

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, 1997

OR

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

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

Commission File number 1-4982

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

OHIO  
(State or other  
jurisdiction of  
incorporation)

34-0451060  
(IRS Employer  
Identification No.)

6035 Parkland Blvd., Cleveland, Ohio      44124-4141  
(Address of principal executive offices)      (Zip Code)

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

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

Yes  .      No.

Number of Common Shares outstanding at September 30, 1997 111,622,055

PART I - FINANCIAL INFORMATION

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

	Three Months Ended September 30,	
	1997	1996
Net sales	\$ 1,083,169	\$ 959,328
Cost of sales	827,139	754,498
Gross profit	256,030	204,830
Selling, general and administrative expenses	125,275	114,444
Income from operations	130,755	90,386

Other income (deductions):		
Interest expense	(10,437)	(12,314)
Interest and other income, net	1,017	1,780
	<u>(9,420)</u>	<u>(10,534)</u>
Income before income taxes	<u>121,335</u>	<u>79,852</u>
Income taxes	43,074	28,747
Net income	<u>\$ 78,261</u> =====	<u>\$ 51,105</u> =====
Earnings per share	\$ .70	\$ .46
Cash dividends per common share	\$ .15	\$ .12

See accompanying notes to consolidated financial statements.

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

	September 30, 1997	June 30, 1997
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,456	\$ 68,997
Accounts receivable, net	629,476	601,724
Inventories:		
Finished products	369,661	317,494
Work in process	298,015	304,743
Raw materials	110,051	105,610
	<u>777,727</u>	<u>727,847</u>
Prepaid expenses	16,353	17,366
Deferred income taxes	86,035	83,627
Total current assets	<u>1,549,047</u>	<u>1,499,561</u>
Plant and equipment	2,209,249	2,138,591
Less accumulated depreciation	1,149,384	1,117,848
	<u>1,059,865</u>	<u>1,020,743</u>
Other assets	588,789	478,642
Total assets	<u>\$ 3,197,701</u> =====	<u>\$ 2,998,946</u> =====
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	\$ 188,756	\$ 69,738
Accounts payable, trade	256,804	266,848
Accrued liabilities	313,011	328,051
Accrued domestic and foreign taxes	85,640	51,374
Total current liabilities	<u>844,211</u>	<u>716,011</u>
Long-term debt	433,302	432,885
Pensions and other postretirement benefits	257,911	252,709
Deferred income taxes	29,151	26,007
Other liabilities	37,556	24,033
Total liabilities	<u>1,602,131</u>	<u>1,451,645</u>
<b>SHAREHOLDERS' EQUITY</b>		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	--	--
Common stock, \$.50 par value; authorized 300,000,000 shares; issued 111,812,025 shares at September 30 and 111,809,085 shares at June 30	55,906	55,905
Additional capital	138,751	150,702
Retained earnings	1,439,782	1,378,297
Currency translation adjustment	(31,200)	(27,345)
	<u>1,603,239</u>	<u>1,557,559</u>
Less treasury shares, at cost: 189,970 shares at September 30 and 282,915 shares at June 30	(7,669)	(10,258)
Total shareholders' equity	<u>1,595,570</u>	<u>1,547,301</u>
Total liabilities and shareholders' equity	<u>\$ 3,197,701</u> =====	<u>\$ 2,998,946</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,	
	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 78,261	\$ 51,105
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	39,518	37,882
Amortization	6,110	6,043
Deferred income taxes	(2,611)	(4,606)
Foreign currency transaction loss	1,108	45
(Gain) loss on sale of plant and equipment	(864)	263
Changes in assets and liabilities:		
Accounts receivable	(13,458)	18,426
Inventories	(30,074)	4,466
Prepaid expenses	993	875
Other assets	(22,844)	(2,780)
Accounts payable, trade	(16,766)	(36,909)
Accrued payrolls and other compensation	(18,545)	(18,245)
Accrued domestic and foreign taxes	33,859	26,201
Other accrued liabilities	9,065	12,349
Pensions and other postretirement benefits	5,094	3,582
Other liabilities	4,450	1,838
Net cash provided by operating activities	<u>73,296</u>	<u>100,535</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions	(143,603)	(17,224)
Capital expenditures	(60,424)	(42,962)
Proceeds from sale of plant and equipment	4,427	1,288
Other	4,384	(3,187)
Net cash used in investing activities	<u>(195,216)</u>	<u>(62,085)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments for common share purchases	(10,337)	(3,197)
Proceeds from (payments of) notes payable, net	120,726	(14,400)
Proceeds from long-term borrowings	2,277	163
Payments of long-term borrowings	(2,507)	(3,952)
Dividends	(16,745)	(13,384)
Net cash provided by (used in) financing activities	<u>93,414</u>	<u>(34,770)</u>
Effect of exchange rate changes on cash	(1,035)	(510)
Net (decrease) increase in cash and cash equivalents	<u>(29,541)</u>	<u>3,170</u>
Cash and cash equivalents at beginning of year	68,997	63,953
Cash and cash equivalents at end of period	<u>\$ 39,456</u> =====	<u>\$ 67,123</u> =====

See accompanying notes to consolidated financial statements.

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

Parker operates in two industry segments: Industrial and Aerospace. The Industrial Segment is the largest and includes 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, and agricultural and military machinery and equipment. Sales are direct to major original equipment manufacturers (OEMs) and through a broad distribution network to smaller OEMs and the aftermarket.

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

Results by Business Segment:

	Three Months Ended September 30,	
	1997	1996
Net sales, including intersegment sales		
Industrial:		
North America	\$ 585,499	\$ 503,750
International	264,398	259,760
Aerospace	233,554	195,936
Intersegment sales	(282)	(118)
<b>Total</b>	<b>\$ 1,083,169</b>	<b>\$ 959,328</b>
	=====	=====
Income from operations before corporate general and administrative expenses		
Industrial:		
North America	\$ 89,682	\$ 68,603
International	20,151	12,929
Aerospace	36,916	20,924
<b>Total</b>	<b>146,749</b>	<b>102,456</b>
Corporate general and administrative expenses	15,994	12,070
<b>Income from operations</b>	<b>\$ 130,755</b>	<b>\$ 90,386</b>
	=====	=====

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except per share amounts

1. Management Representation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 1997, the results of operations for the three months ended September 30, 1997 and 1996 and cash flows for the three months then ended.

2. Earnings per share

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

3. Stock repurchase program

The Board of Directors has approved a program to repurchase the Company's common stock on the open market, at prevailing prices. The repurchase will be funded from operating cash flows and the shares will initially be held as treasury stock. During the three-month period ended September 30, 1997 the Company purchased 263,645 shares of its common stock at an average price of \$43.497 per share.

