

PARKER HANNIFIN CORP
Form 10-Q
May 08, 2015

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, 2015
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 (IRS Employer
incorporation or organization) 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 the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

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

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

Number of Common Shares outstanding at March 31, 2015 138,676,726

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|-------------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$3,162,311 | \$3,358,406 | \$9,567,236 | \$9,690,556 |
| Cost of sales | 2,373,016 | 2,605,893 | 7,234,465 | 7,502,273 |
| Gross profit | 789,295 | 752,513 | 2,332,771 | 2,188,283 |
| Selling, general and administrative expenses | 372,306 | 407,241 | 1,152,950 | 1,212,807 |
| Goodwill and intangible asset impairment | — | — | — | 188,870 |
| Interest expense | 35,003 | 20,594 | 83,609 | 62,403 |
| Other (income), net | (6,380) | (4,812) | (32,055) | (424,693) |
| Income before income taxes | 388,366 | 329,490 | 1,128,267 | 1,148,896 |
| Income taxes | 102,904 | 86,972 | 295,299 | 408,654 |
| Net income | 285,462 | 242,518 | 832,968 | 740,242 |
| Less: Noncontrolling interest in subsidiaries' earnings | 117 | 112 | 282 | 232 |
| Net income attributable to common shareholders | \$285,345 | \$242,406 | \$832,686 | \$740,010 |
| Earnings per share attributable to common shareholders: | | | | |
| Basic | \$2.06 | \$1.63 | \$5.77 | \$4.96 |
| Diluted | \$2.02 | \$1.60 | \$5.68 | \$4.88 |
| Cash dividends per common share | \$0.63 | \$0.48 | \$1.74 | \$1.38 |
| See accompanying notes to consolidated financial statements. | | | | |

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-------------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$285,462 | \$242,518 | \$832,968 | \$740,242 |
| Less: Noncontrolling interests in subsidiaries' earnings | 117 | 112 | 282 | 232 |
| Net income attributable to common shareholders | 285,345 | 242,406 | 832,686 | 740,010 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustment | (373,942) | (1,067) | (892,984) | 178,773 |
| Retirement benefits plan activity | 25,871 | 27,179 | 77,793 | 81,801 |
| Other | 183 | 51 | 285 | 153 |
| Other comprehensive income (loss) | (347,888) | 26,163 | (814,906) | 260,727 |
| Less: Other comprehensive income (loss) for noncontrolling interests | (27) | 86 | (180) | (29) |
| Other comprehensive income (loss) attributable to common shareholders | (347,861) | 26,077 | (814,726) | 260,756 |
| Total comprehensive income (loss) attributable to common shareholders | \$(62,516) | \$268,483 | \$17,960 | \$1,000,766 |

See accompanying notes to consolidated financial statements.

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

| | (Unaudited) March 31, 2015 | June 30, 2014 |
|---|----------------------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,017,013 | \$ 1,613,555 |
| Marketable securities and other investments | 1,013,692 | 573,701 |
| Trade accounts receivable, net | 1,701,017 | 1,858,176 |
| Non-trade and notes receivable | 324,140 | 388,437 |
| Inventories | 1,387,681 | 1,371,681 |
| Prepaid expenses | 188,855 | 129,837 |
| Deferred income taxes | 152,599 | 136,193 |
| Total current assets | 5,784,997 | 6,071,580 |
| Plant and equipment | 4,806,883 | 5,152,591 |
| Less: Accumulated depreciation | 3,163,345 | 3,328,297 |
| | 1,643,538 | 1,824,294 |
| Other assets | 993,550 | 1,018,781 |
| Intangible assets, net | 1,022,425 | 1,188,282 |
| Goodwill | 2,892,705 | 3,171,425 |
| Total assets | \$ 12,337,215 | \$ 13,274,362 |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes payable and long-term debt payable within one year | \$ 665,123 | \$ 816,622 |
| Accounts payable, trade | 1,138,163 | 1,252,040 |
| Accrued payrolls and other compensation | 370,620 | 453,321 |
| Accrued domestic and foreign taxes | 141,653 | 223,611 |
| Other accrued liabilities | 451,765 | 507,202 |
| Total current liabilities | 2,767,324 | 3,252,796 |
| Long-term debt | 2,724,943 | 1,508,142 |
| Pensions and other postretirement benefits | 1,288,166 | 1,346,224 |
| Deferred income taxes | 78,276 | 94,819 |
| Other liabilities | 323,567 | 409,573 |
| Total liabilities | 7,182,276 | 6,611,554 |
| EQUITY | | |
| Shareholders' equity: | | |
| Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued | — | — |
| Common stock, \$.50 par value; authorized 600,000,000 shares; issued 181,046,128 shares at March 31 and June 30 | 90,523 | 90,523 |
| Additional capital | 633,483 | 595,498 |
| Retained earnings | 9,753,934 | 9,174,189 |
| Accumulated other comprehensive (loss) | (1,638,224) | (823,498) |
| Treasury shares, at cost; 42,369,402 shares at March 31 and 32,143,315 shares at June 30 | (3,688,001) | (2,377,284) |
| Total shareholders' equity | 5,151,715 | 6,659,428 |
| Noncontrolling interests | 3,224 | 3,380 |

