

PARKER HANNIFIN CORP  
Form 11-K  
June 23, 2011  
Table of Contents

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the year ended December 31, 2010**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

**Commission file number 1-4982**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

## **PARKER RETIREMENT SAVINGS PLAN**

Edgar Filing: PARKER HANNIFIN CORP - Form 11-K

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:  
**PARKER-HANNIFIN CORPORATION**

**6035 PARKLAND BOULEVARD**

**CLEVELAND, OHIO 44124-4141**

**Table of Contents**

**Parker Retirement Savings Plan**

**Index of Financial Statements**

<u>Report of Independent Registered Public Accounting Firm</u>	1
Financial Statements:	
<u>Statements of Net Assets Available for Benefits at December 31, 2010 and 2009</u>	2
<u>Statements of Changes in Net Assets Available for Benefits for the Years Ended December 31, 2010 and 2009</u>	3
<u>Notes to Financial Statements</u>	4-15
Supplemental Schedule:	
<u>Schedule of Assets (Held at End of Year) at December 31, 2010</u>	16

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Participants and Board of Directors

Parker-Hannifin Corporation

Parker Retirement Savings Plan

Cleveland, Ohio

We have audited the accompanying statements of net assets available for benefits of the Parker Retirement Savings Plan (the Plan) as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Parker Retirement Savings Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, the Plan adopted Financial Accounting Standards Board Accounting Standards Update 2010-25, *Plan Accounting - Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans*, as of December 31, 2010, which clarified how loans to participants should be classified and measured by defined contribution pension plans. This update was retrospectively applied for the year ended December 31, 2009.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2010 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the United States Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ McGladrey & Pullen, LLP

Cleveland, Ohio

June 22, 2011

**Table of Contents****Parker Retirement Savings Plan****Statements of Net Assets Available for Benefits****At December 31, 2010 and 2009**

(Dollars in Thousands)	2010	2009 (As revised)
<b><u>ASSETS</u></b>		
Plan investments at fair value	\$ 2,973,545	\$ 610,902
Plan interest in Parker Master Savings Plan Trust at fair value		1,757,301
Notes receivable from participants	77,421	74,303
Employer contribution receivable	15,263	12,678
<b>Total assets</b>	<b>3,066,229</b>	2,455,184
<b><u>LIABILITIES</u></b>		
<b>Net assets available for benefits at fair value</b>	<b>3,066,229</b>	2,455,184
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(10,201)	(6,657)
<b>Net assets available for benefits</b>	<b>\$ 3,056,028</b>	\$ 2,448,527

The accompanying notes are an integral part of these financial statements

**Table of Contents****Parker Retirement Savings Plan****Statements of Changes in Net Assets Available for Benefits****For The Years Ended December 31, 2010 and 2009**

(Dollars in Thousands)	2010	2009 (As revised)
<b><u>ADDITIONS</u></b>		
Investment income		
Net appreciation	\$ 579,866	\$ 127,718
Dividend and interest income	39,110	11,284
Plan interest in Parker Master Savings Plan Trust	36,887	306,103
Interest income on notes receivable from participants	4,088	4,656
Participants' contributions	110,162	96,910
Employer contributions	67,064	59,960
<b>Total additions</b>	<b>837,177</b>	<b>606,631</b>
<b><u>DEDUCTIONS</u></b>		
Distributions to participants	236,601	183,387
Trustee fees and other expenses	1,375	1,400
<b>Total deductions</b>	<b>237,976</b>	<b>184,787</b>
<b>Net increase before transfer</b>	<b>599,201</b>	<b>421,844</b>
Plan transfer	8,300	
<b>Net increase</b>	<b>607,501</b>	<b>421,844</b>
Net assets available for benefits - beginning of year	2,448,527	2,026,683
<b>Net assets available for benefits - end of year</b>	<b>\$ 3,056,028</b>	<b>\$ 2,448,527</b>

The accompanying notes are an integral part of these financial statements

**Table of Contents**

**Parker Retirement Savings Plan**

**Notes to Financial Statements**

**(Dollars in Thousands)**

**1. Summary of Significant Accounting Policies**

***Investment Valuation***

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Note 7 for discussion of fair value measurements). The Parker Retirement Savings Plan's (the Plan) interest in the Parker Master Savings Plan Trust (the Master Trust) was based on the beginning of the year value of the Plan's interest plus allocated investment income less actual distributions and administrative expenses. Effective March 1, 2010, the Plan assets held by the Master Trust were transferred to the Plan and the Master Trust ceased to exist. The Plan presents in the Statements of Changes in Net Assets Available for Benefits investment income which includes interest and dividend income and the net depreciation or appreciation in the fair value of its investments which consists of the realized gains and losses from the sale of investments and the unrealized appreciation and depreciation of investments held by the Plan and the Master Trust.

Purchases and sales of securities are reflected on a trade-date basis.

Dividend income is recorded on the ex-dividend date. Interest and other income are recorded as earned on the accrual basis.

