

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 March 31, 2001

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

34-0451060

(State or other
jurisdiction of
incorporation)

(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 March 31, 2001 116,849,601

PART I - FINANCIAL INFORMATION

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2001	2000	2001	2000
Net sales	\$1,534,202	\$1,393,659	\$4,471,644	\$3,875,159
Cost of sales	1,213,387	1,074,133	3,509,472	3,022,052
Gross profit	320,815	319,526	962,172	853,107
Selling, general and administrative expenses	159,580	141,254	491,617	419,559
Interest expense	24,243	14,571	71,018	43,142
Interest and other (income) expense, net	(4,794)	796	(57,535)	696
Income before income taxes	141,786	162,905	457,072	389,710
Income taxes	50,334	56,202	162,260	134,450
Income before extraordinary item	91,452	106,703	294,812	255,260
Extraordinary item - extinguishment of debt	(3,378)	-	(3,378)	-
Net income	\$ 88,074	\$ 106,703	\$ 291,434	\$255,260
Basic earnings per share before extraordinary item	\$ 0.80	\$ 0.98	\$ 2.58	\$ 2.34
Extraordinary item - extinguishment of debt	(0.03)	-	(0.03)	-
Basic earnings per share	\$ 0.77	\$ 0.98	\$ 2.55	\$ 2.34
Diluted earnings per share before extraordinary item	\$ 0.80	\$ 0.97	\$ 2.57	\$ 2.32
Extraordinary item - extinguishment of debt	(0.03)	-	(0.03)	-
Diluted earnings per share	\$ 0.77	\$ 0.97	\$ 2.54	\$ 2.32
Cash dividends per common share	\$ 0.18	\$ 0.17	\$ 0.52	\$ 0.51

See accompanying notes to consolidated financial statements.

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

	March 31, 2001	June 30, 2000
	-----	-----
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 45,209	\$ 68,460
Accounts receivable, net	888,760	840,040
Inventories:		
Finished products	531,580	483,017
Work in process	326,308	344,804
Raw materials	148,149	146,375
	-----	-----
	1,006,037	974,196
Prepaid expenses	37,681	32,706
Deferred income taxes	93,671	73,711
Net assets held for sale	215,533	164,000
	-----	-----
Total current assets	2,286,891	2,153,113
Plant and equipment	2,951,820	2,714,250
Less accumulated depreciation	1,444,773	1,373,335
	-----	-----
	1,507,047	1,340,915
Excess cost of investments over net assets acquired	852,973	570,740
Other assets	604,527	581,531
	-----	-----
Total assets	\$5,251,438	\$4,646,299
	=====	=====
LIABILITIES		

Current liabilities:		
Notes payable	\$613,328	\$ 335,298
Accounts payable, trade	333,212	372,666
Accrued liabilities	380,487	394,131
Accrued domestic and foreign taxes	60,252	84,208
	-----	-----
Total current liabilities	1,387,279	1,186,303
Long-term debt	865,456	701,762
Pensions and other postretirement benefits	305,186	299,741
Deferred income taxes	120,176	77,939
Other liabilities	82,997	71,096
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Total liabilities	2,761,094	2,336,841
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 116,949,601 shares at March 31 and 116,602,195 shares at June 30	58,471	58,301
Additional capital	333,047	328,938
Retained earnings	2,397,761	2,165,625
Unearned compensation related to guarantee of ESOP debt	(98,192)	(110,818)
Deferred compensation related to stock options	2,347	1,304
Accumulated other comprehensive (loss)	(199,158)	(125,458)
	-----	-----
	2,494,276	2,317,892
Less treasury shares, at cost: 100,000 shares at March 31 and 214,487 shares at June 30	(3,932)	(8,434)
	-----	-----
Total shareholders' equity	2,490,344	2,309,458
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Total liabilities and shareholders' equity	\$5,251,438	\$4,646,299
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended March 31,	
CASH FLOWS FROM OPERATING ACTIVITIES	2001	2000
Net income	\$291,434	\$255,260
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	154,215	128,409
Amortization	46,570	28,597
Deferred income taxes	24,144	(4,825)
Foreign currency transaction loss	3,807	3,182
(Gain) on sale of plant and equipment	(57,412)	(5,637)
Net effect of extraordinary loss	3,378	-
Changes in assets and liabilities:		
Accounts receivable, net	(4,979)	(51,778)
Inventories	(9,914)	20,395
Prepaid expenses	4,859	4,854
Net assets held for sale	33,197	-
Other assets	(39,297)	(18,599)
Accounts payable, trade	(64,042)	(15,911)
Accrued payrolls and other compensation	(32,461)	(8,224)
Accrued domestic and foreign taxes	(14,753)	14,956
Other accrued liabilities	(50,478)	(3,592)
Pensions and other postretirement benefits	9,886	9,317
Other liabilities	10,138	8,512
Net cash provided by operating activities	308,292	364,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions (less cash acquired of \$8,256 in 2001 and \$431 in 2000)	(512,716)	(121,474)
Capital expenditures	(263,812)	(168,131)
Proceeds from sale of plant and equipment	76,496	23,027
Other	29,141	(20,590)
Net cash used in investing activities	(670,891)	(287,168)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for) common share activity	9,824	(4,410)
Proceeds from notes payable, net	278,565	23,123
Proceeds from long-term borrowings	290,908	3,654
Payments of long-term borrowings	(178,257)	(12,803)
Dividends	(59,298)	(55,661)
Net cash provided by (used in) financing activities	341,742	(46,097)
Effect of exchange rate changes on cash	(2,394)	(4,213)
Net (decrease) increase in cash and cash equivalents	(23,251)	27,438
Cash and cash equivalents at beginning of year	68,460	33,277
Cash and cash equivalents at end of period	\$ 45,209	\$ 60,715