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| | | |
|--|--------------|--------------|
| Total equity | 5,154,939 | 6,662,808 |
| Total liabilities and equity | \$12,337,215 | \$13,274,362 |
| See accompanying notes to consolidated financial statements. | | |

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PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

| | Nine Months Ended | |
|---|-------------------|-----------|
| | March 31, | |
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$832,968 | \$740,242 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 152,884 | 161,749 |
| Amortization | 84,348 | 91,401 |
| Share incentive plan compensation | 74,830 | 84,647 |
| Deferred income taxes | (29,362) | (769) |
| Foreign currency transaction (gain) loss | (79,572) | 5,572 |
| Loss on sale of plant and equipment | 10,248 | 2,061 |
| Gain on sale of businesses | (4,732) | — |
| Goodwill and intangible asset impairment | — | 188,870 |
| Net gain on deconsolidation | — | (412,612) |
| Changes in assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable, net | 39,309 | (10,146) |
| Inventories | (142,105) | (84,540) |
| Prepaid expenses | (64,461) | 4,879 |
| Other assets | 2,291 | (43,297) |
| Accounts payable, trade | (29,719) | 41,733 |
| Accrued payrolls and other compensation | (47,892) | (35,090) |
| Accrued domestic and foreign taxes | (68,274) | 15,712 |
| Other accrued liabilities | (43,320) | 11,999 |
| Pensions and other postretirement benefits | 117,097 | 45,452 |
| Other liabilities | (13,488) | 9,608 |
| Net cash provided by operating activities | 791,050 | 817,471 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions (net of cash of \$3,979 in 2015) | (18,640) | (14,272) |
| Capital expenditures | (157,418) | (167,371) |
| Proceeds from sale of plant and equipment | 15,525 | 10,785 |
| Proceeds from sale of businesses | 35,577 | — |
| Net proceeds from deconsolidation | — | 202,498 |
| Purchases of marketable securities and other investments | (1,456,410) | — |
| Maturities of marketable securities and other investments | 828,653 | — |
| Other | (44,726) | (3,382) |
| Net cash (used in) provided by investing activities | (797,439) | 28,258 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options | 2,828 | 6,635 |
| Payments for common shares | (1,348,446) | (153,918) |
| Tax benefit from share incentive plan compensation | 19,097 | 26,393 |
| Payments for notes payable, net | (364,771) | (253,602) |
| Proceeds from long-term borrowings | 1,482,605 | 739 |
| Payments for long-term borrowings | (491) | (2,456) |
| Dividends | (252,745) | (206,516) |

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| | | | |
|--|-------------|-------------|---|
| Net cash (used in) financing activities | (461,923 |) (582,725 |) |
| Effect of exchange rate changes on cash | (128,230 |) 51,573 | |
| Net (decrease) increase in cash and cash equivalents | (596,542 |) 314,577 | |
| Cash and cash equivalents at beginning of year | 1,613,555 | 1,781,412 | |
| Cash and cash equivalents at end of period | \$1,017,013 | \$2,095,989 | |
| See accompanying notes to consolidated financial statements. | | | |

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PARKER-HANNIFIN CORPORATION
BUSINESS SEGMENT INFORMATION

(Dollars in thousands)

(Unaudited)

The Company operates in two reportable business segments: Diversified Industrial and Aerospace Systems. The Diversified Industrial Segment includes a significant portion of international operations.

