remain exercisable but are not exercised within three (3) months after termination of employment (or such other period of time provided in Section 422 of the Code).
7. **STOCK APPRECIATION RIGHT AWARDS.** SARs shall be evidenced by Award Agreements specifying the number of shares of Common Stock covered by the Award Agreement, in such form as the Committee shall from time to time establish. A SAR may be granted to an eligible Employee as a separate Award. No Participant may be granted SARs for more than 1,000,000 shares of Common Stock in any three (3) year period.
- 7.1. **Grant Price.** The grant price for each SAR shall be established in the discretion of the Committee; provided, however, that the grant price per share for a SAR shall be not less than one hundred percent (100%) of the Grant Date Fair Market Value.
 - 7.2. **Settlement of SARs.** Upon the exercise of a Stock Appreciation Right, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying: (i) the excess of the Fair Market Value of a share of Common Stock on the date of exercise over the grant price; by (ii) the number of shares of Common Stock with respect to which the SAR is exercised. The payment upon the SAR exercise shall be in cash, shares of Common Stock of equivalent value, or in some combination thereof, as determined by the Committee in its sole discretion. The determination of the Committee with respect to the form of payout of SARs shall be set forth in the Award Agreement pertaining to the grant of the Award.
 - 7.3. **Exercisability and Term of SARs.** SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, Vesting Conditions and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that no SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR. Subject to the foregoing, unless otherwise specified by the Committee in the grant of a SAR, any SAR granted under this Plan shall terminate ten (10) years after the effective date of grant of the SAR, unless earlier terminated in accordance with its provisions.
 - 7.4. **Effect of Termination of Service.** Subject to earlier termination of the SAR as otherwise provided in this Plan or the terms of the Award Agreement and unless otherwise provided by the Committee or in the Award Agreement, the Participant's termination of Service shall operate to terminate the SAR.
 - 7.5. **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of a SAR within the applicable time periods set forth in the Award Agreement is prevented by the provisions of Section 14 below, the SAR shall remain exercisable until thirty (30) days after the date such exercise first would no longer be prevented by such provisions, but in any event no later than ten (10) years after the effective date of grant of such SAR.
8. **RESTRICTED AND UNRESTRICTED STOCK AWARDS.** The Committee, at any time and from time to time, may grant or sell Restricted Stock Awards and Unrestricted Stock Awards to Participants in such number as the Committee shall determine. Each grant or sale of a Restricted Stock Award or an Unrestricted Stock Award shall be evidenced by an Award Agreement and shall be subject to the following provisions:
- 8.1. **Grant of Restricted Stock Award.** Each grant or sale of a Restricted Stock Award or an Unrestricted Stock Award

shall constitute an immediate transfer of the ownership of shares of Common Stock to the Participant in consideration of the performance of services, subject to the substantial risk of forfeiture and restrictions on transfer as provided in this [Section 8](#). A Restricted Stock Award or an Unrestricted Stock Award may be granted to an eligible Employee as a separate Award. No Participant may be granted Restricted Stock Awards or Unrestricted Stock Awards for more than 1,000,000 shares of Common Stock within a three (3) year period. Further, no Restricted Stock Award or Unrestricted Stock Award intended to qualify for the Performance-Based Exception shall exceed the applicable limitations set out in Section 5 of the Performance Bonus Plan. Restricted Stock Awards and Unrestricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals.

- 8.2. Purchase Price.** Each such grant or sale may be made without additional consideration or in consideration of a payment by such Participant that is equal to or less than the Fair Market Value at the Grant Date. Any payment of purchase price for Common Stock being purchased pursuant to any Restricted Stock Award or Unrestricted Stock Award shall be made (a) in cash or by check or cash equivalent, (b) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (c) by any combination thereof.
- 8.3. Vesting and Restrictions on Transfer.** Shares of Common Stock issued pursuant to any Restricted Stock Award may be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or Performance Goals as shall be established by the Committee and set forth in the Award Agreement evidencing such Award; provided, however, that in no event shall any issuance of Restricted Stock Awards under the Plan be subject to a Service vesting requirement of less than one (1) year. Notwithstanding the foregoing, the Committee may, in its discretion, accelerate the vesting of any Restricted Stock Award granted under the Plan. During any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than as provided in [Section 12](#). The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Award that, if the satisfaction of Vesting Conditions with respect to any shares subject to such Restricted Stock Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Insider Trading Policy, then satisfaction of the Vesting Conditions automatically shall be determined on the next trading day on which the sale of such shares would not violate the Insider Trading Policy. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Common Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Common Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.
- 8.4. Unrestricted Stock Awards under LTIP Program.** Notwithstanding any provisions of [Section 8](#) above, Unrestricted Stock Awards may be granted to Participants under the Plan, free of any Vesting Conditions, upon completion of the applicable performance period pursuant to a performance based incentive program having a performance period of not less than 12 months.
- 8.5. Voting Rights; Dividends and Distributions.** Except as provided in this Section, [Section 8.6](#) and any Award Agreement, during any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, the Participant shall have all of the rights of a shareholder of the Company holding shares of Common Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Common Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in [Section 4.3](#), any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.
- 8.6. Effect of Termination of Service.** Unless otherwise provided by the Committee in the Award Agreement evidencing a Restricted Stock Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to Restricted Stock Awards which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

- 9. RESTRICTED STOCK UNITS.** Restricted Stock Units shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. Restricted Stock Units may be granted to an eligible Employee as a separate Award. No Participant may be granted Restricted Stock Units for more than 1,000,000 shares of Common Stock within a three (3) year period. Further, no Award of Restricted Stock Units intended to qualify for the Performance-Based Exception shall exceed the applicable

limitations set out in Section 5 of the Performance Bonus Plan. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

- 9.1. Grant of Restricted Stock Units.** Restricted Stock Units may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals.
- 9.2. Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving Restricted Stock Units, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, or if deemed necessary or appropriate by the Committee to ensure that taxation of the Restricted Stock Units does not occur until receipt of the Common Stock by the Participant, or, at the discretion of the Committee, to avoid other undesirable tax consequences to the Participant, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Common Stock issued upon settlement of the Award of Restricted Stock Units.
- 9.3. Vesting.** Restricted Stock Unit may be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or Performance Goals as shall be established by the Committee and set forth in the Award Agreement evidencing such Award; provided, however, that in no event shall any issuance of Restricted Stock Units under the Plan be subject to a Service vesting requirement of less than one (1) year. Notwithstanding the foregoing, the Committee may, in its discretion, accelerate the vesting of any Restricted Stock Units granted under the Plan. The Committee, in its discretion, may provide in any Award Agreement evidencing an Award of Restricted Stock Units that, if the satisfaction of Vesting Conditions with respect to any shares subject to the Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Insider Trading Policy, then satisfaction of the Vesting Conditions automatically shall be determined on the first to occur of: (a) the next trading day on which the sale of such shares would not violate the Insider Trading Policy; or (b) the later of: (i) the last day of the calendar year in which the original vesting date occurred or (ii) the last day of the Company's taxable year in which the original vesting date occurred.
- 9.4. Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Common Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Units that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Common Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Such Dividend Equivalent Rights, if any, may be paid in cash or by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Common Stock, as provided in the Award Agreement. In the event that the Dividend Equivalent Rights are credited to the Participant, the number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Common Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Common Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Award. In the event of a dividend or distribution paid in shares of Common Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in [Section 4.3](#), appropriate adjustments shall be made in the Participant's Restricted Stock Units so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Common Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.
- 9.5. Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Restricted Stock Units, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.
- 9.6. Settlement of Restricted Stock Units.** The Company shall issue to the Participant on the date on which Restricted Stock Units subject to the Participant's Award vest or on such other date determined by the Committee, in its discretion, and set forth in the Award Agreement one (1) share of Common Stock (and/or any other new, substituted

or additional securities or other property pursuant to an adjustment described in Section 9.4) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes, if any. If permitted by the Committee, the Participant may elect, under procedures established by the Committee consistent with the requirements of Section 409A, to defer receipt of all or any portion of the shares of Common Stock or other property otherwise issuable to the Participant pursuant to this Section. Notwithstanding the foregoing, the Committee, in its discretion, may provide in any Award Agreement for settlement of any Restricted Stock Units by payment to the Participant in cash of an amount equal to the Fair Market Value on the payment date of the shares of Common Stock or other property otherwise issuable to the Participant pursuant to this Section.