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, 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, 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 March 31,		Nine Months Ended March 31,	
	2001	2000	2001	2000
Net sales				
Industrial:				
North America	\$ 849,439	\$ 774,353	\$ 2,555,046	\$ 2,100,564
International	367,317	331,104	1,034,339	933,485
Aerospace	317,446	288,202	882,259	841,110
Total	\$ 1,534,202	\$ 1,393,659	\$ 4,471,644	\$ 3,875,159
Segment operating income				
Industrial:				
North America	\$ 92,602	\$ 115,123	\$ 311,405	\$ 296,006
International	34,342	29,015	81,660	62,014
Aerospace	62,490	49,126	157,863	121,113
Total segment operating income	189,434	193,264	550,928	479,133
Corporate general and administrative expenses	18,038	13,935	55,768	42,135
Income before interest expense and other	171,396	179,329	495,160	436,998
Interest expense	24,243	14,571	71,018	43,142
Other	5,367	1,853	(32,930)	4,146
Income before income taxes	\$ 141,786	\$ 162,905	\$ 457,072	\$ 389,710

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 necessary to present fairly the financial position as of March 31, 2001, the results of operations for the three and nine months ended March 31, 2001 and 2000 and cash flows for the nine months then ended.

2. Gain on sale of real property

In fiscal 2001 the Company recorded a \$55.5 million gain (\$34.7 million after-tax or \$.30 per share) realized on the sale of real property located in Southern California. The property had served as a headquarters and manufacturing locale for the Company's Aerospace Group and several of its divisions. Such operations have relocated to other previously owned facilities in the area. The Company does not currently anticipate additional property sales of this magnitude occurring in the future. The gain is reflected in the Consolidated Income Statement in the Interest and other (income) expense, net caption.

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 and nine months ended March 31, 2001 and 2000.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2001	2000	2001	2000
Numerator:				

Net income applicable to common shares	\$ 88,074	\$ 106,703	\$ 291,434	\$ 255,260
Denominator:				

Basic - weighted average common shares	114,439,369	109,373,820	114,125,361	109,210,607
Increase in weighted average from dilutive effect of exercise of stock options	810,101	827,060	755,502	955,170

Diluted - weighted average common shares, assuming exercise of stock options	115,249,470	110,200,880	114,880,863	110,165,777
=====				
Basic earnings per share	\$.77	\$.98	\$ 2.55	\$ 2.34
Diluted earnings per share	\$.77	\$.97	\$ 2.54	\$ 2.32

4. 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 is primarily funded from operating cash flows and the shares are initially held as treasury stock. The Company did not purchase any shares of its common stock during the three-month and nine-month periods ended March 31, 2001.