Diversified 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, refrigeration and air conditioning, agricultural and military machinery and equipment and has a significant portion of international operations. Sales are made directly to major original equipment manufacturers (OEMs) and through a broad distribution network to smaller OEMs and the aftermarket.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|-------------|--------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | | | | |
| Diversified Industrial: | | | | |
| North America | \$1,441,625 | \$1,455,212 | \$4,302,644 | \$4,168,489 |
| International | 1,148,248 | 1,357,513 | 3,599,145 | 3,905,159 |
| Aerospace Systems | 572,438 | 545,681 | 1,665,447 | 1,616,908 |
| Total net sales | \$3,162,311 | \$3,358,406 | \$9,567,236 | \$9,690,556 |
| Segment operating income | | | | |
| Diversified Industrial: | | | | |
| North America | \$235,516 | \$242,998 | \$726,640 | \$677,824 |
| International | 139,473 | 126,933 | 465,803 | 434,541 |
| Aerospace Systems | 73,334 | 63,974 | 205,500 | 166,306 |
| Total segment operating income | 448,323 | 433,905 | 1,397,943 | 1,278,671 |
| Corporate general and administrative expenses | 45,515 | 38,377 | 152,319 | 132,406 |
| Income before interest expense and other expense | 402,808 | 395,528 | 1,245,624 | 1,146,265 |
| Interest expense | 35,003 | 20,594 | 83,609 | 62,403 |
| Other expense (income) | (20,561) |) 45,444 | 33,748 | (65,034) |
| Income before income taxes | \$388,366 | \$329,490 | \$1,128,267 | \$1,148,896 |

PARKER-HANNIFIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except per share amounts

1. Management representation

In the opinion of the management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position as of March 31, 2015, the results of operations for the three and nine months ended March 31, 2015 and 2014 and cash flows for the nine months then ended. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2014 Annual Report on Form 10-K and previously filed fiscal 2015 Form 10-Qs. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year.

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

2. New accounting pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, "Interest - Imputation of Interest." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the ASU. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not expect ASU 2015-03 will have a material impact on its statement of financial position or financial statement disclosures.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration that a company expects to be entitled to in exchange for the goods or services. To achieve this principle, a company must apply five steps including identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) the company satisfies the performance obligations. Additional quantitative and qualitative disclosure to enhance the understanding about the nature, amount, timing, and uncertainty of revenue and cash flows is also required. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The FASB has tentatively proposed a one-year deferral of this effective date. The Company has not yet determined the effect that ASU 2014-09 will have on its results of operations, statement of financial position, or financial statement disclosures.

3. Product warranty

In the ordinary course of business, the Company warrants its products against defects in design, materials and workmanship over various time periods. The warranty accrual as of March 31, 2015 and June 30, 2014 is immaterial to the financial position of the Company and the change in the accrual for the current-year quarter and first nine months of fiscal 2015 is immaterial to the Company's results of operations and cash flows.

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4. 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, 2015 and 2014.

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|-------------|
| | March 31, 2015 | 2014 | March 31, 2015 | 2014 |
| Numerator: | | | | |
| Net income attributable to common shareholders | \$285,345 | \$242,406 | \$832,686 | \$740,010 |
| Denominator: | | | | |
| Basic - weighted average common shares | 138,794,789 | 149,039,529 | 144,342,288 | 149,143,478 |
| Increase in weighted average common shares from dilutive effect of equity-based awards | 2,395,014 | 2,700,088 | 2,284,985 | 2,418,798 |
| Diluted - weighted average common shares, assuming exercise of equity-based awards | 141,189,803 | 151,739,617 | 146,627,273 | 151,562,276 |
| Basic earnings per share | \$2.06 | \$1.63 | \$5.77 | \$4.96 |
| Diluted earnings per share | \$2.02 | \$1.60 | \$5.68 | \$4.88 |

For the three months ended March 31, 2015 and 2014, 396,693 and 375,282 common shares subject to equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive. For the nine months ended March 31, 2015 and 2014, 1,067,506 and 1,265,717 common shares subject to equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

5. Share repurchase program

The Company has a program to repurchase its common shares. On October 22, 2014, the Board of Directors of the Company approved an increase in the overall number of shares authorized to repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million. There is no limitation on the number of shares that can be repurchased in a fiscal year. Repurchases may be funded primarily from operating cash flows and commercial paper borrowings and the shares are initially held as treasury stock. During the three-month period ended March 31, 2015, the Company repurchased 3,844,356 shares at an average price, including commissions, of \$124.05 per share. During the nine-month period ended March 31, 2015, the Company repurchased 10,677,828 shares at an average price, including commissions, of \$125.83 per share.

6. Trade accounts receivable, net

Trade accounts receivable are initially recorded at their net collectible amount and are generally recorded at the time the revenue from the sales transaction is recorded. Receivables are written off to bad debt primarily when, in the judgment of the Company, the receivable is deemed to be uncollectible due to the insolvency of the debtor. Allowance for doubtful accounts was \$10,108 and \$16,040 at March 31, 2015 and June 30, 2014, respectively.