10. **DETRIMENTAL ACTIVITY.** The Committee may cancel any unexpired, unpaid or deferred Awards at any time if the Participant is not in compliance with all applicable provisions of this Plan or with the terms of Award Agreement or if the Participant engages in Detrimental Activity. The Committee may, in its discretion and as a condition to the exercise of an Award, require a Participant to acknowledge that he or she is in compliance with all applicable provisions of the Plan and of any Award Agreement and has not engaged in any Detrimental Activity. Any Award Agreement may provide that if a Participant, either during employment by the Company or within a specified period after termination of such employment, shall engage in any Detrimental Activity, and the Committee shall so find, forthwith upon notice of such finding, the Participant shall:
- (a) return to the Company, in exchange for payment by the Company of any amount actually paid therefor by the Participant, all shares of Common Stock that the Participant has not disposed of that were issued pursuant to this Plan within a specified period prior to the date of the commencement of such Detrimental Activity; and
 - (b) with respect to any shares of Common Stock so acquired that the Participant has disposed of, pay to the Company in cash the difference between:
 - (i) any amount actually paid therefore by the Participant pursuant to this Plan; and
 - (ii) the Fair Market Value of such share of Common Stock on the date of such acquisition.

To the extent that such amounts are not paid to the Company, the Company may set off the amounts so payable to it against any amounts that may be owing from time to time by the Company to the Participant, whether as wages, deferred compensation (to the extent permitted by Section 409A) or vacation pay or in the form of any other benefit or for any other reason.

11. **STANDARD FORMS OF AWARD AGREEMENTS.**

11.1. **Award Agreements.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. No Award or purported Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms, including electronic media, as the Committee may approve from time to time.

11.2. **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

12. **CHANGE IN CONTROL.** Subject to the requirements and limitations of Section 409A and Section 15 of this Plan, if applicable, the Committee may provide for any one or more of the following:

12.1. **Accelerated Vesting.** The Committee may, in its discretion, provide in any Award Agreement or, in the event of a Change in Control, may take such actions as it deems appropriate to provide for the acceleration of the exercisability, vesting and/or settlement in connection with such Change in Control of each or any outstanding Award or portion thereof and shares acquired pursuant thereto upon such conditions, including termination of the Participant's Service prior to, upon, or following such Change in Control, to such extent as the Committee shall determine.

12.2. **Assumption, Continuation or Substitution.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "**Acquiror**"), may, without the consent of any Participant, either assume or continue the Company's rights and obligations under

each or any Award or portion thereof outstanding immediately prior to the Change in Control or substitute for each or any such outstanding Award or portion thereof a substantially equivalent award with respect to the Acquiror's stock, as applicable. For purposes of this Section, if so determined by the Committee, in its discretion, an Award denominated in shares of Common Stock shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and the applicable Award Agreement, for each share of Common Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Common Stock on the effective date of the Change in Control was entitled; provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or settlement of the Award, for each share of Common Stock subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Common Stock pursuant to the Change in Control. If any portion of such consideration may be received by holders of Common Stock pursuant to the Change in Control on a contingent or delayed basis, the Committee may, in its sole discretion, determine such Fair Market Value per share as of the time of the Change in Control on the basis of the Committee's good faith estimate of the present value of the probable future payment of such consideration. Except as otherwise provided by the Committee or in the applicable Award Agreement, any Award or portion thereof which is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised or settled as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

- 12.3. Cash-Out of Awards.** The Committee may, in its discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Award or a portion thereof outstanding immediately prior to the Change in Control and not previously exercised or settled shall be canceled in exchange for a payment with respect to each vested share (and each unvested share, if so determined by the Committee) of Common Stock subject to such canceled Award in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per share of Common Stock in the Change in Control, reduced by the exercise or purchase price per share, if any, under such Award. If any portion of such consideration may be received by holders of Common Stock pursuant to the Change in Control on a contingent or delayed basis, the Committee may, in its sole discretion, determine such Fair Market Value per share as of the time of the Change in Control on the basis of the Committee's good faith estimate of the present value of the probable future payment of such consideration. In the event such determination is made by the Committee, the amount of such payment (reduced by applicable withholding taxes, if any) shall be paid to Participants in respect of the vested portions of their canceled Awards as soon as practicable following the date of the Change in Control and in respect of the unvested portions of their canceled Awards in accordance with the vesting schedules applicable to such Awards.
- 12.4. Section 409A.** Notwithstanding any provision of this Plan to the contrary, and except as otherwise provided in the Award Agreement, if (i) an Award is considered a "deferral of compensation" (within the meaning of Section 409A), (ii) the Award becomes vested or restrictions lapse, expire or terminate upon the occurrence of a Change in Control, and (iii) either such Change in Control is not treated as a "change in ownership" of the Company, a "change in the effective control" of the Company or a "change in the effective ownership of a substantial portion of the assets" of the Company (within the meaning of Section 409A) or payment of the Award is not otherwise permitted upon the Change in Control under Section 409A without the imposition of taxes and penalties, then even though such Award may be deemed to be vested or restrictions lapse, expire or terminate upon the occurrence of the Change in Control, payment will be made, to the extent necessary to comply with the provisions of Section 409A, to the Participant on the earliest of: (A) the Participant's "separation from service" with the Company (as defined in [Section 15\(b\)](#) below), provided that if the Participant is a "specified employee" (determined pursuant to the Company's policy for determining specified employees in accordance with Section 409A), the payment date shall be the first day of the seventh (7th) month after the date of the Participant's separation from service; (B) the date payment otherwise would have been made in the absence of any provisions in this Plan to the contrary (provided such date is permissible under Section 409A); or (C) the Participant's death.

13. TAX WITHHOLDING.

- 13.1. Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Company and its Subsidiaries with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Common Stock, to release shares of Common Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the required tax withholding obligations have been satisfied by the Participant.

13.2. Withholding in Shares. The Company shall have the right, but not the obligation, to deduct from the shares of Common Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Common Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Company and its Subsidiaries. The Fair Market Value of any shares of Common Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

- 14. COMPLIANCE WITH SECURITIES LAW.** The grant of Awards and the issuance of shares of Common Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Common Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award, or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Common Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.
- 15. COMPLIANCE WITH SECTION 409A.** Awards granted under the Plan shall be designed and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A. To the extent that the Committee determines that any award granted under the Plan is subject to Section 409A, the Award Agreement shall incorporate the terms and conditions necessary to avoid the imposition of an additional tax under Section 409A upon a Participant. Notwithstanding any other provision of the Plan or any Award Agreement (unless the Award Agreement provides otherwise with specific reference to this Section):
- (a) An Award shall not be granted, deferred, accelerated, extended, paid out, settled, substituted or modified under this Plan in a manner that would result in the imposition of an additional tax under Section 409A upon a Participant;
 - (b) If an Award is subject to Section 409A, no distribution or payment of any amount as a result of the Participant's Retirement or other termination of Service (other than termination due to the Participant's death) shall be made before the date of the participant's "separation from service" within the meaning of Treasury Regulation § 1.409A-1(h), provided that in applying Treasury Regulation § 1.409A-1(h)(1)(ii), a separation from service shall be deemed to occur if the Company and the Participant reasonably anticipate that the level of bona fide services the Participant will perform after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Participant (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services, if the Participant has been providing services for less than 36 months), and further provided that, in the event of a disposition of assets by the Company to an unrelated person, the Company reserves the discretion to specify (in accordance with Treasury Regulation § 1.409A-1(h)(4)) whether a Participant who would otherwise experience a separation from service with the Company as part of the disposition of assets will be considered to experience a separation from service for purposes of Treasury Regulation § 1.409A-1(h);
 - (c) If an Award is subject to Section 409A, and if the Participant holding the award is a "specified employee" (determined pursuant to the Company's policy for determining specified employees in accordance with Section 409A), no distribution or payment of any amount as a result of the Participant's "separation from service" (as defined in Section 15(b) above) shall be made before the first day of the seventh month following the date of such Participant's separation from service or, if earlier, the date of the Participant's death;
 - (d) To the extent necessary to comply with Section 409A, the term "Disability" shall have the meaning set out in Treasury Regulation § 1.409A-3(i)(4); and
 - (e) To the extent necessary to comply with Section 409A, the term "Change in Control" shall mean a Change in Control that is also a "change in the ownership", a "change in the effective control" or a "change in the ownership of a substantial portion of the assets" of the Company, within the meaning of Section 409A.