Costs incident to the purchase and sale of securities, such as brokerage commissions and stock transfer taxes, as well as investment advisory fees, are charged to the funds to which they relate and are netted against dividend and interest income. Certain costs and expenses incurred in administering the Plan are paid out of the Plan's assets and Parker-Hannifin Corporation (the Company) pays the remainder.

***Risks and Uncertainties***

Management believes that the Plan's investments are well diversified and do not create a significant concentration of interest rate, market or credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amount reported in the Statements of Net Assets Available for Benefits. Participants assume all risk in connection with any decrease in the fair value of any securities in all the funds. Although the annual rates of return with respect to the contracts held in the Contract Income Fund are guaranteed by major insurance companies and banks, the Company does not make any representations as to the financial capability of such companies or their ability to make payments under the contracts.

***Subsequent Events***

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

**Table of Contents**

**Parker Retirement Savings Plan**

**Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

**1. Summary of Significant Accounting Policies (cont d)**

***Other***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The financial statements of the Plan are prepared using the accrual method of accounting.

Benefit distributions are recorded when paid.

Certain prior period amounts have been reclassified to conform to the current year presentation.

***Adoption of New Accounting Pronouncements***

In September 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-25, *Reporting Loans to Participants by Defined Contribution Pension Plans* (ASU 2010-25). ASU 2010-25 requires participant loans to be measured at their unpaid principal balance plus any accrued but unpaid interest and classified as notes receivable from participants. Previously, loans were measured at fair value and classified as investments. Participant loans have been reclassified to notes receivable from participants as of December 31, 2009. Interest income related to participant loans has been reclassified to interest income on notes receivable from participants.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amended Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820), to clarify certain existing fair value disclosures and to require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each class of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and to present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 is effective for reporting periods beginning after December 15, 2009. The Plan adopted the applicable portion of ASU 2010-06 for the year ended December 31, 2010.



## **Table of Contents**

### **Parker Retirement Savings Plan**

#### **Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

## **2. Description of the Plan**

### ***General***

The following description of the Plan provides only general information. Participants should refer to the Plan document or Summary Plan Description for a more complete description of the Plan's provisions.

The Plan is a defined contribution plan which is available to all U.S. domestic regular full-time and part-time non-union employees, and some union employees (if negotiated). Employees are eligible for participation in the Plan the first day of the month following their date of hire and are generally automatically enrolled in the Plan 30 days after their date of hire or rehire. The Plan is subject to Sections 401(a) and 401(k) of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

### ***Contributions and Transfers***

Participants may make contributions on a before-tax and/or after-tax basis. Contributions from employees and the Company are recorded in the period that payroll deductions are made from Plan participants. Contributions are subject to certain limitations.

Company matching contributions are invested solely in a non-participant directed Employee Stock Ownership Plan (the ESOP Fund), which holds primarily Company stock (see Note 5).

Participants may elect to contribute, through payroll deductions, not less than 1% nor more than 75% of their total compensation for a Plan year and may change such percentage upon request. Participants may suspend their contributions at any time and may designate one or more of several available funds within the Plan in which their contributions are to be invested. Investment elections may be changed at any time. Available funds are:

- (a) Parker-Hannifin Common Stock Fund (Company Stock Fund): Invested primarily in common shares of the Company purchased on the open market. A participant's contribution is limited to 50% of the total amount invested.
- (b) Vanguard Institutional Index Fund: Invested in stocks which comprise the S&P 500 Index.
- (c) Vanguard Extended Market Index Fund: Invested primarily in the Standard & Poor's Completion Index.
- (d) Vanguard FTSE All-World ex-US Index Fund: Invested primarily in securities that tracks the performance of the FTSE All-World ex US Index.
- (e) Vanguard Total Bond Market Index Fund: Invested in a sampling of assets in the Barclays Capital U.S. Aggregate Float Adjusted Index and maintains a dollar-weighted average maturity consistent with that of the index.

- (f) Contract Income Fund: A separate managed fund invested primarily in high-quality fixed income investments such as contracts issued by insurance companies and banks which provide a return guaranteed by the issuer, and debt securities such as notes and bonds issued by Federal agencies or mortgage and other asset-backed securities, with each of these investments typically providing a stable rate of return for a specific period of time. Refer to Note 6 for a further description of this fund.