7. Non-trade and notes receivable

The non-trade and notes receivable caption in the Consolidated Balance Sheet is comprised of the following components:

| | March 31, 2015 | June 30, 2014 |
|-------------------------------|-------------------|------------------|
| Notes receivable | \$88,846 | \$117,400 |
| Reverse repurchase agreements | 78,308 | 54,772 |
| Accounts receivable, other | 156,986 | 216,265 |
| Total | \$324,140 | \$388,437 |

Reverse repurchase agreements are collateralized lending arrangements and have a maturity longer than three months from the date of purchase. The Company does not record an asset or liability for the collateral associated with the reverse repurchase agreements.

8. Inventories

The inventories caption in the Consolidated Balance Sheet is comprised of the following components:

| | March 31, 2015 | June 30, 2014 |
|-------------------|-------------------|------------------|
| Finished products | \$546,615 | \$532,968 |
| Work in process | 752,587 | 732,294 |
| Raw materials | 88,479 | 106,419 |
| Total | \$1,387,681 | \$1,371,681 |

9. Business realignment charges

The Company incurred business realignment charges in fiscal 2015 and fiscal 2014.

Business realignment charges by business segment are as follows:

| | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|----------|-------------------|----------|
| | March 31, 2015 | 2014 | March 31, 2015 | 2014 |
| Diversified Industrial | \$7,203 | \$59,582 | \$22,136 | \$83,420 |
| Aerospace Systems | 563 | 299 | 563 | 925 |

Work force reductions in connection with such business realignment charges by business segment are as follows:

| | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|------|-------------------|-------|
| | March 31, 2015 | 2014 | March 31, 2015 | 2014 |
| Diversified Industrial | 176 | 572 | 350 | 1,154 |
| Aerospace Systems | 21 | 17 | 21 | 44 |

The charges primarily consist of severance costs related to plant closures as well as general work force reductions implemented by various operating units throughout the world, with the majority of the charges relating to realignment initiatives in Europe. In addition, asset write-downs of \$484 and \$2,399 for the three and nine months ended March 31, 2015, respectively, and \$1,331 for the nine months ended March 31, 2014 were recognized in connection with plant closures in the Diversified Industrial Segment and are reflected in the other expense (income) caption in the Business Segment Information. The Company believes the realignment actions will positively impact future results of operations but will not have a material effect on liquidity and sources and uses of capital.

9. Business realignment charges, cont'd

The business realignment charges are presented in the Consolidated Statement of Income as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|----------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Cost of sales | \$4,823 | \$31,053 | \$15,430 | \$46,297 |
| Selling, general and administrative expenses | 2,943 | 28,828 | 7,269 | 38,048 |
| Other (income), net | 484 | — | 2,399 | 1,331 |

As of March 31, 2015, approximately \$9 million in severance payments have been made relating to charges incurred during fiscal 2015, the remainder of which are expected to be paid by March 31, 2016. Severance payments relating to prior year actions are being made as required. Remaining severance payments related to current-year and prior-year actions of approximately \$37 million are primarily reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. Additional charges may be recognized in future periods related to the realignment actions described above, the timing and amount of which are not known at this time.

10. Equity

Changes in equity for the three months ended March 31, 2015 and 2014 are as follows:

| | Shareholders' Equity | Noncontrolling Interests | Total Equity |
|-------------------------------|-------------------------|-----------------------------|--------------|
| Balance at December 31, 2014 | \$5,756,749 | \$3,392 | \$5,760,141 |
| Net income | 285,345 | 117 | 285,462 |
| Other comprehensive (loss) | (347,861) |) (27 |) (347,888 |
| Dividends paid | (87,731) |) (258 |) (87,989 |
| Stock incentive plan activity | 22,092 | — | 22,092 |
| Shares purchased at cost | (476,879) |) — | (476,879 |
| Balance at March 31, 2015 | \$5,151,715 | \$3,224 | \$5,154,939 |
| | Shareholders' Equity | Noncontrolling Interests | Total Equity |
| Balance at December 31, 2013 | \$6,295,226 | \$3,060 | \$6,298,286 |
| Net income | 242,406 | 112 | 242,518 |
| Other comprehensive income | 26,077 | 86 | 26,163 |
| Dividends paid | (71,777) |) (21 |) (71,798 |
| Stock incentive plan activity | 9,064 | — | 9,064 |
| Shares purchased at cost | (50,000) |) — | (50,000 |
| Balance at March 31, 2014 | \$6,450,996 | \$3,237 | \$6,454,233 |