16. TRANSFERABILITY OF AWARDS.

- (a) Except as otherwise determined by the Board or the Committee pursuant to the provisions of Section 16(c), no Award or Dividend Equivalent Rights paid with respect to Awards made under this Plan shall be transferable by the Participant except by will or the laws of descent and distribution, and may be otherwise transferred in a manner that protects the interest of the Company as the Board or the Committee may determine; provided, that if so determined by the Committee, each Participant may, in a manner established by the Board or the Committee, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant and to receive shares of Common Stock or other property issued under such Award. Except as otherwise determined by the Committee, Options and SARs will be exercisable during a Participant's lifetime only by him or her or, in the event of the Participant's legal incapacity to do so, by his or her guardian or legal representative acting on behalf of the Participant in a fiduciary capacity under state law and/or court supervision.
- (b) The Committee may specify at the Grant Date that part or all of the shares of Common Stock that are (i) to be issued or transferred by the Company upon the exercise of Options or SARs, upon the termination of the period of restriction applicable to Restricted Stock Units or (ii) no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 8 of this Plan, will be subject to further restrictions on transfer.
- (c) Notwithstanding Section 16(a), the Board or the Committee may determine that Awards may be transferable by a Participant, without payment of consideration therefor by the transferee, only to any one or more family members (as defined in the General Instructions to Form S-8 under the Securities Act of 1933) of the Participant; provided, however, that (i) no such transfer shall be effective unless reasonable prior notice thereof is delivered to the Company and such transfer is thereafter effected in accordance with any terms and conditions that shall have been made applicable thereto by the Board or the Committee, and (ii) any such transferee shall be subject to the same terms and conditions hereunder as the Participant.

17. AMENDMENT OR TERMINATION OF PLAN. The Committee may amend, suspend or terminate the Plan at any time. Notwithstanding the foregoing, the Plan may not be amended, suspended or terminated in a manner that would (i) result in the imposition of an additional tax under Section 409A upon a Participant, or (ii) cause an Award that is intended to qualify for the Performance-Based Exception to fail to qualify for the Performance-Based Exception. Moreover, without the approval of the Company's shareholders, there shall be no amendment of the Plan that would require approval of the Company's shareholders under any applicable law, regulation or rule, including the rules of any stock exchange or market system upon which the Common Stock may then be listed. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. Except as provided by the next sentence, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant. Notwithstanding any other provision of the Plan or any Award Agreement to the contrary, the Committee may, in its sole and absolute discretion and without the consent of any Participant, amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A of the Code and all applicable guidance promulgated thereunder.

18. MISCELLANEOUS PROVISIONS.

- 18.1. Compliance with Section 162(m) of the Code.** Notwithstanding any other provision of the Plan, the Committee may not take any action that would cause an Award that is intended to qualify for the Performance-Based Exception to fail to qualify for the Performance-Based Exception.
- 18.2. Repurchase Rights.** Shares of Common Stock issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Common Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Common Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.
- 18.3. Re-Pricing.** Except for adjustments made pursuant to Section 4.3, the Board or the Committee will not, without the further approval of the shareholders of the Company, authorize the amendment of any outstanding Option or SAR to

reduce the exercise price or grant price, respectively. No Option or SAR will be cancelled and replaced with awards having a lower exercise price or grant price, respectively, or for another Award, or for cash (other than as provided in [Section 12](#) of the Plan) without further approval of the shareholders of the Company, except as provided in [Section 4.3](#). This [Section 18.3](#) is intended to prohibit the repricing of “underwater” Options or SARs without shareholder approval and will not be construed to prohibit the adjustments provided for in [Section 4.3](#) of this Plan.

18.4. Forfeiture Events.

- (a) The Committee may specify in an Award Agreement that the Participant’s rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Service due to the Participant’s conduct constituting a Detrimental Activity. All Awards are subject to reduction, cancellation, forfeiture, or recoupment, in the Committee’s discretion as contemplated and provided under the Company’s Claw-back Policy, as established by the Committee, or the Board, as it now exists, or as it may be amended from time to time.
- (b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, any Participant who knowingly or through gross negligence engaged in the misconduct, or who knowingly or through gross negligence failed to prevent the misconduct, and any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, shall reimburse the Company the amount of any payment in settlement of an Award earned or accrued during the twelve (12) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement.

18.5. Provision of Information. Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company’s common shareholders.

18.6. Rights as Employee or Director. No person, even though eligible pursuant to [Section 5](#), shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant’s Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee’s employer or that the Employee has an employment relationship with the Company.

18.7. Rights as a Shareholder. A Participant shall have no rights as a shareholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in [Section 4.3](#) or another provision of the Plan.

18.8. Delivery of Title to Shares. Subject to any governing rules or regulations, the Company shall issue or cause to be issued the shares of Common Stock acquired pursuant to an Award and shall deliver such shares to or for the benefit of the Participant by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Common Stock credited to the account of the Participant, (b) by depositing such shares of Common Stock for the benefit of the Participant with any broker with which the Participant has an account relationship, or (c) by delivering such shares of Common Stock to the Participant in certificate form.

18.9. Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

18.10. Retirement and Welfare Plans. Neither Awards made under this Plan nor shares of Common Stock or cash paid pursuant to such Awards shall be included as compensation for purposes of computing the benefits payable to any Participant under any retirement plan (qualified or non-qualified) or welfare benefit plan of the Company or any Subsidiary unless such other plan expressly provides that such compensation shall be taken into account in computing such benefits.

18.11. Severability. If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable,

and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

- 18.12.No Constraint on Corporate Action.** Nothing in this Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or any Subsidiary's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or any Subsidiary to take any action which such entity deems to be necessary or appropriate.
- 18.13.Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. Neither the Company nor any Subsidiary shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Company or any Subsidiary and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of the Company or any Subsidiary. The Participants shall have no claim against the Company or any Subsidiary for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.
- 18.14.Choice of Law.** Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of Ohio, without regard to its conflict of law rules.
- 18.15.Substitute Awards for Awards Granted by Other Entities.** Substitute Awards may be granted under this Plan for grants or awards held by employees of a company or entity who become employees of the Company or a Subsidiary as a result of the acquisition, merger or consolidation of the employer company by or with the Company or a Subsidiary. Except as otherwise provided by applicable law and notwithstanding anything in the Plan to the contrary, the terms, provisions and benefits of the Substitute Awards so granted may vary from those set forth in or required or authorized by this Plan to such extent as the Committee at the time of the grant may deem appropriate to conform, in whole or part, to the terms, provisions and benefits of grants or awards in substitution for which they are granted.
- 18.16.Acceptance of Plan.** By accepting any benefit under the Plan, each Participant and each person claiming under or through any such Participant shall be conclusively deemed to have indicated their acceptance and ratification of, and consent to, all of the terms and conditions of the Plan and any action taken under the Plan by the Committee, the Board or the Company, in any case in accordance with the terms and conditions of the Plan.

**Parker-Hannifin Corporation
Target Incentive Plan**

1. Effective Date and Purpose. Parker-Hannifin Corporation, an Ohio corporation (the “Company”), adopts this Parker-Hannifin Corporation Target Incentive Plan (the “Plan”) effective as of August 11, 2010. The purpose of the Plan is to attract and retain key executives for the Company and to provide such persons with incentives for superior performance in the form of an opportunity to earn an annual cash incentive bonus. This Plan and each Award Opportunity (as defined below) granted hereunder shall be subject to the terms and conditions set forth below.

2. Definitions. The following capitalized words as used in this Plan shall have the following meanings:

“Affiliate” means any corporation or other entity (including, but not limited to, partnerships, limited liability companies and joint ventures) controlled by the Company.

“Award Opportunity” means an opportunity granted by the Committee under the Plan to an Eligible Executive to earn an incentive bonus under this Plan with respect to a Performance Period, payable in cash and subject to the terms and conditions of this Plan.

“Beneficiary” means a person designated by an Eligible Executive in accordance with Section 12 of the Plan to receive, in the event of the Eligible Executive’s death, any amounts remaining to be paid with respect to the Eligible Executive under the Plan.

“Board” means the Board of Directors of the Company.

“Cause” means any conduct or activity, whether or not related to the business of the Company, that is determined in individual cases, by the Committee to be detrimental to the interests of the Company including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee, in competition with the Company; (ii) the disclosure to any one outside of the Company, or the use for any purpose other than the Company’s business, of confidential information or material related to the Company, whether acquired by the Eligible Executive during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Company’s Code of Conduct or other policies.