4. Acquisitions

In September 1997 the Company acquired the assets of the Skinner and Lucifer solenoid valve divisions of Honeywell. Skinner, headquartered in New Britain, Connecticut and Lucifer, headquartered in Geneva, Switzerland, had prior-year annual sales of approximately \$94 million.

In August 1997 the Company acquired the assets of EWAL Manufacturing of Belleville, New Jersey, a leading producer of precision fittings and valves. EWAL, with annual sales of \$33 million, serves ultra-high-purity markets for the semiconductor, analytical, laboratory and specialty gas industries.

Total purchase price for these businesses was approximately \$140.2 million in cash. Both acquisitions are being accounted for by the purchase method.

PARKER-HANNIFIN CORPORATION

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1997  
AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 1996

CONSOLIDATED STATEMENT OF INCOME

Net sales exceeded \$1 billion for the first quarter of fiscal 1998, increasing 12.9 percent to \$1,083.2 million. Prior-year first quarter sales were \$959.3 million. Acquisitions within the past twelve months caused less than 1 percent of the current-year increase.

Income from operations for the quarter increased 44.7 percent to \$130.8 million. As a percent of sales the current-quarter operating income increased to 12.1 percent from 9.4 percent the prior year. Cost of sales, as a percent of sales, decreased to 76.4 percent from 78.6 percent. Selling, general and administrative expenses, as a percent of sales, decreased to 11.6 percent from 11.9 percent. Volume increases are improving capacity utilization and benefiting operating margins. In addition, previous years' acquisitions are now achieving higher margins as integration is being completed and synergies are improving operating efficiencies.

Interest expense for the current-year quarter decreased \$1.9 million due to lower average debt outstanding for the quarter. Funds from the additional Notes payable as of September 30, 1997 were borrowed late in the quarter.

Net Income for the quarter increased 53.1 percent to \$78.3 million and increased to 7.2 percent of sales compared to 5.3 percent the prior-year quarter.

Backlog increased to \$1.54 billion at September 30, 1997 compared to \$1.36 billion the prior year and \$1.49 billion at June 30, 1997.

RESULTS BY BUSINESS SEGMENT

INDUSTRIAL - Net sales of the Industrial Segment increased 11.3 percent to \$849.9 million compared to \$763.5 million the prior year. Industrial North American sales increased 16.2 percent while Industrial International sales increased 1.8 percent. Without the significant impact of currency-rate changes International sales volume increased more than 16 percent. A key factor for the quarter was the strength of nearly all of the industrial markets in North America and a continuing recovery in industrial markets overseas. Favorable economic conditions in Latin America also contributed to the volume growth.

Operating income for the Industrial Segment increased 34.7 percent to \$109.8 million. Industrial North America increased 30.7 percent and Industrial International increased 55.9 percent. North American operating income, as a percent of sales, increased to 15.3 percent from 13.6 percent while International increased to 7.6 percent from 5.0 percent. These increases reflect better capacity utilization as market demand improved, especially within the heavy duty truck, semiconductor fabrication and factory automation product markets, resulting in increased volume and a more profitable product mix.

Industrial Segment backlog increased 12.9 percent compared to a year ago, and 2.4 percent since June 30, 1997. Business conditions appear favorable for the remainder of the fiscal year for both the North American and International operations.

AEROSPACE - Net sales of the Aerospace Segment were up 19.2 percent for the quarter primarily due to the continuing strong upswing of the commercial aviation business.

Income from operations increased 76.4 percent year to year, resulting in Income from operations as a percent of sales increasing to 15.8 percent from 10.7 percent. The current quarter benefited from a more favorable product mix as commercial aftermarket sales were especially strong. Increased volume throughout Aerospace has improved capacity utilization and has also contributed to the higher margins. Fiscal 1997 margins had been negatively impacted by the integration of the Abex acquisition.

Backlog for the Aerospace Segment increased 14.3 percent compared to a year ago and increased 4.6 percent since June 30, 1997. As backlog for the commercial aviation business continues to increase, management anticipates continuing growth for the Aerospace Segment. A change in product mix in the future, to heavier OEM volume, could result in lower margins than were achieved in the first quarter.

Corporate general and administrative expenses increased to \$16.0 million for fiscal 1998 compared to \$12.1 million the prior year. The increase is primarily due to the current classification of certain staff as Corporate rather than segment operating staff as in prior years.

#### BALANCE SHEET

Working capital decreased to \$704.8 million at September 30, 1997 from \$783.6 million at June 30, 1997, with the ratio of current assets to current liabilities decreasing to 1.8 to 1. The decrease in working capital was primarily due to increased Notes payable as a result of recent acquisitions.

Accounts receivable and Inventories increased since June 30, 1997, as a result of acquisitions within the Industrial segment and volume increases throughout both the Industrial and Aerospace operations. Days sales outstanding and months supply increased slightly during the quarter.

Other assets increased \$110.1 million since June 30, 1997, primarily due to an increase in goodwill from acquisitions.

The increase in Accrued domestic and foreign taxes to \$85.6 million at September 30, 1997 from \$51.4 million at June 30, 1997 is essentially due to the timing of the quarterly income tax payments.

Other liabilities increased \$13.5 million to \$37.6 million at September 30, 1997 primarily due to a reclassification from current Accrued liabilities resulting from participants electing to defer certain incentive compensation benefits.

The debt to debt-equity ratio increased to 28.1 percent at September 30, 1997 compared to 24.5 percent as of June 30, 1997 primarily due to an increase in Notes payable.

#### STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$73.3 million in fiscal 1998 compared to \$100.5 million for the three months ended September 30, 1996. The reduction in cash provided was primarily due to \$43.5 million in cash used for increases in Accounts receivable and Inventories in the current year, compared to \$22.9 million cash provided by decreases in fiscal 1997. Also, increases in long-term investments in the current year resulted in an incremental use of \$20.0 million cash within Other assets. These uses were partially offset by the \$27.2 million increase in Net income and a \$20.1 million reduction in the cash used for Accounts payable during the quarter.

Net cash used in investing activities increased to \$195.2 million for fiscal 1998 compared to \$62.1 million for fiscal 1997 primarily due to an additional \$126.4 million used for acquisitions. Capital expenditures also increased to \$60.4 million in fiscal 1998 compared to \$43.0 million in fiscal 1997.

Financing activities provided net cash of \$93.4 million in fiscal 1998 as opposed to using cash of \$34.8 million for the three months ended September 30, 1996. The change resulted primarily from Notes payable providing cash of \$120.7 million in fiscal 1998 compared to using cash of \$14.4 million the prior year.



PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(a) The Annual Meeting of the Shareholders of the Registrant was held on October 22, 1997.

(b) Not applicable.

(c) (i) The Shareholders elected five directors to the three-year class whose term of office will expire in 2000, as follows:

	Votes For	Votes Withheld
Duane E. Collins	60,750,922	2,773,037
Allen H. Ford	60,739,512	2,784,447
Allan L. Rayfield	60,757,197	2,766,762
Paul G. Schloemer	60,659,383	2,864,576
Michael A. Treschow	60,753,804	2,770,155

No Shareholders abstained.

(ii) The Shareholders approved an amendment to the Corporation's Amended Articles of Incorporation to increase the authorized number of Common Shares from 300,000,000 to 600,000,000, as follows:

For	56,548,234
Against	6,634,028
Abstain	341,697

(iii) The Shareholders approved an amendment to the Corporation's Amended Articles of Incorporation to change the principal place of business of the Corporation in Ohio from the City of Cleveland to the City of Mayfield Heights, as follows:

For	63,010,844
Against	163,280
Abstain	349,835

(iv) The Shareholders approved an amendment to the Corporation's 1993 Stock Incentive Program to limit to 500,000 the number of stock options which may be granted to any employee in any three-year period, as follows:

For	60,270,363
Against	2,898,486
Abstain	355,110

(v) The Shareholders approved the appointment of Coopers & Lybrand L.L.P. as auditors of the Corporation for the fiscal year ending June 30, 1998, as follows:

For	63,169,652
Against	86,747
Abstain	267,560

(d) Not applicable.

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

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

Exhibit 3 - Amended Articles of Incorporation, as amended on October 22, 1997

Exhibit 10 - 1993 Stock Incentive Program, as amended on October 22, 1997

Exhibit 11 - Statement regarding computation of per share earnings.

Exhibit 27 - Financial Data Schedule

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

SIGNATURE

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

PARKER-HANNIFIN CORPORATION  
(Registrant)

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

Date: November 14, 1997

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3	Amended Articles of Incorporation, as amended on October 22, 1997
10	1993 Stock Incentive Program, as amended on October 22, 1997
11	Computation of Earnings Per Common Share
27	Financial Data Schedule



EXHIBIT 3

PARKER-HANNIFIN CORPORATION

FORM 10-Q  
FOR FISCAL QUARTER ENDED  
SEPTEMBER 30, 1997

AMENDED ARTICLES OF INCORPORATION

AMENDED ARTICLES OF INCORPORATION OF PARKER-HANNIFIN CORPORATION

FIRST. The name of this Corporation is Parker-Hannifin Corporation.

SECOND. The place in the State of Ohio where its principal office is located is the City of Mayfield Heights, in Cuyahoga County.

THIRD. The purpose or purposes for which it is formed are:

1. To buy or otherwise acquire, produce, manufacture, assemble, repair, or otherwise process, and to sell, lease, or otherwise dispose of, and generally to deal in machinery, equipment, pipe fittings, valves, mechanical appliances, and parts therefor of every kind and description.

2. To manufacture, compound, refine, fabricate, prepare, process, convert, or otherwise turn substances of every kind and description into compounds, combinations, forms, and products of any kind which can be developed or made therefrom.

3. To undertake, conduct, assist, promote, and participate in every kind of chemical, industrial, manufacturing, mercantile, or mining enterprise, business, undertaking, venture, or operation in any state, territory, dependency, or colony of the United States, or its insular possessions, or in the District of Columbia, or in any foreign country.

4. To acquire by purchase or otherwise and to own, hold, improve, develop, maintain, use, lease, sell, convey, transfer, mortgage, guarantee, pledge, exchange, or otherwise deal in or dispose of real and personal property, tangible or intangible, including minerals of all kinds, of any character whatsoever, including, but not by way of limitation, letters patent, patent rights, copyrights, licenses, and franchises, and any or all interests of rights therein.

5. To purchase, apply for, register, obtain, or otherwise acquire, and to hold, own, use, operate, develop, and introduce, and to sell, lease, assign, pledge, or in any manner dispose of, and in any manner to deal with and contract with reference to applications for letters patent, patents, patent rights, patented processes, designs, and similar rights, copyrights, trademarks, trade names, and similar rights granted by the United States or any other government or country, or any interest therein, or any inventions, and to acquire, own, use, or in any manner dispose of any and all inventions, improvements, and processes, labels, designs, marks, brands, or other rights, and to work, operate, or develop the same.

6. To acquire by purchase, subscription, or otherwise, and to own, hold, invest in, sell, negotiate, assign, exchange, dispose of, transfer, pledge, hypothecate, mortgage, guarantee, deal in, lend, or borrow money upon all forms and kinds of securities, shares of stock, scrip, bonds, coupons, debentures, mortgages, notes, commercial paper, trust certificates, land trust certificates, certificates of interest, certificates of deposit, certificates of indebtedness, bills receivable, accounts receivable, contracts, obligations, investments, warrants,

and interim receipts and certificates issued or created by, or claims against, any person, firm, corporation, joint stock company, trust, or association, public or private, wherever or however organized or created, or any nation, state, municipality, or political subdivision thereof, and to issue in exchange therefor, in any manner permitted by law, shares of the capital stock, bonds, or other obligations of this Corporation; and, while the holder or owner of any such securities or property, to possess and exercise in respect thereof any and all rights, powers, and privileges of ownership, including all voting, consenting, or other rights in or in respect thereof.

7. To promote, carry on, or participate with others in the organization, merger, consolidation, financing, liquidation, realization, or reorganization of corporations, partnerships, or associations engaged in any lawful business enterprise; to become interested in or participate with others in any subscription, underwriting, or syndicate; and to enter into contracts, whether alone or with others, for the purchase, issuance, and sale of any securities, property, or rights.

8. To make, enter into, perform and carry out any arrangements, contracts, and/or agreements of every kind, for any lawful purpose, without limit as to amount or otherwise, with any corporation, association, partnership, firm, trustee, syndicate, individual, and/or any political or governmental division or subdivision, domestic or foreign; to obtain therefrom or otherwise to acquire by purchase, lease, assignment, or otherwise any powers, rights, privileges, immunities, franchises, guaranties, grants, and concessions; to hold, own, exercise, exploit, dispose of, and realize upon the same; and to undertake, conduct, operate, or participate in any business dependent thereon.

9. To borrow or acquire, in any manner permitted by law, money for any of the purposes of this Corporation, with or without security, and to mortgage, pledge, hypothecate, encumber in any manner, and/or place in the hands of trustees, as security for the payment of money borrowed or in fulfillment of any obligation of this Corporation, any or all property and assets which this Corporation may own or acquire; to draw, make, accept, endorse, discount and have discounted, execute, issue, and deal in every lawful manner in promissory notes, bills of exchange, debentures, bonds, warrants, scrip, drafts, and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof, together with interest thereon, by pledge, mortgage, conveyance, or assignment of the whole or any part of the property and assets of this Corporation, whether at the time owned or thereafter acquired.