5. Comprehensive income

The Company's items of other comprehensive income (loss) are foreign currency translation adjustments and unrealized gains on marketable securities. Comprehensive income for the three and nine months ended March 31, 2001 and 2000 is as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2001	2000	2001	2000
Net income	\$ 88,074	\$106,703	\$291,434	\$255,260
Foreign currency translation adjustments	(38,641)	(18,815)	(83,168)	(25,822)
Unrealized (loss) gain on marketable securities (net of taxes of (\$2,420) and \$7,111)	(4,016)	-	11,801	-
Realized gain on marketable securities included in net income (net of taxes of \$1,406)	(2,333)	-	(2,333)	-
Comprehensive income	\$ 43,084	\$ 87,888	\$217,734	\$229,438

6. Acquisitions

On July 21, 2000 the Company completed the acquisition of Wynn's International, Inc. (Wynn's). Wynn's is a leading manufacturer of precision-engineered sealing media for the automotive, heavy-duty truck and aerospace markets with annualized calendar year 2000 sales of \$573 million.

On September 29, 2000 the Company acquired the pneumatics business of Invensys plc, with annual sales of \$50 million, which specializes in the design and production of equipment and controls for automated processes.

On April 30, 2001 the Company acquired the Miller Fluid Power and Wilkerson Corporation businesses of CKD-Creatic. Miller Fluid Power manufactures both pneumatic and hydraulic cylinders and Wilkerson Corporation manufactures a complete line of compressed air treatment and control products. The combined sales of the two Creatic businesses totaled \$90 million during calendar 2000.

Total purchase price for these businesses was approximately \$506 million in cash and assumed debt of \$62 million. These acquisitions are being accounted for by the purchase method.

7. Net assets held for sale

Net assets held for sale represents the estimated net cash proceeds and estimated net earnings during the holding period (including incremental interest expense on debt incurred in the acquisition) of the metal forming and building systems businesses, which were acquired as part of Commercial Intertech in fiscal 2000, and the specialty chemical and warranty businesses of Wynn's.

During the third quarter of fiscal 2001, approximately \$3.5 million of income from operations and \$1.7 million of interest expense were excluded from the Consolidated Income Statement and included in the carrying value of Net assets held for sale. During the first nine months of fiscal 2001, approximately \$19.9 million of income from operations and \$5.5 million of interest expense were excluded from the Consolidated Income Statement and included in the carrying value of Net assets held for sale.

In April 2001 the one-year period in which the earnings of the metal forming and building systems businesses are excluded from the Company's Consolidated Income Statement expired. The Company still intends to divest, and is currently in active negotiations to divest, the metal forming business. As such, the net assets of the metal forming business will continue to be presented as one line item in the Consolidated Balance Sheet and the results of operations of the metal forming business will be included (and presented as a single line item) in the Consolidated Income Statement of the Company beginning in the fourth quarter of the current fiscal year. The Company has decided to suspend its efforts to sell the building systems business. As such, the net assets of the building systems business will be presented in the Consolidated Balance Sheet as individual line items and the results of operations of the building systems business will be included in the Consolidated Income Statement of the Company beginning in the fourth quarter of the current fiscal year.

8. Financial instruments

Effective July 1, 2000 the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Due to the immaterial amount of derivative and hedging activity within the Company, the effect of adopting SFAS 133 on the Company's results of operations and financial position was immaterial.

9. Debt

In November 2000 the Company issued EUR 300 million of five-year Euro Notes in the European debt capital market. The Notes bear interest of 6.25 percent, payable annually, and mature in a balloon payment on November 21, 2005. The proceeds from the Note issuance were used to retire the principal and interest due on the bridge loan created to help finance the Wynn's acquisition.

10. Extraordinary Item - Extinguishment of Debt

In February 2001 the Company redeemed its outstanding \$100 million, 9.75 percent debentures due 2002-2021. The extraordinary loss for this transaction, including an early-redemption premium and the write-off of deferred issuance costs, was \$5,413 (\$3,378 after-tax or \$.03 per share). Commercial paper borrowings were used to finance the redemption.

PARKER-HANNIFIN CORPORATION

FORM 10-Q

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2001
AND COMPARABLE PERIODS ENDED MARCH 31, 2000

CONSOLIDATED STATEMENT OF INCOME

Net sales increased 10.1 percent for the third quarter of fiscal 2001 and 15.4 percent for the nine-month period ended March 31, 2001. Without acquisitions, Net sales decreased 4.5 percent for the current-year quarter and declined slightly for the first nine months of fiscal 2001, primarily the result of lower volume in the Industrial North American operations.