“Claw-back Policy” means the Parker-Hannifin Corporation Claw-back Policy, as amended from time to time, or any successor policy.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Human Resources and Compensation Committee of the Board.

“Company” has the meaning given such term in Section 1 of the Plan.

“Discretionary Pension Contribution” means a contribution by the Company or one of its subsidiaries to a qualified pension plan for employees of the Company or its subsidiaries where absent actions taken by the Company to affect its funding level in a particular year, no minimum required contribution would have been required under applicable laws and regulations.

“Disability” has the meaning set forth in the Parker-Hannifin Corporation Executive Long-Term Disability Plan or such other long-term disability program of the Company or an Affiliate in which the Eligible Executive participates.

“Early Retirement Date” means age 55 with ten or more years of employment with the Company; provided, however, that any Retirement prior to age 60 must be with the consent of the Committee.

“Eligible Executive” means any Employee who is designated as such by the Committee for a Performance Period pursuant to Section 4.

“Employee” means any person employed by the Company or an Affiliate, whether such Employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

“FCF Margin” means the Company’s net cash flow provided by operating activities less capital expenditures for the Performance Period, expressed as a percentage of the Company’s net sales for the Performance Period. Discretionary Pension Contributions by the Company during the Performance Period are not included in the calculation of FCF Margin. Notwithstanding the foregoing, the Committee may specify in the Payout Formula for any Award Opportunity that FCF Margin shall be determined by including or excluding any items specified by the Committee, including but not limited to discontinued operations, expenses for restructuring or productivity initiatives, or extraordinary, unusual, non-recurring or special items.

“Maximum FCF Margin” means the level of FCF Margin beyond which the achievement of FCF Margin will not increase the amount earned by the Eligible Executive pursuant to an Award Opportunity.

“Normal Retirement Date” means the date on which an Eligible Executive attains age 65.

“Notice of Award” means a written or electronic communication to an Eligible Executive with respect to a Performance Period, which provides notice of the Eligible Executive’s Target Award and the applicable Payout Formula for such Performance Period, subject to the terms and conditions of the Plan.

“Payout Formula” means the method established by the Committee for determining the amount earned, if any, under an Eligible Executive’s Award Opportunity for a Performance Period, which shall be determined as the product of the Eligible Executive’s Target

Award times the applicable Payout Percentage based on the level of achievement of FCF Margin for the Performance Period. The Payout Formula shall specify (i) the Threshold FCF Margin, (ii) the Maximum FCF Margin, and (iii) the applicable Payout Percentages (or the method for determining the applicable Payout Percentages) for any level of FCF Margin achievement between Threshold FCF Margin and Maximum FCF Margin.

“Payout Percentage” means a percentage specified pursuant to the Payout Formula established by the Committee with respect to an Award Opportunity.

“Performance Period” means a fiscal year of the Company.

“Plan” means this Parker-Hannifin Corporation Target Incentive Plan, as amended from time to time.

“Retirement” means an Eligible Executive’s termination of employment following the Eligible Executive’s Early Retirement Date or Normal Retirement Date, other than termination of employment by the Company for Cause.

“Target Award” means the target amount of an Eligible Executive’s Award Opportunity for a Performance Period, as established by the Committee pursuant to Section 5, and which may be expressed as a dollar amount or a percentage of the Eligible Executive’s base salary.

“Threshold FCF Margin” means the minimum level of FCF Margin that must be achieved in order for any amount to be earned by the Eligible Executive pursuant to an Award Opportunity.

3. Plan Administration. The Committee shall be responsible for administration of the Plan. The Committee is authorized to interpret the Plan, to prescribe, amend and rescind regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. The Committee may delegate to one or more persons the authority to take any action or make any determination or exercise any authority of the Committee under this Plan. To the extent of any such delegation of authority, the term “Committee” as used in this Plan shall be deemed to refer to such person(s) to whom authority has been delegated by the Committee. Determinations, interpretations or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes and upon all Eligible Executives, Beneficiaries and all other persons who have or claim an interest herein.

4. Eligibility. The Committee shall designate the Eligible Executives, if any, for each Performance Period. An Employee who is designated as an Eligible Executive for a given Performance Period is not guaranteed of being selected as an Eligible Executive for any other Performance Period.

5. Establishment of Award Opportunities. On or after the beginning of each Performance Period, the Committee shall establish the Target Award and Payout Formula for

each Eligible Executive's Award Opportunity for the Performance Period. The Committee shall provide a Notice of Award to each Eligible Executive as soon as practical following the establishment of the Eligible Executive's Target Award and Payout Formula.

6. Determination of Amount Payable Under Award Opportunities.

A. Interim Determinations. During each of the months of March and June next following the commencement of the Performance Period, the Company shall make interim determinations of (i) the level of achievement of FCF Margin for the period commencing on the first day of the Performance Period and ending on the last day of the immediately preceding month (each such period an "Interim Period"), and (ii) the amount of the Award Opportunity, if any, earned by each Eligible Executive for the applicable Interim Period pursuant to the applicable Payout Formula.

B. Final Determination. Following the end of each Performance Period, the Committee shall determine (i) the level of achievement of FCF Margin for the Performance Period, (ii) the amount of the Award Opportunity, if any, earned by each Eligible Executive for the Performance Period pursuant to the applicable Payout Formula, and (iii) the amount of the bonus payable, if any, to each Eligible Executive under this Plan for the Performance Period. The Committee may, in its sole discretion, adjust the amount of the bonus payable to any Eligible Executive under this Plan (including a reduction in such amount to zero).

7. Payment of Award Opportunities.

A. Interim Payments. During each of the months of March and June next following the commencement of the Performance Period, and following the interim determinations made pursuant to Section 6.A of this Plan, the Company shall make a cash payment to each Eligible Executive in an amount equal to seventy-five percent (75%) of the amount of the Award Opportunity earned for the applicable Interim Period (less any amount previously paid to the Eligible Executive with respect to such Award Opportunity under this Section 7.A). Notwithstanding the foregoing, the Chief Executive Officer of the Company may, in his sole discretion, adjust the amount of the bonus payable to any Eligible Executive under this Section 7.A (including a reduction in such amount to zero).

B. Final Payment. During the month of August following the end of each Performance Period, the Company shall make a cash payment to each Eligible Executive equal to the excess, if any, of the amount of the bonus payable under this Plan, if any, as determined by the Committee pursuant to Section 6.B, over any amounts previously paid to the Eligible Executive with respect to that Award Opportunity pursuant to Section 7.A. Notwithstanding the foregoing, payment of that portion of an Eligible Executive's bonus that would otherwise be paid under this Plan during August following the end of the Performance Period may be deferred pursuant to a valid deferral election by the Eligible Executive under the terms and conditions of the Executive Deferral Plan or such other deferral arrangement as may be established by the Company. For purposes of determining the amount of any bonus deferred as provided in the preceding sentence, the amount of the final payment subject to an Eligible Executive's deferral election shall be determined without regard to any adjustment of the amount of the bonus

payable with respect to an Interim Period (such as an adjustment in the percentage of the bonus paid in an interim payment pursuant to Section 7.A).

8. Terminations, Promotions and New Hires.

A. Terminations. Except as otherwise provided herein, an Eligible Executive must remain continuously employed by the Company through the last day of a Performance Period in order to be entitled to receive payment of any Award Opportunity earned pursuant to this Plan for such Performance Period. Notwithstanding the foregoing, in the event of an Eligible Executive's termination of employment during a Performance Period due to death, Disability, Retirement, or termination of employment by the Company without Cause, the Eligible Executive will be entitled to receive payment of a prorated bonus for that Performance Period equal to the product of the amount of the Award Opportunity earned by the Eligible Executive as determined by the Committee pursuant to Section 6 multiplied by a fraction, the numerator of which is the number of full months of continuous employment during the Performance Period and the denominator of which is twelve; provided, however, that the Committee may, in its sole discretion, adjust the amount of the bonus payable to any Eligible Executive under this Section 8.A (including a reduction in such amount to zero). Any such prorated bonus will be payable at the times provided in Section 7.

B. Promotions and New Hires. With respect to an Eligible Executive who is newly hired or is promoted by the Company during a Performance Period, the Committee may, in its sole discretion, grant an Award Opportunity, or adjust an Award Opportunity previously granted, to such Eligible Executive for such Performance Period.