10. To lend money on time or call and with or without collateral security, and to give credit to individuals, firms, corporations, associations, or co-partnerships, and to municipalities, states, nations or any political subdivisions thereof, and to realize upon any property taken by the Corporation as collateral security for any loans.

11. To cause or allow the legal title and/or estate, right, or interest in any property, whether real, personal, or mixed, owned, acquired,

controlled, or operated by the Corporation, to remain or to be vested or registered in the name of or operated by any person, firm, association, or corporation, domestic or foreign, formed or to be formed, either upon trust for or as agents or nominees of this Corporation or upon any other proper terms or conditions which the Board of Directors may consider for the benefit of the Corporation.

12. To purchase its own shares in accordance with the provisions of the Ohio General Corporation Law, by action of its Board of Directors, and without action by its shareholders, such purchases to be made either in the open market or at public or private sale, in such manner and amounts, from such holder or holders of outstanding shares of the Corporation, and at such prices as the Board of Directors shall from time to time determine.

13. To have one or more offices or plants, to carry on and conduct all or any part of its operations and business, without restriction or limitation as to amount, both within and without the State of Ohio; and this Corporation may qualify under the laws of, be domiciled in, and conduct any or all of its business in any city, state, commonwealth, district, territory, or colony of the United States, and in any or all foreign countries.

14. To do any one or more of the acts and things expressed in this Article THIRD either as principal or as agent or representative for any other person, firm, association, corporation, municipality, county, state, body politic, government, or dependency thereof.

15. In general to do any and all things herein set forth and, in addition, such other acts and things as are incident or conducive to the attainment of the purposes of this Corporation, or any of them, to the same extent that natural persons lawfully might or could do in any part of the world, insofar as such acts and things are not inconsistent with the provisions of the laws of the State of Ohio.

The objects and purposes specified in the foregoing clauses of this Article THIRD shall be construed both as objects and powers, and shall, except where otherwise expressed, be in no wise limited or restricted by reference to, or inference from, the terms of any other clause in this Article THIRD or elsewhere in these Amended Articles of Incorporation, but the objects and purposes specified in each of the foregoing clauses of this Article THIRD shall be regarded as independent objects and purposes and shall not be held to limit or restrict in any way the general powers of the Corporation to do any act permitted by the laws of the State of Ohio.

FOURTH. The authorized number of shares of the Corporation is 603,000,000 consisting of 3,000,000 shares of Serial Preferred Stock of the par value of \$.50 per share (hereinafter called "Serial Preferred Stock") and 600,000,000 Common Shares of the par value of \$.50 per share (hereinafter called "Common Shares").

The shares of each class shall have the following express terms:

DIVISION A

EXPRESS TERMS OF THE SERIAL PREFERRED STOCK

1. The Serial Preferred Stock may be issued from time to time in series. All shares of Serial Preferred Stock of any one series shall be identical with each other in all respects, except as to the date from which dividends thereon shall be cumulative. All shares of Serial Preferred Stock shall rank equally and shall be identical, except in respect of the matters that may be fixed by the Board of Directors as hereinafter provided. Subject to the provisions of sections 2 to 8, both inclusive, of this Division A, which provisions shall apply to all shares of Serial Preferred Stock, the Board of Directors is hereby authorized to cause such shares of Serial Preferred Stock to be issued in one or more series and with respect to each such series prior to the issuance thereof to fix:

- (a) The designation of the series, which may be by distinguishing number, letter or title.
- (b) The number of shares of the series, which number the Board of Directors may increase or decrease, except where otherwise provided in the creation of the series.
- (c) The dividend rate of the series.
- (d) The dates at which dividends, if declared, shall be payable, and the dates from which dividends shall be cumulative.
- (e) The liquidation price of the series.
- (f) The redemption rights and price or prices, if any, for shares of the series.
- (g) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the series.
- (h) Whether the shares of the series shall be convertible into Common Shares, and, if so, the conversion price or prices and the adjustments thereof, if any, and all other terms and conditions upon which such conversion may be made.
- (i) Restrictions (in addition to those set forth in sections 6 (b) and 6 (c) of this Division A) on the issuance of shares of the same series or of any other class or series.

The Board of Directors is authorized to adopt from time to time amendments to the Articles of Incorporation of the Corporation fixing, with respect to each such series, the matters specified in clauses (a) to (i) both inclusive of this section 1.



2. The holders of Serial Preferred Stock of each series, in preference to the holders of Common Shares and any other class of shares ranking junior to the Serial Preferred Stock, shall be entitled to receive out of any funds legally available and when and as declared by the Board of Directors cash dividends at the rate (and no more) for such series fixed in accordance with the provisions of section 1 of this Division A, payable quarterly on the dates fixed for such series. Such dividends shall be cumulative, in the case of shares of each particular series, from and after the date or dates fixed with respect to such series. No dividends may be paid upon or declared and set apart for any of the Serial Preferred Stock for any quarterly dividend period unless at the same time a like proportionate dividend for the same quarterly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon or declared or set apart for all Serial Preferred Stock of all series then outstanding and entitled to receive such dividend.

3. So long as any Serial Preferred Stock is outstanding, no dividend, except a dividend payable in Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock, shall be paid or declared or any distribution be made except as aforesaid on the Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock, nor shall any Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock be purchased, retired or otherwise acquired by the Corporation (except out of the proceeds of the sale of Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock received by the Corporation subsequent to June 30, 1967):

(a) Unless all accrued and unpaid dividends on the Serial Preferred Stock, including the full dividends for the current quarterly dividend period, shall have been declared and paid or a sum sufficient for payment thereof set apart; and

(b) Unless there shall be no default with respect to the redemption of Serial Preferred Stock of any series from, and no default with respect to any required payment into, any sinking fund provided for shares of such series in accordance with the provisions of section 1 of this Division A.

4. (a) Subject to the express terms of each series and to the provisions of section 6(b) (iii) of this Division A, the Corporation (i) may from time to time redeem all or any part of the Serial Preferred Stock of any series at the time outstanding at the option of the Board of Directors at the applicable redemption price for such series fixed in accordance with the provisions of section 1 of this Division A, or (ii) shall from time to time make such redemptions of the Serial Preferred Stock as may be required to fulfill the requirements of any sinking fund provided for shares of such series at the applicable sinking fund redemption price fixed in accordance with the provisions of section 1 of this Division A, together in each case with accrued and unpaid dividends

to the redemption date.