---

**Table of Contents**

**Parker Retirement Savings Plan**

**Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

**2. Description of the Plan (cont d)**

- (g) PIMCO Total Return Portfolio: A separate managed fund invested primarily in securities which have a fixed rate of return such as U.S. government and corporate debt securities, mortgage and other asset-backed securities, U.S. dollar and foreign currency-denominated securities of foreign issuers, and money market instruments.
- (h) BlackRock Inflation-Protected Bond Fund: Invested primarily in inflation-indexed bonds issued by the U.S. and non-U.S. governments, their agencies, and non-U.S. corporations.
- (i) Victory EB Diversified Stock Fund: A separate managed fund invested primarily in a portfolio of common stocks of large publicly held companies and securities convertible into common stock.
- (j) INVESCO Mid Cap Core Equity Fund (formerly AIM Mid Cap Core Equity Fund): Invested primarily in equity securities, including convertible securities, of mid-capitalization companies.
- (k) Sentinel Small Company Fund: Invested primarily in common stocks issued by small companies using the S&P Small-Cap 600 Index as a weighting guide.
- (l) Dodge and Cox International Stock Fund: Invested primarily in equity securities including common stocks, preferred stock, and convertible securities issued by well established non-U.S. companies from at least three different foreign countries, including emerging markets.
- (m) Fidelity Freedom K Funds: Twelve mutual funds designed to help participants diversify their assets based on their life cycle. The Freedom Funds are invested in equities, fixed income, and money markets based on the participant's targeted retirement date.

***Parker-Hannifin Corporation Contributions***

The Company contributes an amount equal to 100% of the first 3 percent of the before-tax participant contribution and an amount equal to 50% of the 4<sup>th</sup> percent and 5<sup>th</sup> percent of the participant's contribution. The Company may also match after-tax participant contributions, but matches only 25% of the 4<sup>th</sup> percent and 5<sup>th</sup> percent of after-tax participant contributions. Company contributions match the before-tax contributions prior to the after-tax contributions. Participants may diversify their shares of stock in the ESOP Fund at any time to any of the investment funds available within the Plan.

***Notes Receivable from Participants***

The Plan has a loan provision which allows an active participant to borrow a minimum of five hundred dollars and up to the lesser of a) 50% of their account balance or b) fifty thousand dollars less the largest outstanding loan balance he/she had in the last 12 months. The loan must be repaid, with interest equal to the prime rate at the time the loan is entered into plus 1%, over a period from 1 year to 4 1/2 years for a general purpose loan and up to 10 years for a residential loan. Some participant loans have interest rate and repayment terms that differ from the Plan's

## Edgar Filing: PARKER HANNIFIN CORP - Form 11-K

loan provisions as some loans were included in the net assets of a plan transfer into the Plan. Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent loans are reclassified as distributions based upon the terms of the plan document.

### *Participant Accounts*

The Plan utilizes the unit value method for allocating Plan earnings for all funds. Unit values are determined on a daily basis and exclude contributions receivable and benefits payable.

**Table of Contents**

**Parker Retirement Savings Plan**

**Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

**3. Vesting, Withdrawals and Distributions**

Participants are fully vested at all times, except for the retirement income account portion (See Note 12). In general, a participant's account is only paid out after termination of employment, but under certain circumstances, a participant may withdraw in cash a portion of his/her before-tax and/or after-tax contributions, subject to certain limitations and restrictions.

After a participant terminates employment for any reason, all amounts are distributable to the participant or if the participant is deceased, to the participant's designated beneficiary. The distribution may be deferred until the age of 70½ if the participant's account exceeds five thousand dollars. Distribution is in cash either in a single payment, quarterly installments, or by purchase of an annuity, except that amounts held in the Company Stock Fund and ESOP Fund may be distributed in the form of common shares. The Plan provides that mandatory or involuntary lump-sum distributions in an amount in excess of one thousand dollars but less than five thousand dollars shall only be made in the form of an automatic rollover IRA. Dividends received by the ESOP Fund are either paid to the participants quarterly or annually or reinvested quarterly, at the participants' election.

**4. Investments**

Prior to March 1, 2010, the investments of the Plan, except for the Company common stock held in the ESOP Fund, were held in the Master Trust with Fidelity Management Trust Company. The Master Trust was established for the investment of assets of the Plan and other Company sponsored retirement plans. The Plan's interest in the net assets of the Master Trust was allocated based upon the respective participant balances within each fund for each plan. The Plan's interest in the Master Trust's investment income was not proportionate to its interest in the net assets due to the ability of participants to select investment options within the Master Trust. Effective March 1, 2010, the Plan assets held by the Master Trust were transferred to the Plan and the Master Trust ceased to exist.

The following represents the fair value of investments held by the Plan at December 31, 2010 and by the Master Trust at December 31, 2009 (investments which exceed 5% of the Plan's net assets in 2010 or the Master Trust's net assets in 2009 are separately identified). At December 31, 2009, the Plan's interest in the net assets of the Master Trust was approximately 99.5%.

**Table of Contents****Parker Retirement Savings Plan****Notes to Financial Statements (Continued)****(Dollars in Thousands)****4. Investments (cont d)**

	2010	2009 (As revised)
Money Market Fund	\$ 41	\$ 34
Mutual Funds:		
Vanguard Institutional Index Fund	149,174	131,137
Sentinel Small Company Fund	124,503	103,239
Dodge and Cox International Stock Fund	122,431	113,983
Others	514,329	411,762
Common/Collective Funds:		
Victory EB Diversified Stock Fund	242,608	234,734
PIMCO Total Return Portfolio	150,703	133,164
Company Stock Fund	291,009	213,205
ESOP Fund	924,075	
Contract Income Fund	454,672	424,293
<b>Total investments</b>	<b>\$ 2,973,545</b>	<b>\$ 1,765,551</b>

In addition to the Plan's interest in the Master Trust, the Plan's assets included an investment in the ESOP Fund of \$610,902 at December 31, 2009.