Income from operations was \$161.2 million for the current-year third quarter and \$470.6 million for the first nine months of fiscal 2001, a decrease over the prior-year third quarter of 9.6 percent and an increase of 8.5 percent over the prior-year first nine months, respectively. As a percent of sales, Income from operations declined to 10.5 percent from 12.8 percent for the quarter and declined to 10.5 percent from 11.2 percent for the first nine months. Cost of sales, as a percent of sales, increased to 79.1 percent from 77.1 percent for the quarter and increased to 78.5 percent from 78.0 percent for the first nine months. The decline in margins for the current-year third quarter and the first nine months of fiscal 2001 are primarily the result of lower volume in the Industrial North American operations as well as lower margins contributed by recent acquisitions not yet fully integrated. Improved operating performance in the Aerospace operations partially offset the decline in margins. Selling, general and administrative expenses, as a percent of sales, increased to 10.4 percent of sales from 10.1 percent for the quarter and to 11.0 percent from 10.8 percent for the first nine months, primarily due to goodwill amortization related to recent acquisitions.

Interest expense increased \$9.7 million for the quarter ended March 31, 2001 and \$27.9 million for the nine-month period ended March 31, 2001 due to higher average debt outstanding in both the current-year quarter and first nine months as a result of increased borrowings to complete acquisitions.

Interest and other (income) expense, net for the quarter and the first nine months of fiscal 2001 includes a \$3.7 million gain on the sale of marketable equity securities. Interest and other (income) expense, net for the first nine months of fiscal 2001 also includes a \$55.5 million gain realized on the sale of real property and \$5.4 million of certain asset writedowns. Interest and other (income) expense, net for the first nine months of fiscal 2000 included \$6.4 million in gains primarily from the sale of real property and \$8.4 million of asset impairment losses and other plant closure costs.

The effective tax rate increased to 35.5 percent for the first nine months of fiscal 2001, compared to 34.5 percent in the prior-year first nine months. The increase in the rate is due to the non-deductibility of goodwill recognized as a result of the Company's recent acquisitions.

In the current-year quarter the Company redeemed its outstanding \$100 million, 9.75 percent debentures due 2002-2021 resulting in an after-tax extraordinary loss of \$3.4 million or \$.03 per share.

Net income decreased 17.5 percent for the quarter and increased 14.2 percent for the first nine months, as compared to the prior year. As a percent of sales, Net income decreased to 5.7 percent from 7.7 percent for the quarter and decreased to 6.5 percent from 6.6 percent for the first nine months.

Backlog was \$2.01 billion at March 31, 2001 compared to \$1.74 billion in the prior year and \$1.80 billion at June 30, 2000. Current fiscal year acquisitions accounted for 47 percent of the increase in backlog since June 30, 2000, with the balance coming from strong order rates in the Aerospace operations.

RESULTS BY BUSINESS SEGMENT

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

	Period ending March 31,	
	Three Months	Nine Months
Industrial North America	9.7%	21.6%
Industrial International	10.9%	10.8%
Total Industrial	10.1%	18.3%

Without the effect of currency-rate changes, Industrial International sales would have increased 19.4 percent for the quarter and 22.3 percent for the first nine months of fiscal 2001.

Without the effect of acquisitions completed within the past 12 months, the percentage changes in Net sales would have been:

	Period ending March 31,	
	Three Months	Nine Months
Industrial North America	(12.2)%	(3.5)%
Industrial International	0.9 %	1.0 %
Total Industrial	(8.3)%	(2.1)%

Excluding the effect of acquisitions, the decrease in Industrial North American sales for the current-year quarter reflects lower volume experienced across most of the Industrial North American markets, particularly in heavy-duty truck and automotive as well as semiconductor manufacturing in the latter part of the quarter. The decrease in Industrial North American sales for the first nine months of fiscal 2001 is attributable to lower volume in a number of markets, particularly in heavy-duty truck and automotive, partially offset by higher volume in the semiconductor manufacturing and telecommunications markets. Slight volume gains in the Asia Pacific region and Latin America accounted for the increase in Industrial International sales for the current-year quarter. The increase in Industrial International sales for the first nine months is attributed to higher volume in the Asia Pacific region (particularly in the semiconductor manufacturing and telecommunications markets) and Latin America, partially offset by lower volume (including the negative effect of currency rates) experienced across most markets in Europe.