(b) Notice of every such redemption shall be mailed, by first class mail, postage prepaid, to the holders of record of the Serial Preferred Stock to be redeemed at their respective addresses then appearing on the books of the Corporation, not less than 30 nor more than 60 days prior to the date fixed for such redemption. At any time before or after notice has been given as above provided, the Corporation may deposit the aggregate redemption price of the shares of Serial Preferred Stock to be redeemed, together with accrued and unpaid dividends thereon to the redemption date, with any bank or trust company in Cleveland, Ohio, or New York, New York, having capital and surplus of more than \$5,000,000, named in such notice, directed to be paid to the respective holders of the shares of Serial Preferred Stock so to be redeemed, in amounts equal to the redemption price of all shares of Serial Preferred Stock so to be redeemed, together with accrued and unpaid dividends thereon to the redemption date, on surrender of the stock certificate or certificates held by such holders, and upon the giving of such notice and the making of such deposit such holders shall cease to be shareholders with respect to such shares, and after such notice shall have been given and such deposit shall have been made such holders shall have no interest in or claim against the Corporation with respect to such shares except only to receive such money from such bank or trust company without interest or the right to exercise, before the redemption date, any unexpired rights of conversion. In case less than all of the outstanding shares of Serial Preferred Stock are to be redeemed, the Corporation shall select by lot the shares so to be redeemed in such manner as shall be prescribed by its Board of Directors.

If the holders of shares of Serial Preferred Stock which shall have been called for redemption shall not, within six years after such deposit, claim the amount deposited for the redemption thereof, any such bank or trust company shall, upon demand, pay over to the Corporation such unclaimed amounts and thereupon such bank or trust company and the Corporation shall be relieved of all responsibility in respect thereof and to such holders.

(c) Any shares of Serial Preferred Stock which are redeemed by the Corporation pursuant to the provisions of this section 4 of this Division A and any shares of Serial Preferred Stock which are purchased and delivered in satisfaction of any sinking fund requirements provided for shares of such series and any shares of Serial Preferred Stock which are converted in accordance with their express terms shall be cancelled and not reissued. Any shares of Serial Preferred Stock otherwise acquired by the Corporation shall be restored to the status of authorized and unissued shares of Serial Preferred Stock without serial designation.

5. (a) The holders of Serial Preferred Stock of any series shall, in case of liquidation, dissolution or winding up of the Corporation, be entitled to receive in full out of the assets of the Corporation,

including its capital, before any amount shall be paid or distributed among the holders of Common Shares or any other shares ranking junior to the Serial Preferred Stock, the amounts fixed with respect to shares of such series in accordance with Section 1 of this Division A, plus in any such event an amount equal to all dividends accrued and unpaid thereon to the date of payment of the amount due pursuant to such liquidation, dissolution or winding up of the Corporation. In case the net assets of the Corporation legally available therefor are insufficient to permit the payment upon all outstanding shares of Serial Preferred Stock of the full preferential amount to which they are respectively entitled, then such net assets shall be distributed ratably upon outstanding shares of Serial Preferred Stock in proportion to the full preferential amount to which each such share is entitled.

After payment to holders of Serial Preferred Stock of the full preferential amounts as aforesaid, holders of Serial Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

(b) The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into it, or the sale, lease, or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to be a dissolution, liquidation or winding up of the Corporation for the purposes of this Section 5 of this Division A.

6. (a) The holders of Serial Preferred Stock shall be entitled to one vote for each share of such stock upon all matters presented to shareholders; and, except as otherwise provided herein or required by law, the holders of Serial Preferred Stock and the holders of Common Shares shall vote together as one class on all matters.

If, and so often as, the Corporation shall be in default in the payment of the equivalent of six quarterly dividends (whether or not consecutive) on any series of Serial Preferred Stock at the time outstanding, whether or not earned or declared, the holders of Serial Preferred Stock of all series voting separately as a class and in addition to all other rights to vote for Directors shall be entitled to elect, as herein provided, two members of the Board of Directors of the Corporation; provided, however, that the holders of shares of Serial Preferred Stock shall not have or exercise such special class voting rights except at meetings of the shareholders for the election of Directors at which the holders of not less than a majority of the outstanding shares of Serial Preferred Stock of all series are present in person or by proxy; and provided further that the special class voting rights provided for herein when the same shall have become vested shall remain so vested until all accrued and unpaid dividends on the Serial Preferred Stock of all series then outstanding shall have been paid, whereupon the holders of Serial Preferred Stock shall be divested of their special class voting rights in respect of subsequent elections of Directors, subject to the re-vesting of such special class voting rights in the event herein above specified in this section 6 (a).

In the event of default entitling the holders of Serial Preferred Stock

to elect two Directors as above specified, a special meeting of the shareholders for the purpose of electing such Directors shall be called by the Secretary of the Corporation upon written request of, or may be called by, the holders of record of at least 10% of the shares of Serial Preferred Stock of all series at the time outstanding, and notice thereof shall be given in the same manner as that required for the annual meeting of shareholders; provided, however, that the Corporation shall not be required to call such special meeting if the annual meeting of shareholders shall be held within 90 days after the date of receipt of the foregoing written request from the holders of Serial Preferred Stock. At any meeting at which the holders of Serial Preferred Stock shall be entitled to elect Directors, the holders of not less than a majority of the outstanding shares of Serial Preferred Stock of all series, present in person or by proxy, shall be sufficient to constitute a quorum, and the vote of the holders of a majority of such shares so present at any such meeting at which there shall be a quorum shall be sufficient to elect the members of the Board of Directors which the holders of Serial Preferred Stock are entitled to elect as herein before provided.

The two Directors who may be elected by the holders of Serial Preferred Stock pursuant to the foregoing provision shall be in addition to any other Directors then in office or proposed to be elected otherwise than pursuant to such provisions, and nothing in such provisions shall prevent any change otherwise permitted in the total number of Directors of the Corporation or require the resignation of any Director elected otherwise than pursuant to such provisions.