The following table presents the investment income for the Plan for the year ended December 31, 2010 and for the Master Trust for the year ended December 31, 2009:

	2010	2009 (As revised)
Net appreciation in fair value of investments:		
Company Stock Fund	\$ 121,903	\$ 50,818
ESOP Fund	353,914	
Common/Collective Funds	41,204	70,055
Mutual Funds	97,169	154,656
	<b>614,190</b>	275,529
Interest and dividends	41,673	32,014
	<b>\$ 655,863</b>	<b>\$ 307,543</b>

## Edgar Filing: PARKER HANNIFIN CORP - Form 11-K

In addition to the Plan's interest in the net appreciation in the fair value of the investments held in the Master Trust, the Plan's assets increased \$127,718 as a result of the net appreciation of the investments in the ESOP Fund for the year ended December 31, 2009. The investment income for the Plan for the year ended December 31, 2010 included net appreciation of \$34,324 and interest and dividends of \$2,563 earned while the investments were held in the Master Trust for the period January 1, 2010 to March 1, 2010.

**Table of Contents****Parker Retirement Savings Plan****Notes to Financial Statements (Continued)**

(Dollars in Thousands)

**5. Nonparticipant-Directed Investments**

Information about the net assets and the significant components of the changes in net assets relating to the non-participant directed investments at December 31 is as follows:

	2010	2009
Net Assets: ESOP Fund	\$ 924,075	\$ 610,902
	Year ended December 31, 2010	2009
Changes in Net Assets:		
Contributions	\$ 51,568	\$ 47,203
Transfers (to) other plan funds	(48,286)	(22,567)
Dividend and interest income	11,728	11,284
Net appreciation	353,914	127,718
Benefits paid to participants	(55,751)	(37,118)
	\$ 313,173	\$ 126,520

**6. Contract Income Fund**

The Contract Income Fund holds a portfolio of traditional and synthetic guaranteed investment contracts (GICs) and other short-term securities. The Financial Services Investment Companies, Plan Accounting Defined Contribution Pension Plans and Financial Instruments Topics of the FASB ASC requires that fair value be based upon the discounted cash flow methodology for traditional and separate account GICs and be based upon market value for fixed maturity and constant duration synthetic GICs. All contracts are fully benefit-responsive.

As required by the Financial Services Investment Companies Topic of the FASB ASC, the Statements of Net Assets Available for Benefits presents the Plan's investments at fair value within the Plan at December 31, 2010 and within the Master Trust at December 31, 2009 as well as the adjustment of the Contract Income Fund investments from fair value to contract value. The Statements of Changes in Net Assets Available for Benefits are prepared on a contract value basis.

	2010	2009
Average yield earned by entire fund	2.94%	3.49%
Return on plan assets for 12 months	3.37%	3.93%



**Table of Contents**

**Parker Retirement Savings Plan**

**Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

**6. Contract Income Fund (cont d)**

Traditional GICs are unsecured, general account obligations of insurance companies. The obligation is backed by the general account assets of the insurance company that writes the investment contract. The crediting rate on this product is typically fixed for the life of the investment. Separate account GICs are investments in a segregated account of assets maintained by an insurance company for the benefit of the investors. The total return of the segregated account assets supports the separate account GICs return. The crediting rate on this product will reset periodically and it will have an interest rate of not less than 0%.

General fixed maturity synthetic GICs consist of an asset or collection of assets and a benefit responsive, book value wrap contract purchased for the portfolio. The wrap contract provides book value accounting for the asset and assures that book value, benefit responsive payments will be made for participant directed withdrawals. The crediting rate of the contract is set at the start of the contract and typically resets every quarter. Generally, fixed maturity synthetics are held to maturity. The initial crediting rate is established based on the market interest rates at the time the initial asset is purchased and it will have an interest crediting rate of not less than 0%.

Constant duration synthetic GICs consist of a portfolio of securities and a benefit responsive, book value wrap contract purchased for the portfolio. The wrap contract amortizes gains and losses of the underlying securities over the portfolio duration, and assures that book value, benefit responsive payments will be made for participant directed withdrawals. The crediting rate on a constant duration synthetic GIC resets every quarter based on the book value of the contract, the market yield of the underlying assets, the market value of the underlying assets and the average duration of the underlying assets. The crediting rate aims at converging the book value of the contract and the market value of the underlying portfolio over the duration of the contract and therefore will be affected by movements in interest rates and/or changes in the market value of the underlying portfolio. The initial crediting rate is established based on the market interest rates at the time the underlying portfolio is first put together and it will have an interest crediting rate of not less than 0%.