9. Tax Withholding. The Company and its Affiliates shall have the right to deduct from all payments made to or for the benefit of an Eligible Executive any federal, state, local, foreign or other taxes which, in the opinion of the Company, are required to be withheld with respect to any bonus payable under the Plan.

10. Source of Payment. Each bonus that may become payable under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Eligible Executive's claim of any right to payment of a bonus other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

11. Rights of Employer. Nothing contained in this Plan nor any action taken under this Plan shall be construed as a contract of employment or as giving any Eligible Executive any right to continued employment with the Company or any Affiliate.

12. Nontransferability. Except as otherwise provided in this Plan, the benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, and these benefits shall be exempt from the claims of creditors of any Eligible Executive or other claimants and from all orders, decrees, levies, garnishment or executions against any Eligible Executive to the fullest extent allowed by law. Notwithstanding the foregoing, an Eligible Executive may designate a Beneficiary or Beneficiaries (both primary and contingent) to receive, in the event of the Eligible Executive's death, any amounts remaining

to be paid with respect to the Eligible Executive under the Plan. The Eligible Executive shall have the right to revoke any such designation and to re-designate a Beneficiary or Beneficiaries. To be effective, any such designation, revocation, or re-designation must be in such written form as the Company may prescribe and must be received and accepted by the Company prior to the Eligible Executive's death. Any finalized divorce or marriage of an Eligible Executive 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 a Beneficiary and unless in the case of marriage the Eligible Executive's new spouse has previously been designated as a Beneficiary. The spouse of a married Eligible Executive 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 an Eligible Executive dies without effectively designating a Beneficiary, or if all designated Beneficiaries either predecease the Eligible Executive or the Eligible Executive and all designated Beneficiaries die prior to any payment yet to be made under the Plan, any amounts remaining to be paid with respect to the Eligible Executive under the Plan shall be paid to the estate of the Eligible Executive.

13. Successors. 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.

14. Governing Law. The Plan and all Award Opportunities shall be construed in accordance with and governed by the laws of the State of Ohio, but without regard to its conflict of law provisions.

15. Amendment or Termination. The Committee reserves the right, at any time, without either the consent of, or any prior notification to, any Eligible Executive or other person, to amend, suspend or terminate the Plan or any Award Opportunity granted thereunder, in whole or in part, in any manner, and for any reason.

16. Claw-back Policy. Each Award Opportunity granted, and each incentive bonus paid, pursuant to this Plan shall be subject to the terms and conditions of the Claw-back Policy.

17. Section 409A of the Code. It is the Company's intent that, except as otherwise provided pursuant to a deferral election described in Section 7 of this Plan, each bonus payable under this Plan shall be exempt from the requirements of Section 409A of the Code under the "short-term deferral" exception set out in Section 1.409A-1(b)(4) of the Treasury Regulations. The Plan shall be interpreted and administered in a manner consistent with such intent.

18. Plan Terms Control. In the event of a conflict between the terms and conditions of any Notice of Award and the terms and conditions of the Plan, the terms and conditions of the Plan shall prevail.

19. Severability. 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.

20. Waiver. The waiver by the Company of any breach of any provision of the Plan by an Eligible Executive shall not operate or be construed as a waiver of any subsequent breach.

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

Parker-Hannifin Corporation
Target Incentive Plan
Subject to
Performance Bonus Plan

1. Effective Date and Purpose. Parker-Hannifin Corporation, an Ohio corporation (the “Company”), adopts this Parker-Hannifin Corporation Senior Executive Target Incentive Plan (the “Plan”) effective as of August 11, 2010. The purpose of the Plan is to attract and retain key executives for the Company and to provide such persons with incentives for superior performance in the form of an opportunity to earn an annual bonus that qualifies as a Short-Term Incentive Bonus (as defined in the Company’s Performance Bonus Plan), while preserving the ability of the Company to deduct Short-Term Incentive Bonuses paid under this Plan as “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Code (as defined below). This Plan and each Award Opportunity (as defined below) granted hereunder shall be subject to the terms and conditions set forth below and the terms and conditions of the Company’s Performance Bonus Plan. Terms not defined in this Plan shall have the meanings set forth in the Performance Bonus Plan.

2. Definitions. The following capitalized words as used in this Plan shall have the following meanings:

“Affiliate” means any corporation or other entity (including, but not limited to, partnerships, limited liability companies and joint ventures) controlled by the Company.

“Award Opportunity” means an opportunity granted by the Committee under the Plan to an Eligible Executive to earn a Short-Term Incentive Bonus under this Plan with respect to a Performance Period, payable in cash and subject to the terms and conditions of this Plan and the Performance Bonus Plan.

“Beneficiary” means a person designated by an Eligible Executive in accordance with Section 12 of the Plan to receive, in the event of the Eligible Executive’s death, any amounts remaining to be paid with respect to the Eligible Executive under the Plan.

“Board” means the Board of Directors of the Company.

“Cause” means any conduct or activity, whether or not related to the business of the Company, that is determined in individual cases, by the Committee to be detrimental to the interests of the Company including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee, in competition with the Company; (ii) the disclosure to any one outside of the Company, or the use for any purpose other than the Company’s business, of confidential information or material related to the Company, whether acquired by the Eligible Executive during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Company’s Code of Conduct or other policies.

“Claw-back Policy” means the Parker-Hannifin Corporation Claw-back Policy, as amended from time to time.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Human Resources and Compensation Committee of the Board, or such other committee appointed by the Board to administer the Performance Bonus Plan; provided, however, that in any event the Committee shall be comprised of not less than two directors of the Company, each of whom shall qualify as an “outside director” for purposes of Section 162(m) of the Code and Section 1.162-27(e)(3) of the Treasury Regulations promulgated thereunder.

“Company” has the meaning given such term in Section 1 of the Plan.

“Disability” has the meaning set forth in the Parker-Hannifin Corporation Executive Long-Term Disability Plan or such other long-term disability program of the Company or an Affiliate in which the Eligible Executive participates.

“Discretionary Pension Contribution” means a contribution by the Company or one of its subsidiaries to a qualified pension plan for employees of the Company or its subsidiaries where absent actions taken by the Company to affect its funding level in a particular year, no minimum required contribution would have been required under applicable laws and regulations.

“Early Retirement Date” means age 55 with ten or more years of employment with the Company; provided, however, that any Retirement prior to age 60 must be with the consent of the Committee.

“Eligible Executive” means any Employee who is designated as such by the Committee for a Performance Period pursuant to Section 4.

“Employee” means any person employed by the Company or an Affiliate, whether such Employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

“FCF Margin” means the Company’s net cash flow provided by operating activities less capital expenditures for the Performance Period, expressed as a percentage of the Company’s net sales for the Performance Period. Discretionary Pension Contributions by the Company during the Performance Period are not included in the calculation of FCF Margin. Notwithstanding the foregoing, the Committee may specify in the Payout Formula for any Award Opportunity that FCF Margin shall be determined by including or excluding any items specified by the Committee, including but not limited to discontinued operations, expenses for restructuring or productivity initiatives, or extraordinary, unusual, non-recurring or special items.

“Maximum FCF Margin” means the level of FCF Margin beyond which the achievement of FCF Margin will not increase the amount earned by the Eligible Executive pursuant to an Award Opportunity.

“Normal Retirement Date” means the date on which an Eligible Executive attains age 65.

“Notice of Award” means a written or electronic communication to an Eligible Executive with respect to a Performance Period, which provides notice of the Eligible Executive’s Target Award and the applicable Payout Formula for such Performance Period, subject to the terms and conditions of the Plan and the Performance Bonus Plan.

“Payout Formula” means the method established by the Committee for determining the amount earned, if any, under an Eligible Executive’s Award Opportunity for a Performance Period, which shall be determined as the product of the Eligible Executive’s Target Award times the applicable Payout Percentage based on the level of achievement of FCF Margin for the Performance Period. The Payout Formula shall specify (i) the Threshold FCF Margin, (ii) the Maximum FCF Margin, and (iii) the applicable Payout Percentages (or the method for determining the applicable Payout Percentages) for any level of FCF Margin achievement between Threshold FCF Margin and Maximum FCF Margin.

“Payout Percentage” means a percentage specified pursuant to the Payout Formula established by the Committee with respect to an Award Opportunity.

“Performance Bonus Plan” means the Parker-Hannifin Corporation 2005 Performance Bonus Plan, or any successor plan.

“Performance Period” means a fiscal year of the Company.

“Plan” means this Parker-Hannifin Corporation Senior Executive Target Incentive Plan, as amended from time to time.