(b) The vote or consent of the holders of at least two-thirds of the then outstanding shares of Serial Preferred Stock, given in person or by proxy, either in writing or at a meeting called for the purpose at which the holders of Serial Preferred Stock shall vote separately as a class, shall be necessary to effect any one or more of the following (but so far as the holders of Serial Preferred Stock are concerned, such action may be effected with such vote or consent):

(i) Any amendment, alteration or repeal of any of the provisions of the Articles of Incorporation or of the Code of Regulations of the Corporation which affects adversely the voting powers, rights or preferences of the holders of Serial Preferred Stock; provided, however, that for the purpose of this clause (i) only, neither the amendment of the Articles of Incorporation of the Corporation to authorize, or to increase the authorized or outstanding number of shares of, Serial Preferred Stock or of any shares of any class ranking on a parity with or junior to the Serial Preferred Stock, nor the increase by the shareholders pursuant to the Code of Regulations of the number of Directors of the Corporation shall be deemed to affect adversely the voting powers, rights or preferences of the holders of Serial Preferred Stock; and provided further, that if such amendment, alteration or repeal affects adversely the rights or preferences of one or more but not all then outstanding series of Serial Preferred Stock, only the vote or consent of the holders of at least two-thirds of the number of the then outstanding shares of the series so affected shall be required;

(ii) The authorization of, or the increase in the authorized number of, any shares of any class ranking prior to the Serial Preferred Stock; or

(iii) The purchase or redemption (whether for sinking fund purposes or otherwise) of less than all the then outstanding shares of Serial Preferred Stock except in accordance with a purchase offer made to all holders of record of Serial Preferred Stock, unless all dividends on all Serial Preferred Stock then outstanding for all previous quarterly dividend periods shall have been declared and paid or funds therefor set apart and all accrued sinking fund obligations applicable to all Serial Preferred Stock shall have been complied with.

(c) The vote or consent of the holders of at least a majority of the then outstanding shares of Serial Preferred Stock, given in person or by proxy, either in writing or at a meeting called for the purpose at which the holders of Serial Preferred Stock shall vote separately as a class, shall be necessary (but so far as the holders of Serial Preferred Stock are concerned such action may be effected with such vote or consent) to authorize any shares ranking on a parity with the Serial Preferred Stock or an increase in the authorized number of shares of Serial Preferred Stock.

7. No holder of Serial Preferred Stock of any series shall be entitled as such as a matter of right to subscribe for or purchase any part of any issue of shares of the Corporation, of any class whatsoever, or any part of any issue of securities convertible into shares of the Corporation, of any class whatsoever, and whether issued for cash, property, services, or otherwise.

8. For the purposes of this Division A:

(a) Whenever reference is made to shares "ranking prior to the Serial Preferred Stock", such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are given preference over the rights of the holders of Serial Preferred Stock.

(b) Whenever reference is made to shares "on a parity with the Serial Preferred Stock", such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation on an equality with the rights of the holders of Serial Preferred Stock.

(c) Whenever reference is made to shares "ranking junior to the Serial Preferred Stock", such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends and as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the

Corporation are junior or subordinate to the rights of the holders of Serial Preferred Stock.

#### DIVISION B

##### EXPRESS TERMS OF COMMON SHARES

1. The Common Shares shall be subject to the express terms of the Serial Preferred Stock and any series thereof. Each Common Share shall be equal to every other Common Share. The holders of Common Shares shall be entitled to one vote for each share held by them upon all matters presented to the shareholders.

2. No holder of Common Shares shall be entitled as such as a matter of right to subscribe for or purchase any part of any issue of shares of the Corporation, of any class whatsoever, or any part of any issue of securities convertible into shares of the Corporation, of any class whatsoever, and whether issued for cash, property, services or otherwise.

#### FIFTH.

A. A Business Combination (as hereinafter defined) shall be authorized and approved by the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of the Corporation entitled to vote generally in elections of Directors; provided, however, that the eighty percent (80%) voting requirement shall not be applicable if:

1. The Board of Directors of the Corporation by affirmative vote, which shall include not less than a majority of the entire number of Continuing Directors (as hereinafter defined), (a) has approved in advance the acquisition of those outstanding shares of the Corporation which caused the Interested Party (as hereinafter defined) to become an Interested Party or (b) has approved the Business Combination; or

2. The Business Combination is a merger or consolidation and the cash or Fair Market Value of other consideration to be received per share by holders of the Common Shares and, if outstanding, the Serial Preferred Stock of the Corporation in said merger or consolidation is not less than an amount equal to (a) the highest of (i) the highest per share price, including commissions, paid by the Interested Party for any shares of the same class or series during the two-year period ending on the date of the most recent purchase by the Interested Party of any such shares, (ii) the highest sales price reported for shares of the same class or series traded on a national securities exchange or in the over-the-counter market during the two-year period preceding the first public announcement of the proposed Business Combination, or (iii) in the case of the Serial Preferred Stock, the amount of the per share liquidation preference, plus (b) interest compounded annually from the date on which the Interested Party became an Interested Party through the date of the Business Combination (the "Interest Period") at the average discount interest rate on six-month U.S. Treasury Bills, as published each week, less (c) the aggregate amount of any cash dividends paid on the shares of the same class or series during the Interest Period, in an amount up

to but not exceeding the amount of interest so payable per share under clause (b) hereof.

B. For purposes of this Article Fifth:

1. The term "Business Combination" shall mean (a) any merger or consolidation of the Corporation or a subsidiary of the Corporation with or into an Interested Party, (b) any merger or consolidation of an Interested Party with or into the Corporation or a subsidiary, (c) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) in which an Interested Party is involved, of any of the assets either of the Corporation (including without limitation any voting securities of a subsidiary) or of a subsidiary having a Fair Market Value in excess of \$20,000,000, (d) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Interested Party, (e) the issuance or transfer (in one transaction or a series of transactions) by the Corporation or a subsidiary of the Corporation to an Interested Party of any securities of the Corporation or such subsidiary, which securities have a Fair Market Value of \$20,000,000 or more, or (f) any recapitalization, reclassification, merger or consolidation involving the Corporation or a subsidiary of the Corporation that would have the effect of increasing, directly or indirectly, the Interested Party's voting power in the Corporation or such subsidiary.

2. The term "Interested Party" shall mean and include (a) any individual, corporation, partnership, trust or other person or entity which, together with its "affiliates" and "associates" (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on September 24, 1984) is or, with respect to a Business Combination, was within two years prior thereto a beneficial owner of shares aggregating twenty percent (20%) or more of the aggregate voting power of any class of capital stock of the Corporation entitled to vote generally in the election of Directors, and (b) any affiliate or associate of any such individual, corporation, partnership, trust or other person or entity. For the purposes of determining whether a person is an Interested Party, the number of shares deemed to be outstanding shall include shares which the Interested Party or any of its affiliates or associates has the right to acquire (whether immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants, or options, or otherwise, but shall not include any other shares which may be issuable to any other person.

3. The term "Continuing Director" shall mean a director who is not an affiliate of an Interested Party and who was a member of the Board of Directors of the Corporation immediately prior to the time that the Interested Party involved in a Business Combination became an Interested Party, and any successor to a Continuing Director who is not such an affiliate and who is nominated to succeed a Continuing Director by a majority of the Continuing Directors in office at the time of such nomination.