Withdrawals and transfers resulting from certain events, including employer initiated events and changes in the qualification of the Plan may limit the ability of the fund to transact at book or contract value. These events may cause liquidation of all or a portion of a contract at market value. The Plan administrator does not believe that the occurrence of any event which would limit the Plan's ability to transact at book or contract value is probable.

**Table of Contents****Parker Retirement Savings Plan****Notes to Financial Statements (Continued)****(Dollars in Thousands)****7. Fair Value Measurements**

The following is a summary of the assets held by the Plan that were measured at fair value on a recurring basis at December 31, 2010. There were no significant transfers in or out of Levels 1, 2 or 3.

	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	\$ 41	\$ 41	\$	\$
Mutual Funds				
Fidelity Freedom K Funds	394,380	394,380		
Vanguard Institutional Index Fund	149,174	149,174		
Sentinel Small Company Fund	124,503	124,503		
Dodge and Cox International Stock Fund	122,431	122,431		
Vanguard Total Bond Market Index Fund	34,107	34,107		
INVESCO Mid Cap Core Equity Fund	28,446	28,446		
Vanguard Extended Market Index Fund	28,083	28,083		
Vanguard FTSE All-World ex-US Index Fund	18,313	18,313		
BlackRock Inflation-Protected Bond Fund	11,000	11,000		
Common / Collective Funds				
Victory EB Diversified Stock Fund	242,608		242,608	
PIMCO Total Return Portfolio	150,703		150,703	
Contract Income Fund				
Short-Term Investment Fund	75,922	75,922		
Stable Value Pooled Fund	6,056		6,056	
Traditional GICs	29,748		29,748	
Fixed Maturity Synthetic GICs	60,188	60,188		
Constant Duration Synthetic GICs	282,758		282,758	
Company Stock Fund	291,009		291,009	
ESOP Fund	924,075	924,075		
<b>Total at December 31, 2010</b>	<b>\$ 2,973,545</b>	<b>\$ 1,970,663</b>	<b>\$ 1,002,882</b>	<b>\$</b>

**Table of Contents****Parker Retirement Savings Plan****Notes to Financial Statements (Continued)****(Dollars in Thousands)****7. Fair Value Measurements (cont d)**

A summary of the assets that were measured at fair value on a recurring basis at December 31, 2009 (as revised) follows:

	<b>Total</b>	<b>Quoted Prices In Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Plan interest in Master Trust:				
Money Market Fund	\$ 34	\$ 34	\$	\$
Mutual Funds				
Fidelity Freedom K Funds	327,478	327,478		
Vanguard Institutional Index Fund	131,137	131,137		
Dodge and Cox International Stock Fund	113,983	113,983		
Sentinel Small Company Fund	103,239	103,239		
Vanguard Total Bond Market Index Fund	29,149	29,149		
AIM Mid Cap Core Equity Fund	23,047	23,047		
Vanguard Institutional Developed Markets Index Fund	16,762	16,762		
Vanguard Extended Market Index Fund	15,326	15,326		
Common / Collective Funds				
Victory EB Diversified Stock Fund	234,734		234,734	
PIMCO Total Return Portfolio	133,164		133,164	
Contract Income Fund	424,293		424,293	
Company Stock Fund	213,205		213,205	
ESOP Fund	610,902	610,902		
Total at December 31, 2009	\$ 2,376,453	\$ 1,371,057	\$ 1,005,396	\$

Refer to Note 2 for information on the above investments.

The following is a description of the valuation methodologies used to measure the fair values in the tables above. There have been no changes in the methodologies used to measure fair value at December 31, 2010 and 2009.

Money Market Fund, Mutual Funds and ESOP Fund: Measured at fair value using quoted market prices.

Common / Collective Funds: Measured at fair value using the Funds' net closing asset values which are based primarily on market observable inputs for similar assets in active markets, most notably quoted prices for the underlying assets. The common / collective funds provide exposure to U. S. Government bonds, corporate bonds, foreign bonds, and mortgage bonds and common stocks and securities convertible into common stock. These investments can be redeemed daily and without any restrictions on the timing of the redemption. Redemption of the entire investment balance generally requires at least a 30-day notice. At December 31, 2010 and 2009, the Plan had no unfunded commitments related to these investments.



## **Table of Contents**

### **Parker Retirement Savings Plan**

#### **Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

#### **7. Fair Value Measurements (cont d)**

**Contract Income Fund:** Short-term investment fund and fixed maturity synthetic GICs are measured at fair value using quoted market prices. The underlying securities of the fixed maturity synthetic GICs primarily include investments in commercial, mortgage and asset-backed securities, Freddie and Fannie Mac securities, rate reduction bonds and GNMA project loans. Constant duration synthetic GICs are measured at fair value as provided by FT Interactive and the external investment manager based upon the contracts' underlying securities. The underlying securities of the constant duration synthetic GICs primarily include fixed income government bonds and asset and mortgage-backed securities index funds, some of which are held in collective trusts. The investments held in the collective trusts can be redeemed daily and without any restriction on the timing of the redemption. At December 31, 2010 and 2009, the Plan had no unfunded commitments related to the investments held in the collective trusts. The stable value pooled fund and traditional GICs are measured at fair value using the present value of the contracts' future cash flows discounted by comparable duration using third party index rates.