“Retirement” means an Eligible Executive’s termination of employment following the Eligible Executive’s Early Retirement Date or Normal Retirement Date, other than termination of employment by the Company for Cause.

“Target Award” means the target amount of an Eligible Executive’s Award Opportunity for a Performance Period, as established by the Committee pursuant to Section 5, and which may be expressed as a dollar amount or a percentage of the Eligible Executive’s base salary.

“Threshold FCF Margin” means the minimum level of FCF Margin that must be achieved in order for any amount to be earned by the Eligible Executive pursuant to an Award Opportunity.

3. Plan Administration. The Committee shall be responsible for administration of the Plan. The Committee is authorized to interpret the Plan, to prescribe, amend and rescind

regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan and the Performance Bonus Plan. Determinations, interpretations or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes and upon all Eligible Executives, Beneficiaries and all other persons who have or claim an interest herein.

4. Eligibility. The Committee shall designate the Eligible Executives, if any, for each Performance Period. An Employee who is designated as an Eligible Executive for a given Performance Period is not guaranteed of being selected as an Eligible Executive for any other Performance Period.

5. Establishment of Award Opportunities. Not later than the 90th day of each Performance Period and subject to the terms and conditions of Section 5 of the Performance Bonus Plan (including the limits on an Eligible Executive's maximum Short-Term Incentive Bonuses), the Committee shall establish the Target Award and Payout Formula for each Eligible Executive's Award Opportunity for the Performance Period. The Committee shall provide a Notice of Award to each Eligible Executive as soon as practical following the establishment of the Eligible Executive's Target Award and Payout Formula.

6. Determination of Short-Term Bonus Amount Payable Under Award Opportunities. Following the end of each Performance Period, the Committee shall certify in writing (i) the level of achievement of FCF Margin for the Performance Period, (ii) the amount of the Award Opportunity, if any, earned by each Eligible Executive for the Performance Period pursuant to the applicable Payout Formula, and (iii) the amount of the Short-Term Incentive Bonus payable, if any, to each Eligible Executive under this Plan for the Performance Period. The Committee may, in its sole discretion, reduce the amount of the Short-Term Incentive Bonus payable to any Eligible Executive under this Plan below the amount of the Award Opportunity earned pursuant to the applicable Payout Formula (including a reduction in such amount to zero).

7. Payment of Short-Term Incentive Bonuses. Except as otherwise provided in this Plan, the Company shall make a cash payment to each Eligible Executive equal to the amount of the Short-Term Incentive Bonus payable under this Plan, if any, as certified by the Committee pursuant to Section 6. The cash payment shall be made following the end of the Performance Period and the certifications by the Committee pursuant to Section 6, but not later than two and one-half months following the end of the applicable Performance Period. Notwithstanding the foregoing, payment of an Eligible Executive's Short-Term Incentive Bonus under this Plan may be deferred pursuant to a valid election by the Eligible Executive under the terms and conditions of the Executive Deferral Plan or such other deferral arrangement as may be established by the Company.

8. Terminations, Promotions and New Hires.

A. Terminations. Except as otherwise provided herein, an Eligible Executive must remain continuously employed by the Company through the last day of a Performance Period in order to be entitled to receive payment of any Short-Term Incentive Bonus pursuant to this Plan for such Performance Period. Notwithstanding the foregoing, in the

event of an Eligible Executive's termination of employment during a Performance Period due to death, Disability, Retirement, or termination of employment by the Company without Cause, the Eligible Executive will be entitled to receive a prorated Short-Term Incentive Bonus for that Performance Period equal to the product of the amount of the Award Opportunity earned by the Eligible Executive as certified by the Committee pursuant to Section 6 multiplied by a fraction, the numerator of which is the number of full months of continuous employment during the Performance Period and the denominator of which is twelve; provided, however, that the Committee may, in its sole discretion, reduce the amount of the Short-Term Incentive Bonus payable to any Eligible Executive under this Section 8.A (including a reduction in such amount to zero). Any such prorated bonus will be payable at the time provided in Section 7.

B. Promotions and New Hires. With respect to an Eligible Executive who is newly hired or is promoted by the Company during a Performance Period, the Committee may grant an Award Opportunity, or adjust an Award Opportunity previously granted, to such Eligible Executive for such Performance Period pursuant to regulations adopted by the Committee under the Performance Bonus Plan; provided, however, that no Award Opportunity shall be granted or adjusted in such a manner as to cause any Short-Term Incentive Bonus payable under this Plan to fail to qualify as "performance-based compensation" within the meaning of section 162(m)(4)(C) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder.

9. Tax Withholding. The Company and its Affiliates shall have the right to deduct from all payments made to or for the benefit of an Eligible Executive any federal, state, local, foreign or other taxes which, in the opinion of the Company, are required to be withheld with respect to any Short-Term Incentive Bonus payable under the Plan.

10. Source of Payment. Each Short-Term Incentive Bonus that may become payable under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Eligible Executive's claim of any right to payment of a Short-Term Incentive Bonus other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

11. Rights of Employer. Nothing contained in this Plan nor any action taken under this Plan shall be construed as a contract of employment or as giving any Eligible Executive any right to continued employment with the Company or any Affiliate.

12. Nontransferability. Except as otherwise provided in this Plan, the benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, and these benefits shall be exempt from the claims of creditors of any Eligible Executive or other claimants and from all orders, decrees, levies, garnishment or executions against any Eligible Executive to the fullest extent allowed by law. Notwithstanding the foregoing, an Eligible Executive may designate a Beneficiary or Beneficiaries (both primary and contingent) to receive, in the event of the Eligible Executive's death, any amounts remaining to be paid with respect to the Eligible Executive under the Plan. The Eligible Executive shall have the right to revoke any such designation and to re-designate a Beneficiary or Beneficiaries. To be effective, any such designation, revocation, or re-designation must be in such written form

as the Company may prescribe and must be received and accepted by the Company prior to the Eligible Executive's death. Any finalized divorce or marriage of an Eligible Executive 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 a Beneficiary and unless in the case of marriage the Eligible Executive's new spouse has previously been designated as a Beneficiary. The spouse of a married Eligible Executive 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 an Eligible Executive dies without effectively designating a Beneficiary, or if either all designated Beneficiaries predecease the Eligible Executive or the Eligible Executive and all designated Beneficiaries die prior to any payment yet to be made under the Plan, any amounts remaining to be paid with respect to the Eligible Executive under the Plan shall be paid to the estate of the Eligible Executive.

13. Successors. 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.

14. Governing Law. The Plan and all Award Opportunities shall be construed in accordance with and governed by the laws of the State of Ohio, but without regard to its conflict of law provisions.

15. Amendment or Termination. The Committee reserves the right, at any time, without either the consent of, or any prior notification to, any Eligible Executive or other person, to amend, suspend or terminate the Plan or any Award Opportunity granted thereunder, in whole or in part, in any manner, and for any reason; provided that any such amendment shall be subject to approval by the shareholders of the Company to the extent required to satisfy the requirements of Section 162(m) of the Code and the Treasury Regulations promulgated thereunder, and provided further that any such amendment shall not, after the end of the 90-day period described in Section 5 of the Plan, cause the amount payable under an Award Opportunity to be increased as compared to the amount that would have been paid in accordance with the terms established as of the end of such period.

16. Claw-back Policy. Each Award Opportunity granted, and each Short-Term Incentive Bonus paid, pursuant to this Plan shall be subject to the terms and conditions of the Claw-back Policy.

17. Section 409A of the Code. It is the Company's intent that each Short-Term Incentive Bonus payable under this Plan shall be exempt from the requirements of Section 409A of the Code under the "short-term deferral" exception set out in Section 1.409A-1(b)(4) of the Treasury Regulations. The Plan shall be interpreted and administered in a manner consistent with such intent.

18. Plan and Performance Bonus Plan Terms Control. In the event of a conflict between the terms and conditions of any Notice of Award and the terms and conditions of the Plan, the terms and conditions of the Plan shall prevail. In the event of a conflict between the terms and conditions of any Notice of Award or of this Plan and the terms and conditions of the Performance Bonus Plan, the terms and conditions of the Performance Bonus Plan shall prevail to the extent necessary for Short-Term Incentive Bonuses paid under this Plan to qualify as

“performance-based compensation” for purposes of Section 162(m) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder.

19. Severability. 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.

20. Waiver. The waiver by the Company of any breach of any provision of the Plan by an Eligible Executive shall not operate or be construed as a waiver of any subsequent breach.