4. "Fair Market Value" shall mean the fair market value of the property in question as determined by a majority of the Continuing Directors in good faith.

C. The provisions of this Article Fifth shall be construed liberally to the end that the consideration paid to holders whose shares are acquired by an Interested Party in connection with a merger or consolidation shall not be less favorable than that paid to holders of such shares prior to such merger or consolidation. Nothing contained in this Article Fifth shall be construed to relieve any Interested Party from any fiduciary duties or obligations imposed by law.

D. Notwithstanding any other provision of the Amended Articles of Incorporation or the Regulations of the Corporation and notwithstanding the fact that a lesser percentage may be specified by law, these Amended Articles or the Regulations of the Corporation, the affirmative vote of the holders of not less than eighty percent (80%) of the then outstanding shares shall be required to amend, alter, change or repeal, or adopt any provisions inconsistent with, this Article Fifth; provided, however, that this paragraph D shall not apply to, and the eighty percent (80%) vote shall not be required for, any amendment, alteration, change or repeal recommended to the shareholders by the Board of Directors of the Corporation if the recommendation has been approved by at least two-thirds of the Continuing Directors.

SIXTH. These Amended Articles of Incorporation supersede the existing Articles of Incorporation of the Corporation



EXHIBIT 10

PARKER-HANNIFIN CORPORATION

FORM 10-Q  
FOR FISCAL QUARTER ENDED  
SEPTEMBER 30, 1997

1993 STOCK INCENTIVE PROGRAM

Parker-Hannifin Corporation 1993 Stock Incentive Program

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

1. Purpose.

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

2. Definitions.

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

(a) "Award" means a stock option, stock appreciation right ("SAR"), restricted stock, incentive share, dividend equivalent right ("DER"), or other award under this Program.

(b) "Board" means the Board of Directors of the Corporation.

(c) "Change in Control" means the occurrence of one of the following events:

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

(ii) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; provided, that (A) any person becoming a director subsequent to the

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

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

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

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

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

(d) "Code" means the Internal Revenue Code, as in effect from time to time.

(e) "Compensation and Management Development Committee" or "Committee" means the committee of the Board so designated. The Committee will be constituted in a manner that satisfies all applicable legal requirements, including satisfying the disinterested administration standard set forth in Rule 16b-3.

(f) "Corporation" means Parker-Hannifin Corporation, an Ohio corporation, and its Subsidiaries.

(g) "Designated beneficiary" means the person designated by the grantee of an award hereunder to be entitled, on the death of the grantee, to any remaining rights arising out of such award. Such designation must be made in writing and in accordance with such regulations as the Committee may establish.

(h) "Detrimental activity" means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the rendering of services for an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Corporation; (ii) the disclosure to any one outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by the employee during or after employment with the Corporation; or (iii) fraud, embezzlement, theft-in-office or other illegal activity.

(i) "Dividend equivalent right," herein sometimes called a "DER," means the right of the holder thereof to receive, pursuant to the terms of the DER, credits based on the cash dividends that would be paid on the shares specified in the DER if such shares were held by the grantee, as more particularly set forth in Section 12(a) below.

(j) "Eligible employee" means an employee who is an officer, or in a managerial, executive, technical, professional, or other key position as determined by the Committee.

(k) "Employee" means a regular employee of the Corporation or one of its Subsidiaries.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(m) "Fair market value" in relation to a share as of any specific time shall mean such value as reported for New York Stock Exchange--Composite Transactions on such date, or if no shares are traded on that date, the next preceding date on which trading occurred.

(n) "Grantee" means a recipient of an award under this Program.

(o) "Incentive share" means an award of shares granted pursuant to Section 11 below.

(p) "Incentive stock option," herein sometimes called an "ISO," means a stock option meeting the requirements of Section 422 of the Code or any successor provision.

(q) "Insider" means a person subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to equity securities of the Corporation.

(r) "Restricted stock" means any share issued with the restriction that the holder may not sell, transfer, pledge, or assign such share and such other restrictions (which may include, but are not limited to, restrictions on the right to vote or receive dividends) which may expire separately or in combination, at one time or in installments, all as specified by the grant.

(s) "Rule 16b-3" means Rule 16b-3 (or any successor thereto) under the Exchange Act that exempts from Section 16(b) of the Exchange Act transactions under employee benefit plans, as in effect from time to time with respect to this Program.

(t) "Share" means a common share, par value \$.50, of the Corporation issued and reacquired by the Corporation or previously authorized but unissued.

(u) "Shareholder-approved plan" means any of the plans constituting parts of any of the incentive programs previously or hereafter approved by shareholders of the Corporation.

(v) "Stock appreciation right," herein sometimes called an "SAR," means the right of the holder thereof to receive, pursuant to the terms of the SAR, a number of shares or cash or a combination of shares and cash, based on the increase in the value of the number of shares specified in the SAR, as more particularly set forth in Section 9 below.

(w) "Subsidiary" means any corporation, partnership, or other entity in which the Corporation, directly or indirectly, owns a 50 percent or greater equity interest.

(x) "Terminate" means cease to be an employee, except by death, but a change of employment from the Corporation or one Subsidiary to another Subsidiary or to the Corporation shall not be considered a termination.

(y) "Terminate normally" for an employee participating in this Program means terminate

(i) as a result of retirement under the applicable retirement plan or policy of the Corporation or a Subsidiary,  
(ii) as a result of that employee becoming eligible for disability income under the Corporation's long-term disability program, or

(iii) with written approval of the Committee given in the context of recognition that all or a specified portion of the outstanding awards to that employee will not expire or be forfeited or annulled because of such termination and, in each such case, without being terminated for cause.

(z) "Year" means fiscal year.

### 3. Eligibility.

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

### 4. Administration.

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

(b) All determinations and interpretations pursuant to the provisions of this Program shall be binding and conclusive upon the individual employees involved and all persons claiming under them.

(c) With respect to Insiders, transactions under this Program are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Program or any action by the Committee under this Program fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3, provided that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent permitted by law and deemed advisable by the appropriate authority. Each award to an Insider under this Program shall be deemed issued subject to the foregoing qualification.

(d) An award under this Program is not transferable except, as provided in the award, by will, pursuant to the laws of descent and distribution, or pursuant to a qualified domestic relations order, and is not subject, in whole or in part, to attachment, execution, or levy of any kind. The designation by a grantee of a designated beneficiary shall not constitute a transfer. Notwithstanding the foregoing, an employee may transfer any nonqualified stock option granted under this Plan to members of his immediate family (defined as

his children, grandchildren and spouse) or to one or more trusts for the benefit of such family members or partnerships in which such family members are the only partners if the instrument evidencing such stock option expressly so provides (or is amended to so provide) and the employee does not receive any consideration for the transfer; provided that any such transferred stock option shall continue to be subject to the same terms and conditions that are applicable to such stock option immediately prior to its transfer (except that such transferred stock option shall not be further transferable by the transferee inter vivos).