**Company Stock Fund:** Measured at fair value using market observable inputs for similar assets in active markets.

The primary investment objective of the Mutual Funds and Common/Collective Funds is to obtain a maximum total return and capital appreciation in an amount that at least equals various market-based benchmarks. The primary investment objective of the Contract Income Fund is to provide for a stable rate of return while preserving principal.

#### **8. Tax Status**

The Internal Revenue Service has determined and informed the Company by letter dated December 27, 2005, that the terms of the Plan and related trust comply with applicable sections of the Internal Revenue Code (IRC). Since receiving the determination letter, the Plan has been amended to provide for various administrative changes including adding additional investment funds. The Plan administrator believes that the Plan continues to be designed and operated in compliance with the applicable provisions of the IRC.

United States generally accepted accounting principles require plan management to evaluate uncertain tax positions taken by the Plan. The plan administrator has concluded that as of December 31, 2010, there were no uncertain tax positions taken or expected to be taken by the Plan. The Plan has not recognized any interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### **9. Plan Termination**

Although it has not expressed any intent to do so, the Company, by action of its Board of Directors, without further approval by the shareholders, has the right to amend, modify, suspend, or terminate the Plan in its entirety, or as to any subsidiary or operating location. No amendment, modification, suspension, or termination may permit assets held in trust by the Trustee to be used for or diverted to purposes other than for the exclusive benefit of participants or their beneficiaries. If the Plan is terminated, the Company contributions credited to each affected participant will continue to be fully vested.

**Table of Contents**

**Parker Retirement Savings Plan**

**Notes to Financial Statements (Continued)**

**(Dollars in Thousands)**

**10. Party-In-Interest**

Certain Plan investments that are held by the Plan or that were held within the Master Trust are investment funds managed by Fidelity Management Trust Company (Fidelity). Fidelity is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

The Plan also holds shares of Parker-Hannifin Corporation common stock. These shares qualify as party-in-interest transactions.

**11. Plan Transfer**

On March 1, 2010, net assets of \$8,300 were transferred from the Goshen Rubber Company, Inc. GRC Employees 401(k) Savings Plan and Trust to the Plan.

**12. Retirement Income Account**

A separate Retirement Income Account (RIA) exists within the Plan. A portion of the Company's employees participate in the RIA in lieu of participating in a defined benefit plan. The Company makes a contribution to the participants RIA account in February of each year. The amount of the contribution relates to the prior year and is based on a formula taking into account the participant's age and years of service. Participants do not make contributions to the RIA. A contribution receivable of \$15,263 and \$12,678, reflecting the contribution earned by participants in 2010 and 2009 but paid in 2011 and 2010, has been recorded at December 31, 2010 and 2009, respectively.

The RIA offers the employee the flexibility to invest the money in any of the investment funds (except the Company Stock Fund) offered by the Plan. After three years of service, employees are vested in their RIA and may withdraw their money after termination of employment. Active participants may not borrow or withdraw funds from their RIA account.

**13. Reconciliation of Financial Statements to Form 5500**

Fully benefit-responsive GICs are recorded on the Form 5500 at fair value while in the Plan's financial statements these investments are presented at fair value with an adjustment to contract value.

**Table of Contents****Parker Retirement Savings Plan****Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)****December 31, 2010****EIN 34-0451060****(Dollars in Thousands)**