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

Parker-Hannifin Corporation
RONA Plan Subject to
Performance Bonus Plan

1. Effective Date and Purpose. Parker-Hannifin Corporation, an Ohio corporation (the “Company”), adopts this Parker-Hannifin Corporation Senior Executive Return on Net Assets Plan (the “Plan”) effective as of August 11, 2010. The purpose of the Plan is to attract and retain key executives for the Company and to provide such persons with incentives for superior performance in the form of an opportunity to earn an annual bonus that qualifies as a Short-Term Incentive Bonus (as defined in the Company’s Performance Bonus Plan), while preserving the ability of the Company to deduct Short-Term Incentive Bonuses paid under this Plan as “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Code (as defined below). This Plan and each Award Opportunity (as defined below) granted hereunder shall be subject to the terms and conditions set forth below and the terms and conditions of the Company’s Performance Bonus Plan. Terms not defined in this Plan shall have the meanings set forth in the Performance Bonus Plan.

2. Definitions. The following capitalized words as used in this Plan shall have the following meanings:

“Affiliate” means any corporation or other entity (including, but not limited to, partnerships, limited liability companies and joint ventures) controlled by the Company.

“Average RONA Assets” means the average of the Company’s RONA Assets on each of the following dates: the first day of the Performance Period and the last day of at the each fiscal quarter of the Performance Period.

“Award Opportunity” means an opportunity granted by the Committee under the Plan to an Eligible Executive to earn a Short-Term Incentive Bonus under this Plan with respect to a Performance Period, payable in cash and subject to the terms and conditions of this Plan and the Performance Bonus Plan.

“Base Salary” means an Eligible Executive’s base salary paid during the Performance Period.

“Beneficiary” means a person designated by an Eligible Executive in accordance with Section 12 of the Plan to receive, in the event of the Eligible Executive’s death, any amounts remaining to be paid with respect to the Eligible Executive under the Plan.

“Board” means the Board of Directors of the Company.

“Cause” means any conduct or activity, whether or not related to the business of the Company, that is determined in individual cases, by the Committee to be detrimental to the interests of the Company including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee, in competition

with the Company; (ii) the disclosure to any one outside of the Company, or the use for any purpose other than the Company's business, of confidential information or material related to the Company, whether acquired by the Eligible Executive during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Company's Code of Conduct or other policies.

"Claw-back Policy" means the Parker-Hannifin Corporation Claw-back Policy, as amended from time to time, or any successor policy.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Human Resources and Compensation Committee of the Board, or such other committee appointed by the Board to administer the Performance Bonus Plan; provided, however, that in any event the Committee shall be comprised of not less than two directors of the Company, each of whom shall qualify as an "outside director" for purposes of Section 162(m) of the Code and Section 1.162-27(e)(3) of the Treasury Regulations promulgated thereunder.

"Company" has the meaning given such term in Section 1 of the Plan.

"Earnings" means the Company's segment operating income for the Performance Period.

"Eligible Executive" means any Employee who is designated as such by the Committee for a Performance Period pursuant to Section 4.

"Employee" means any person employed by the Company or an Affiliate, whether such Employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

"Notice of Award" means a written or electronic communication to an Eligible Executive with respect to a Performance Period, which provides notice of the Eligible Executive's number of RONA Shares for such Performance Period, subject to the terms and conditions of the Plan and the Performance Bonus Plan.

"Payout Formula" means the number of the Eligible Executive's RONA Shares times the product of the Eligible Executive's Base Salary multiplied by the RONA Percentage.

"Performance Bonus Plan" means the Parker-Hannifin Corporation 2005 Performance Bonus Plan, or any successor plan.

"Performance Period" means a fiscal year of the Company.

"Plan" means this Parker-Hannifin Corporation RONA Plan Subject to Performance Bonus Plan, as amended from time to time.

“ROA” means Earnings divided by Average RONA Assets.

“RONA Assets” means inventory, accounts receivable, prepaid expenses, property, plant and equipment (net of depreciation), goodwill and intangibles, less trade accounts payable and contract reserves, on a consolidated basis.

“RONA Percentage” means the percentage determined as follows:

(i) if ROA is less than or equal to thirty-five percent (35%), then $\text{RONA Percentage} = \text{ROA} \times 0.1786$;

(ii) if ROA is greater than thirty-five percent (35%), then $\text{RONA Percentage} = 6.25\% + ((\text{ROA} - 35\%) \times 0.08978)$.

“RONA Shares” means the number of RONA Shares designated as such in an Eligible Executive’s Notice of Award.

3. Plan Administration. The Committee shall be responsible for administration of the Plan. The Committee is authorized to interpret the Plan, to prescribe, amend and rescind regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan and the Performance Bonus Plan. Determinations, interpretations or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes and upon all Eligible Executives, Beneficiaries and all other persons who have or claim an interest herein.

4. Eligibility. The Committee shall designate the Eligible Executives, if any, for each Performance Period. An Employee who is designated as an Eligible Executive for a given Performance Period is not guaranteed of being selected as an Eligible Executive for any other Performance Period.

5. Establishment of Award Opportunities. Not later than the 90th day of each Performance Period and subject to the terms and conditions of Section 5 of the Performance Bonus Plan (including the limits on an Eligible Executive’s maximum Short-Term Incentive Bonuses), the Committee shall establish the number of RONA Shares for each Eligible Executive’s Award Opportunity for the Performance Period. The Committee shall provide a Notice of Award to each Eligible Executive as soon as practical following the establishment of the Eligible Executive’s number of RONA Shares.

6. Determination of Amount Payable Under Award Opportunities. Following the end of each Performance Period, the Committee shall certify in writing (i) the level of achievement of ROA for the Performance Period, (ii) the RONA Percentage applicable to each Eligible Executive for the Performance Period, (iii) the amount of the Award Opportunity, if any, earned by each Eligible Executive for the Performance Period pursuant to the Payout Formula, and (iv) the amount of the Short-Term Incentive Bonus payable, if any, to each Eligible

Executive under this Plan for the Performance Period. The Committee may, in its sole discretion, reduce the amount of the Short-Term Incentive Bonus payable to any Eligible Executive under this Plan below the amount of the Award Opportunity earned pursuant to the applicable Payout Formula (including a reduction in such amount to zero).

7. Payment of Short-Term Incentive Bonuses. Except as otherwise provided in this Plan, the Company shall make a cash payment to each Eligible Executive equal to the amount of the Short-Term Incentive Bonus payable under this Plan, if any, as certified by the Committee pursuant to Section 6. The cash payment shall be made following the end of the Performance Period and the certifications by the Committee pursuant to Section 6, but not later than two and one-half months following the end of the applicable Performance Period. Notwithstanding the foregoing, payment of an Eligible Executive's Short-Term Incentive Bonus under this Plan may be deferred pursuant to a valid election by the Eligible Executive under the terms and conditions of the Executive Deferral Plan or such other deferral arrangement as may be established by the Company.

8. Terminations, Promotions and New Hires.

A. Terminations. In the event an Eligible Executive's employment is terminated during a Performance Period for Cause, the Eligible Executive is not entitled to receive a Short-Term Incentive Bonus under this Plan for that Performance Period.

B. Promotions and New Hires. With respect to an Eligible Executive who is newly hired or is promoted by the Company during a Performance Period, the Committee may grant an Award Opportunity, or adjust an Award Opportunity previously granted, to such Eligible Executive for such Performance Period pursuant to regulations adopted by the Committee under the Performance Bonus Plan; provided, however, that no Award Opportunity shall be granted or adjusted in such a manner as to cause any Short-Term Incentive Bonus payable under this Plan to fail to qualify as "performance-based compensation" within the meaning of section 162(m)(4)(C) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder.

9. Tax Withholding. The Company and its Affiliates shall have the right to deduct from all payments made to or for the benefit of an Eligible Executive any federal, state, local, foreign or other taxes which, in the opinion of the Company, are required to be withheld with respect to any Short-Term Incentive Bonus payable under the Plan.

10. Source of Payment. Each Short-Term Incentive Bonus that may become payable under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Eligible Executive's claim of any right to payment of a Short-Term Incentive Bonus other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

11. Rights of Employer. Nothing contained in this Plan nor any action taken under this Plan shall be construed as a contract of employment or as giving any Eligible Executive any right to continued employment with the Company or any Affiliate.