Operating income for the Industrial segment decreased 11.9 percent for the quarter and increased 9.8 percent for the first nine months of fiscal 2001. Industrial North American operating income decreased 19.6 percent for the quarter and increased 5.2 percent for the first nine months of fiscal 2001. Industrial North American operating income, as a percent of sales, declined to 10.9 percent from 14.9 percent for the quarter and to 12.2 percent from 14.1 percent for the first nine months. The decline in margins for the current-year quarter and first nine months reflect the weakness experienced in most of the Industrial North American markets, resulting in the underabsorption of fixed costs. Margins for both the current-year quarter and first nine months were also negatively impacted by recent acquisitions not yet fully integrated.

Industrial International operating income increased 18.4 percent for the quarter and 31.7 percent for the first nine months of fiscal 2001. Included in the Industrial International operating income for the prior year nine-month period was \$9.0 million in business realignment charges. Without the business realignment charges, Industrial International operating income increased 15.1 percent for the current year first nine months compared to the prior year nine months. Industrial International operating income, as a percent of sales, increased to 9.3 percent from 8.8 percent for the quarter and to 7.9 percent from 7.6 percent for the nine months, excluding the business realignment charges. The increase in margins for the current quarter is primarily due to improved operating efficiencies in Europe (a result of the business realignment charges taken in the prior year). Excluding the business

realignment charges, the increase in margins for the first nine months is primarily due to the higher volume and better capacity utilization in the Asia Pacific region and Latin America, as well as improved operating efficiencies in Europe. Margins for both the current-year quarter and first nine months were negatively impacted by recent acquisitions not yet fully integrated.

Total Industrial Segment backlog increased 23.9 percent compared to March 31, 2000 and 8.9 percent since June 30, 2000, primarily due to recent acquisitions, partially offset by a decrease in order rates in the Industrial North American operations.

For the remainder of the fiscal year, management anticipates that business conditions across most Industrial markets are expected to be similar to that experienced in the current-year third quarter although the rate of decline in order rates may lessen. Profit improvement teams have been established to study the logistics system and recommend improvements to enhance operating margins in Europe. The Company expects to record charges during the fourth quarter of the current fiscal year based upon the recommendations of the review teams as well as charges relating to plant rationalizations in North America. The costs of these charges are expected to offset a significant amount of the one-time gain realized in the current-year first quarter on the sale of real property.

AEROSPACE - Net sales of the Aerospace Segment increased 10.1 percent for the current-year quarter and 4.9 percent for the first nine months of fiscal 2001 as a result of an increase in the level of both the OEM and aftermarket businesses. Operating income for the Aerospace Segment increased 27.2 percent for the quarter and 30.3 percent for the nine-month period. Included in the Aerospace operating income for the prior year nine-month period was \$4.4 million in business realignment charges. Excluding the business realignment charges, operating income, as a percent of sales, increased to 19.7 percent from 17.0 percent for the quarter and to 17.9 percent from 14.9 percent for the nine-month period due to higher volume as well as a higher mix of aftermarket business.

Backlog for the Aerospace Segment increased 11.0 percent compared to March 31, 2000 and 14.4 percent since June 30, 2000. Backlog increased primarily due to an increase in the level of OEM business, as well as strong aftermarket orders. For the remainder of the fiscal year, the recent increase in the level of order rates for the OEM business is expected to continue, while the level of order rates in the aftermarket business is expected to moderate. A change to heavier OEM volume in future product mix could result in lower margins.

Corporate general and administrative expenses increased to \$18.0 million from \$13.9 million for the quarter and increased to \$55.8 million from \$42.1 million for the nine months. As a percent of sales, corporate general and administrative expenses increased to 1.2 percent from 1.0 percent for the quarter and to 1.2 percent from 1.1 percent for the nine months. The increase in both the current-year quarter and first nine months are the result of acquisitions as well as higher expenses associated with non-qualified benefit plans.

Other (in the Results by Business Segment) decreased \$37.1 million for the first nine months of fiscal 2001 primarily as a result of a \$55.5 million gain realized on the sale of real property, partially offset by \$7.7 million of certain asset writedowns. In the prior-year first nine months, Other included \$6.4 million in gains primarily from the sale of real property.

BALANCE SHEET

Working capital decreased to \$899.6 million at March 31, 2001 from \$966.8 million at June 30, 2000 with the ratio of current assets to current liabilities decreasing to 1.6 to 1. The decrease in working capital was primarily due to an increase in Notes payable, partially offset by an increase in Accounts receivable, Inventories, and Net assets held for sale and a decrease in Accounts payable, trade.