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
*	Fidelity Retirement Money Market Fund	Money Market Fund	n/a	\$ 41
	Vanguard Group, Inc.	Vanguard Institutional Index Fund	n/a	149,174
	Sentinel Group Funds Inc.	Sentinel Small Company Fund	n/a	124,503
	Dodge & Cox Funds	Dodge and Cox International Stock Fund	n/a	122,431
	Vanguard Group	Vanguard Total Bond Market Index Fund	n/a	34,107
	Sentinel Group Funds Inc.	INVESCO Mid Cap Core Equity Fund	n/a	28,446
	Vanguard Group, Inc.	Vanguard Extended Market Index Fund	n/a	28,083
	Vanguard Group, Inc.	Vanguard FTSE All-World ex-US Index Fund	n/a	18,313
	Black Rock Funds	BlackRock Inflation-Protected Bond Fund	n/a	11,000
	Victory Capital Management, Inc.	Victory EB Diversified Stock Fund	n/a	242,608
*	Fidelity Investments	Fidelity Freedom K Income	n/a	6,846
*	Fidelity Investments	Fidelity Freedom K 2000	n/a	4,629
*	Fidelity Investments	Fidelity Freedom K 2005	n/a	6,967
*	Fidelity Investments	Fidelity Freedom K 2010	n/a	31,244
*	Fidelity Investments	Fidelity Freedom K 2015	n/a	62,131
*	Fidelity Investments	Fidelity Freedom K 2020	n/a	85,315
*	Fidelity Investments	Fidelity Freedom K 2025	n/a	67,800
*	Fidelity Investments	Fidelity Freedom K 2030	n/a	53,569
*	Fidelity Investments	Fidelity Freedom K 2035	n/a	32,356
*	Fidelity Investments	Fidelity Freedom K 2040	n/a	29,571
*	Fidelity Investments	Fidelity Freedom K 2045	n/a	6,409
*	Fidelity Investments	Fidelity Freedom K 2050	n/a	7,543
	PIMCO	Short-term Investment Fund	n/a	3,437
	PIMCO	PIMCO Priv US Govt SEC Fund, 2.89%, 11/01/2014	n/a	27,317
	PIMCO	PIMCO PRV Real Rtrn BD SEC, 2.38%, 10/1/2019	n/a	6,251
	PIMCO	PIMCO PRV Mortgage SEC Fund, 3.56%, 4/1/2015	n/a	62,954
	PIMCO	PIMCO PRV High Yield SEC Fd, 7.81%, 7/1/2018	n/a	2,681
	PIMCO	PIMCO PRIV Inv Grd Corp SEC, 6.1%, 9/1/2020	n/a	25,495
	PIMCO	PIMCO PRIV ABS Sector Fund, 2.27%, 7/1/2015	n/a	3,204
	PIMCO	PIMCO Muni Sector FD Portf, 4.73%, 12/1/2028	n/a	3,457
	PIMCO	PIMCO PRIV Emrg Mkt SECT, 5.63%, 12/1/2019	n/a	4,722
	PIMCO	PIMCO PRV Intl Sector Fund, 2.87%, 10/1/2012	n/a	11,185
*	Fidelity	100-31-GDPH	n/a	75,922
	Goode Stable Value Trust Fund	Goode SV Trust Fund	n/a	6,056
	Metropolitan	GAC 32320	n/a	10,085
	New York Life	GA 34279	n/a	6,406
	Pacific Life	G 27368.02.0000	n/a	13,257
	Prudential	Pru Core Conserv Int Bd Fd	n/a	92,962
	Monumental Life	MFb NT GI-QM COLTV Daily 1-5 Yr. CR BD Index Fd	n/a	14,912

Edgar Filing: PARKER HANNIFIN CORP - Form 11-K

Monumental Life	MFB NT Collective 1-10 Yr. Interm Govt Bond Index Fd	n/a	9,956
Monumental Life	MFB NT Collective Asset-Backed SEC Bond Index Fd	n/a	25,045
Monumental Life	MFB NT Collective Commercial Mort-Backed SEC Index Fd	n/a	3,988



**Table of Contents****Parker Retirement Savings Plan****Schedule H, Line 4(i) Schedule of Assets (Held at End of Year) (Continued)**

December 31, 2010

EIN 34-0451060

(Dollars in Thousands)