(e) Any rights with respect to an award granted under this Program existing after the grantee dies are exercisable by the grantee's designated beneficiary or, if there is no such designated beneficiary who may, and does, lawfully do so, by the grantee's personal representative.

(f) Except as otherwise provided herein, a particular form of award may be granted to an eligible employee either alone or in addition to other awards hereunder. The provisions of particular forms of award need not be the same with respect to each recipient.

(g) The Committee may delegate any of its authority to any other person or persons that it deems appropriate, provided the delegation does not cause the Program or any awards granted under this Program to fail to qualify for the exemption provided by Rule 16b-3.

(h) This Program and all action taken under it shall be governed by the laws of the State of Ohio without giving effect to the principles of conflict of laws thereof.

5. Term.

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

6. Awards That May Be Granted.

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

7. Adjustments.

In the event that the Committee shall determine that any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase common stock of the Corporation at a price

substantially below fair market value, or other similar corporate event affects the common stock of the Corporation such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under this Program, then the Committee shall, in its sole discretion, and in such manner as the Committee may deem equitable, adjust any or all of (a) the number and kind of shares which thereafter may be the subject of Awards under this Program, (b) the number and kind of shares subject to outstanding Awards, and (c) the exercise price with respect to any of the foregoing.

#### 8. Stock Options.

One or more stock options can be granted to any eligible employee. No employee may be granted stock options for more than 500,000 shares of common stock in any three-year period. Each stock option so granted shall be subject to such terms and conditions as the Committee shall impose. The exercise price per share shall be specified by the grant, but shall in no instance be less than 100 percent of fair market value at the time of grant. Payment of the exercise price shall be made in cash, shares, or other consideration, or any combination thereof, in accordance with the terms of this Program and any applicable regulations of the Committee in effect at the time and valued at fair market value on the date of exercise of the stock option. Stock options granted hereunder may be designated as ISOs (except to the extent otherwise specified in this Section 8) or nonqualified stock options. To the extent that the aggregate fair market value of shares with respect to which stock options designated as ISOs are exercisable for the first time by any grantee during any year (under all plans of the Corporation and any Subsidiary thereof) exceeds \$100,000, such stock options shall be treated as not being ISOs. ISOs must comply with requirements of Section 422 of the Code.

#### 9. Stock Appreciation Rights.

(a) An SAR may be granted to an eligible employee as a separate award hereunder. Any such 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 holder thereof, 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 grant of such SAR (which shall in no instance be less than 100 percent of fair market value at the time of grant) times the number of shares specified in such SAR, or portion thereof, which is so exercised.

(b) Any stock option granted under this Program may include an SAR, either at the time of grant or by amendment. An SAR included in a stock option shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that

(i) such SAR shall be exercisable to the extent, and only to the extent, the stock option is exercisable; and

(ii) such SAR shall entitle the optionee to surrender to the Corporation unexercised the stock option in which the SAR is included, or any portion thereof, and to receive from the Corporation in exchange therefor that number of shares having an aggregate value equal to the

excess of the fair market value, at the time of exercise of such SAR, of one share over the exercise price specified in such stock option times the number of shares specified in such stock option, or portion thereof, which is so surrendered.

(c) In lieu of the right to receive all or any specified portion of such shares, an SAR may entitle the holder thereof to receive the cash equivalent thereof as specified by the grant.

(d) An SAR may provide that such SAR shall be deemed to have been exercised at the close of business on the business day preceding the expiration of such SAR or the related stock option, if any, if at such time such SAR has positive value and would have expired.

#### 10. Restricted Stock.

(a) An award of restricted stock may be granted hereunder to an eligible employee, for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of restricted stock, including the vesting period, shall be specified by the Committee, at its sole discretion, in the grant.

(b) Any restricted stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of restricted stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.

#### 11. Incentive Shares.

(a) An incentive award may be granted hereunder in the form of shares. Incentive shares may be granted to an eligible employee for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of incentive shares shall be specified by the grant.

(b) Incentive shares may be paid to the grantee in a single installment or in installments and may be paid at the time of grant or deferred to a later date or dates. Each grant shall specify the time and method of payment as determined by the Committee.

#### 12. Dividend Equivalent Rights; Interest Equivalentents.

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



(b) Any award under this Program that is settled in whole or in part in cash on a deferred basis may provide by the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

13. Deferral of Payment.

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

14. Termination of Employment.

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

15. Detrimental Activity.

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

16. Change in Control.

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

17. Substitute Awards.

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

18. Amendments to This Program; Amendments of Outstanding Awards.

(a) The Board can from time to time amend or terminate this Program, or any provision hereof. Approval of the shareholders of the Corporation will be required only to the extent necessary to comply with Rule 16b-3 or any other applicable law, regulation, or listing requirement, or to qualify for an exemption or characterization that is deemed desirable by the Board.

(b) The Committee may, in its discretion, amend the terms of any award, prospectively or retroactively, but no such amendment may impair the rights of any grantee without his or her consent. The Committee may, in whole or in part, waive any restrictions or conditions applicable to, or accelerate the vesting of, any award.

19. Withholding Taxes.

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

20. Grants of Awards to Employees who are Foreign Nationals.

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

21. Rights of Employees.

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

22. Effective Date.

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

## PARKER-HANNIFIN CORPORATION

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

	Three Months Ended September 30,	
	1997	1996
Net income applicable to common shares	\$ 78,261 =====	\$ 51,105 =====
Weighted average common shares outstanding for the period	111,603,371	111,454,597
Increase in weighted average from dilutive effect of exercise of stock options	851,962	871,839
Weighted average common shares, assuming issuance of the above securities	112,455,333 =====	112,326,436 =====
Earnings per common share:		
Primary	\$ .70	\$ .46
Fully diluted (A)	\$ .70	\$ .45

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PARKER-HANNIFIN CORPORATION'S REPORT ON FORM 10-Q FOR ITS QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	3-MOS	
JUN-30-1998		
SEP-30-1997		
	39,456	
	0	
	586,642	
	6,799	
	777,727	
1,549,047		
	2,209,249	
	1,149,384	
	3,197,701	
844,211		
	443,941	
	55,906	
0		
	0	
	1,539,664	
3,197,701		
	1,083,169	
1,083,169		
	827,139	
	827,139	
	0	
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10,437		
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	43,074	
78,261		
	0	
	0	
	0	
	78,261	
	.70	
	.70	