Accounts receivable increased to \$888.8 million at March 31, 2001 from \$840.0 million at June 30, 2000 with days sales outstanding increasing to 49 days at March 31, 2001 from 45 days at June 30, 2000. Inventories increased \$31.8 million since June 30, 2000, with months supply remaining the same. The increases were primarily the result of acquisitions.

Plant and equipment, net of accumulated depreciation, increased \$166.1 million since June 30, 2000, as a result of acquisitions and capital expenditures which exceeded depreciation for the current-year first nine months.

The increase in Excess cost of investments over net assets acquired since June 30, 2000 reflects the goodwill recognized as a result of current-year acquisitions.

The debt to debt-equity ratio increased to 37.3 percent at March 31, 2001 compared to 31.0 percent as of June 30, 2000, primarily due to increased borrowings to fund acquisitions.

Due to the strength of the dollar, foreign currency translation adjustments resulted in a decrease in net assets of \$83.2 million during the first nine months of fiscal 2001. The translation adjustments primarily affected Accounts receivable, Inventories and Plant and equipment.

STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$308.3 million for the nine months ended March 31, 2001, as compared to \$364.9 million for the same nine months of 2000. The decrease in net cash provided was primarily the result of activity within the working capital items - Accounts receivable, Inventories, Net assets held for sale, Accounts payable, trade, Accrued domestic and foreign taxes and Other accrued liabilities - which used cash of \$111.0 million in fiscal 2001 compared to using cash of \$35.9 million in fiscal 2000. In addition, cash provided by operating activities excluded a (Gain) on sale of plant and equipment of \$57.4 million in fiscal 2001 compared to \$5.6 million in fiscal 2000. These uses of cash were partially offset by an increase in Net income of \$36.2 million and Deferred income taxes, which increased \$24.1 million in fiscal 2001 as opposed to decreasing \$4.8 million in fiscal 2000.

Net cash used in investing activities increased to \$670.9 million for the first nine months of fiscal 2001 compared to \$287.2 million for the first nine months of fiscal 2000 primarily due to an increase of \$391.2 million in the amount spent on acquisitions and an increase in capital expenditures of \$95.7 million, partially offset by an increase of \$53.5 million in proceeds received from the sale of plant and equipment. Included in Other is an increase in cash provided for long-term receivables in fiscal 2001, and an increase in cash used for equity investments in fiscal 2000.

Financing activities provided cash of \$341.7 million for the nine months ended March 31, 2001 compared to using cash of \$46.1 million for the same period of the prior year. The change resulted primarily from net debt borrowings providing cash of \$391.2 million in fiscal 2001 compared to providing cash of \$14.0 million in the prior year. The increase in net debt borrowings in fiscal 2001 was primarily to fund acquisitions.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company enters into forward exchange contracts, costless collar contracts and cross-currency swap agreements to reduce its exposure to fluctuations in related foreign currencies. These contracts are with major financial institutions and the risk of loss is considered remote. The Company does not hold or issue derivative financial instruments for trading purposes. In addition, the Company's foreign locations, in the ordinary course of business, enter into financial guarantees through financial institutions which enable customers to be reimbursed in the event of nonperformance by the Company. The total value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations.

FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q and other written reports and oral statements made from time to time by the Company may contain "forward-looking statements", all of which are subject to risks and uncertainties. All statements which address operating performance, events or developments that the Company expects or anticipates will occur in the future, including statements relating to growth, operating margin performance, earnings per share or statements expressing general opinions about future operating results or the markets in which the Company does business, are forward-looking statements.

These forward-looking statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside the Company's control, that could cause actual results to differ materially from such statements. Such factors include:

- . continuity of business relationships with and purchases by major customers, including delays or cancellations in shipments,
- . ability of suppliers to provide materials as needed,
- . uncertainties surrounding timing, successful completion or integration of acquisitions,
- . competitive market conditions and resulting effects on sales and pricing,
- . increases in material and other production costs which cannot be recovered in product pricing,
- . difficulties in introducing new products and entering new markets, and
- . uncertainties surrounding the global economy and global market conditions, interest rate levels and the potential devaluation of currencies.

Any forward-looking statements are based on known events and circumstances at the time. The Company undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this Report.

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

Date: May 11, 2001