(a)	(b)	(c)	(d)	(e)
Identity of issue, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par, or maturity value	Rate of interest, collateral, par, or maturity value	Cost	Current value
Monumental Life	MFB NT Collective Long-Term Govt Bd Index Fd		n/a	2,045
Monumental Life	MFB Collective Short-Term Government Fd		n/a	8,932
Monumental Life	MFB NT COLTV Mtg-Backed SEC Index Fd		n/a	19,958
Monumental Life	MFB NT GI-QM Collective Daily 1-10 yr. Inter Credit Bd IDX Fd		n/a	14,959
Bank of America N.A.	MFB NT GI-QM COLTV Daily 1-5 Yr. CR BD Index Fd		n/a	13,430
Bank of America N.A.	MFB NT Collective 1-10 Yr. Interm Govt Bond Index Fd		n/a	8,966
Bank of America N.A.	MFB NT Collective Asset-Back Securities Bond Index Fd		n/a	22,650
Bank of America N.A.	MFB NT Collective Commercial Mort-Backed SEC Index Fd		n/a	3,591
Bank of America N.A.	MFB NT Collective Long-Term Govt Bd Index Fd		n/a	1,842
Bank of America N.A.	MFB Collective Short-Term Government Fd		n/a	8,044
Bank of America N.A.	MFB NT COLTV Mtg-Backed SEC Index Fd		n/a	17,974
Bank of America N.A.	MFB NT GI-QM Collective Daily 1-10 yr. Inter Credit Bd IDX Fd		n/a	13,472
Bank of America N.A.	BSCMS 2005-T18 A2, 4.56%, 10/13/2011		n/a	1,560
Bank of America N.A.	BSCMS 2003-T12 A3, 4.24%, 9/13/2012		n/a	1,610
Bank of America N.A.	CGCMT 2005-C3 A2, 4.64%, 1/15/2014		n/a	2,736
Bank of America N.A.	FHR 2857 BG, 4.5%, 10/17/2011		n/a	748
Bank of America N.A.	FHR 2885 DE, 4.5%, 11/15/2012		n/a	1,378
Bank of America N.A.	FHR 2900 PB, 4.5%, 11/15/2012		n/a	972
Bank of America N.A.	MLMT 2005-MCP1 A2, 4.56%, 6/12/2013		n/a	697
Bank of America N.A.	PEGTF 2001-1 A5, 6.45%, 3/15/2011		n/a	431
Bank of America N.A.	PSNH 2001-1 A3, 6.48%, 5/1/2013		n/a	3,177
Natixix Financial Products	BSCMS 2006-T22 A2, 5.47%, 6/12/2011		n/a	1,946
Natixix Financial Products	CARAT 2007-3 A4, 5.21%, 3/15/2012		n/a	3,943
Natixix Financial Products	FHR 2631 LB, 4.5%, 6/15/2011		n/a	571
Natixix Financial Products	FHR 2866 XD, 4.0%, 5/16/2011		n/a	987
Natixix Financial Products	GNR 2006-18 A, 4.97%, 11/16/2011		n/a	635
Natixix Financial Products	GNR 2006-51 A, 4.25%, 11/16/2014		n/a	3,955
Natixix Financial Products	JPMCC 2005-LDP2 A2, 4.58%, 2/15/2011		n/a	559
Natixix Financial Products	JPMCC 2006-LDP6 A2, 5.38%, 6/15/2011		n/a	2,301
Natixix Financial Products	MSC 2006-T21 A2, 5.09%, 12/12/2011		n/a	2,075
Natixix Financial Products	RSBBC 2007-A A1, 5.47%, 10/1/2012		n/a	2,149
Rabobank	ACETF 2002-1 A2, 4.21%, 4/20/2011		n/a	583
Rabobank	NAROT 2007-B A4, 5.16%, 11/15/2011		n/a	2,347
State Street Bank	CD 2006-CD2 A2, 5.41%, 6/15/2011		n/a	1,806
State Street Bank	DCAT 2006-C A4, 4.98%, 2/8/2011		n/a	124
State Street Bank	FHR 2707 XD, 5.0%, 11/15/2012		n/a	4,562
State Street Bank	FHR 2728 ND, 4.5%, 1/18/2011		n/a	35
State Street Bank	FHR 2763 PC, 4.5%, 4/15/2011		n/a	822
State Street Bank	FNR 2006-50 PB, 5.0%, 3/25/2013		n/a	4,395

Edgar Filing: PARKER HANNIFIN CORP - Form 11-K

State Street Bank	FHR 2891 MC, 5.0%, 10/15/2012	n/a	6,237
State Street Bank	GNR 2007-55 A, 3.91%, 6/16/2013	n/a	2,728

**Table of Contents****Parker Retirement Savings Plan****Schedule H, Line 4(i) Schedule of Assets (Held at End of Year) (Continued)****December 31, 2010****EIN 34-0451060****(Dollars in Thousands)**

(a)	(b)	(c)	(d)	(e)
Identity of issue, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value	
State Street Bank	GNR 2006-55 A, 4.25%, 8/16/2013	n/a	1,336	
State Street Bank	MPEF 2007-A A1, 4.98%, 7/15/2011	n/a	1,311	
State Street Bank	MLMT 2005-CIP1 A2, 4.96%, 8/13/2012	n/a	1,504	
* Parker-Hannifin Corporation	Company Stock Fund	n/a	291,009	
* ESOP Fund	Parker-Hannifin Corporation common stock (10,556,550 shares)	\$ 223,631	924,075	
* Participant Loans	Participant Loans - 4.0% - 10.25%, maturing through 2027	n/a	77,421	
<b>Total Assets</b>		<b>\$ 223,631</b>	<b>\$ 3,050,966</b>	

\* Denotes Party-in-Interest

**Table of Contents**

**SIGNATURE**

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

PARKER RETIREMENT SAVINGS PLAN

BY: Parker-Hannifin Corporation,  
Plan Administrator

BY: /s/ Jon P. Marten  
Jon P. Marten  
Executive Vice President-Finance and

Administration and Chief Financial Officer

Parker-Hannifin Corporation,

Plan Administrator

June 23, 2011

**Table of Contents**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement (No. 333-164335) on Form S-8 of Parker-Hannifin Corporation of our report dated June 22, 2011, which appears in this Annual Report on Form 11-K of the Parker Retirement Savings Plan for the year ended December 31, 2010. Our report dated June 22, 2011, related to the financial statements and supplemental schedule expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Financial Accounting Standards Board Accounting Standards Update 2010-25, *Plan Acctg Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans*.

/s/ McGladrey & Pullen, LLP

Cleveland, Ohio

June 22, 2011