12. Nontransferability. Except as otherwise provided in this Plan, the benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, and these benefits shall be exempt from the claims of creditors of any Eligible Executive or other claimants and from all orders, decrees, levies, garnishment or executions against any Eligible Executive to the fullest extent allowed by law. Notwithstanding the foregoing, an Eligible Executive may designate a Beneficiary or Beneficiaries (both primary and contingent) to receive, in the event of the Eligible Executive's death, any amounts remaining to be paid with respect to the Eligible Executive under the Plan. The Eligible Executive shall have the right to revoke any such designation and to re-designate a Beneficiary or Beneficiaries. To be effective, any such designation, revocation, or re-designation must be in such written form as the Company may prescribe and must be received and accepted by the Company prior to the Eligible Executive's death. Any finalized divorce or marriage of an Eligible Executive 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 a Beneficiary and unless in the case of marriage the Eligible Executive's new spouse has previously been designated as a Beneficiary. The spouse of a married Eligible Executive 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 an Eligible Executive dies without effectively designating a Beneficiary, or if either all designated Beneficiaries predecease the Eligible Executive or the Eligible Executive and all designated Beneficiaries die prior to any payment yet to be made under the Plan, any amounts remaining to be paid with respect to the Eligible Executive under the Plan shall be paid to the estate of the Eligible Executive.

13. Successors. 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.

14. Governing Law. The Plan and all Award Opportunities shall be construed in accordance with and governed by the laws of the State of Ohio, but without regard to its conflict of law provisions.

15. Amendment or Termination. The Committee reserves the right, at any time, without either the consent of, or any prior notification to, any Eligible Executive or other person, to amend, suspend or terminate the Plan or any Award Opportunity granted thereunder, in whole or in part, in any manner, and for any reason; provided that any such amendment shall be subject to approval by the shareholders of the Company to the extent required to satisfy the requirements of Section 162(m) of the Code and the Treasury Regulations promulgated thereunder, and provided further that any such amendment shall not, after the end of the 90-day period described in Section 5 of the Plan, cause the amount payable under an Award Opportunity to be increased as compared to the amount that would have been paid in accordance with the terms established as of the end of such period.

16. Claw-back Policy. Each Award Opportunity granted, and each Short-Term Incentive Bonus paid, pursuant to this Plan shall be subject to the terms and conditions of the Claw-back Policy.

17. Section 409A of the Code. It is the Company's intent that, except as otherwise provided pursuant to a deferral election described in Section 7 of this Plan, each Short-Term Incentive Bonus payable under this Plan shall be exempt from the requirements of Section 409A of the Code under the "short-term deferral" exception set out in Section 1.409A-1(b)(4) of the Treasury Regulations. The Plan shall be interpreted and administered in a manner consistent with such intent.

18. Plan and Performance Bonus Plan Terms Control. In the event of a conflict between the terms and conditions of any Notice of Award and the terms and conditions of the Plan, the terms and conditions of the Plan shall prevail. In the event of a conflict between the terms and conditions of any Notice of Award or of this Plan and the terms and conditions of the Performance Bonus Plan, the terms and conditions of the Performance Bonus Plan shall prevail to the extent necessary for Short-Term Incentive Bonuses paid under this Plan to qualify as "performance-based compensation" for purposes of Section 162(m) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder.

19. Severability. 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.

20. Waiver. The waiver by the Company of any breach of any provision of the Plan by an Eligible Executive shall not operate or be construed as a waiver of any subsequent breach.

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

**TERMS AND CONDITIONS OF RESTRICTED STOCK
ISSUED AS A PAYOUT UNDER THE
LONG TERM INCENTIVE PLAN**

Pursuant to the 2003 Stock Incentive Plan (“Plan”), the Human Resources and Compensation Committee of the Board of Directors (the “Committee”) of Parker-Hannifin Corporation (“Company”) approved the payout of your Long Term Incentive Award (“LTI Award”) in the form of restricted shares of Parker-Hannifin Corporation common stock (“Restricted Shares”), subject to the following terms and conditions:

1. Restrictions on the Restricted Shares will lapse on the third anniversary of issuance (the “Lapse Date”). Prior to the Lapse Date, the Restricted Shares cannot be sold or otherwise transferred or assigned.
 - a. Restrictions lapse immediately in the event of your death or disability.
 - b. Restrictions lapse immediately in the event of your retirement at or after age 60 (or sooner with the consent of the Committee).
 - c. The Restricted Shares are forfeited in the event of the voluntary or involuntary termination of your employment (except due to retirement (as specified in (b) above) death, or disability).
2. Restrictions lapse immediately in the event of a “change in control” of the Company (as defined in the Plan and subject to the requirements of Section 409A of the Internal Revenue Code).
3. Prior to the Lapse Date the Restricted Shares will be issued in an uncertificated book entry format at the transfer agent. After the restrictions lapse, the unrestricted shares will be electronically transferred to your stock benefit plan account with the Company’s Stock Incentive Plan Administrator (currently UBS Financial Services Inc.).
4. Restricted Shares will earn non-refundable dividends prior to the Lapse Date, payable directly to you.
5. The value of the Restricted Shares will become taxable to you on the earlier of the Lapse Date or upon attaining age 60, whichever occurs first. You are obligated to immediately pay any tax withholding obligation payable by the company at that time, if any. At your election, you may surrender a portion of the Restricted Shares to satisfy your tax withholding obligation.

NOTE: If you were already age 60 on the date the Restricted Shares were issued, the value of the Restricted Shares became taxable to you on the issue date and, at your election, you have surrendered a portion of the Restricted Shares to satisfy your tax withholding obligation.
6. To the extent not otherwise specified above, the Restricted Shares issued to you are subject to the terms and conditions of the LTI Award and the Plan.

PARKER-HANNIFIN CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(In thousands)

	Three Months Ended September 30,		Fiscal Year Ended June 30,				
	2010	2009	2010	2009	2008	2007	2006
<u>EARNINGS</u>							
Income from continuing operations before income taxes and noncontrolling interests	\$336,364	\$114,029	\$754,817	\$683,083	\$1,334,571	\$1,166,463	\$901,490
Adjustments:							
Interest on indebtedness, exclusive of interest capitalized and interest on ESOP loan guarantee	24,036	24,989	101,173	109,911	96,572	80,053	71,100
Amortization of deferred loan costs	597	734	2,426	2,143	1,793	1,511	1,888
Portion of rents representative of interest factor	10,299	10,460	41,194	41,839	35,378	29,000	25,609
(Income) loss of equity investees	(85)	(73)	6,757	(1,529)	2,596	1,059	(161)
Amortization of previously capitalized interest	64	65	259	262	278	282	304
Income as adjusted	<u>\$371,275</u>	<u>\$150,204</u>	<u>\$906,626</u>	<u>\$835,709</u>	<u>\$1,471,188</u>	<u>\$1,278,368</u>	<u>\$1,000,230</u>
<u>FIXED CHARGES</u>							
Interest on indebtedness, exclusive of interest capitalized and interest on ESOP loan guarantee	\$24,036	\$24,989	\$101,173	\$109,911	\$96,572	\$80,053	\$71,100
Capitalized interest						436	178
Amortization of deferred loan costs	597	734	2,426	2,143	1,793	1,511	1,888
Portion of rents representative of interest factor	10,299	10,460	41,194	41,839	35,378	29,000	25,609
Fixed charges	<u>\$34,932</u>	<u>\$36,183</u>	<u>\$144,793</u>	<u>\$153,893</u>	<u>\$133,743</u>	<u>\$111,000</u>	<u>\$98,775</u>
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	10.63x	4.15x	6.26x	5.43x	11.00x	11.52x	10.13x

CERTIFICATIONS

I, Donald E. Washkewicz, certify that:

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

Date: November 8, 2010

/s/ Donald E. Washkewicz
Donald E. Washkewicz
Chief Executive Officer

CERTIFICATIONS

I, Timothy K. Pistell, certify that:

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

Date: November 8, 2010

/s/ Timothy K. Pistell

Timothy K. Pistell

Executive Vice President – Finance and
Administration and Chief Financial Officer

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
§ 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Parker-Hannifin Corporation (the "Company") for the quarterly period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: November 8, 2010

/s/ Donald E. Washkewicz

Name: Donald E. Washkewicz
Title: Chief Executive Officer

/s/ Timothy K. Pistell

Name: Timothy K. Pistell
Title: Executive Vice President-Finance and Administration
and Chief Financial Officer