10. Equity, cont'd

Changes in equity for the nine months ended March 31, 2015 and 2014 are as follows:

| | Shareholders' Equity | Noncontrolling Interests | Total Equity |
|-------------------------------|-------------------------|-----------------------------|--------------|
| Balance at June 30, 2014 | \$6,659,428 | \$3,380 | \$6,662,808 |
| Net income | 832,686 | 282 | 832,968 |
| Other comprehensive (loss) | (814,726 |) (180 |) (814,906 |
| Dividends paid | (252,487 |) (258 |) (252,745 |
| Stock incentive plan activity | 70,392 | — | 70,392 |
| Shares purchased at cost | (1,343,578 |) — | (1,343,578 |
| Balance at March 31, 2015 | \$5,151,715 | \$3,224 | \$5,154,939 |

| | Shareholders' Equity | Noncontrolling Interests | Total Equity |
|-----------------------------------|-------------------------|-----------------------------|--------------|
| Balance at June 30, 2013 | \$5,738,426 | \$3,055 | \$5,741,481 |
| Net income | 740,010 | 232 | 740,242 |
| Other comprehensive income (loss) | 260,756 | (29 |) 260,727 |
| Dividends paid | (206,495 |) (21 |) (206,516 |
| Stock incentive plan activity | 68,299 | — | 68,299 |
| Shares purchased at cost | (150,000 |) — | (150,000 |
| Balance at March 31, 2014 | \$6,450,996 | \$3,237 | \$6,454,233 |

Changes in accumulated other comprehensive (loss) in shareholder's equity by component for the nine months ended March 31, 2015 and 2014 are as follows:

| | Foreign Currency Translation Adjustment | Retirement Benefit Plans | Other | Total |
|--|--|--------------------------------|----------|---------------|
| Balance at June 30, 2014 | \$ 124,620 | \$ (947,890 |) \$(228 |) \$(823,498 |
| Other comprehensive (loss) before reclassifications | (892,804 |) — | 132 | (892,672 |
| Amounts reclassified from accumulated other comprehensive (loss) | — | 77,793 | 153 | 77,946 |
| Balance at March 31, 2015 | \$(768,184 |) \$(870,097 |) \$57 | \$(1,638,224) |

| | Foreign Currency Translation Adjustment | Retirement Benefit Plans | Other | Total |
|--|--|--------------------------------|----------|-----------------|
| Balance at June 30, 2013 | \$(68,328 |) \$(1,039,072) | \$(433 |) \$(1,107,833) |
| Other comprehensive income before reclassifications | 178,802 | — | — | 178,802 |
| Amounts reclassified from accumulated other comprehensive (loss) | — | 81,801 | 153 | 81,954 |
| Balance at March 31, 2014 | \$ 110,474 | \$(957,271 |) \$(280 |) \$(847,077 |

10. Equity, cont'd

Reclassifications out of accumulated other comprehensive (loss) in shareholder's equity for the three and nine months ended March 31, 2015 and 2014 are as follows:

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) | | Consolidated Statement of Income Classification |
|---|---|-------------------|---|
| | Three Months Ended | Nine Months Ended | |
| | March 31, 2015 | March 31, 2015 | |
| Retirement benefit plans | | | |
| Amortization of prior service cost and initial net obligation | \$ (2,281 |) \$ (6,825 |) See Note 12 |
| Recognized actuarial loss | (38,498 |) (115,725 |) See Note 12 |
| Total before tax | (40,779 |) (122,550 |) |
| Tax benefit | 14,908 | 44,757 | Income taxes |
| Net of tax | \$ (25,871 |) \$ (77,793 |) |
| Other | | | |
| Realized loss on cash flow hedges | \$ (76 |) \$ (228 |) Interest expense |
| Tax benefit | 25 | 75 | Income taxes |
| Net of tax | \$ (51 |) \$ (153 |) |
| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) | | Consolidated Statement of Income Classification |
| | Three Months Ended | Nine Months Ended | |
| | March 31, 2014 | March 31, 2014 | |
| Retirement benefit plans | | | |
| Amortization of prior service cost and initial net obligation | \$ (2,913 |) \$ (8,765 |) See Note 12 |
| Recognized actuarial loss | (39,970 |) (120,349 |) See Note 12 |
| Total before tax | (42,883 |) (129,114 |) |
| Tax benefit | 15,704 | 47,313 | Income taxes |
| Net of tax | \$ (27,179 |) \$ (81,801 |) |
| Other | | | |
| Realized loss on cash flow hedges | \$ (76 |) \$ (228 |) Interest expense |
| Tax benefit | 25 | 75 | Income taxes |
| Net of tax | \$ (51 |) \$ (153 |) |

11. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the nine months ended March 31, 2015 are as follows:

| | Diversified Industrial Segment | Aerospace Systems Segment | Total |
|--|--------------------------------------|---------------------------------|-------------|
| Balance at June 30, 2014 | \$3,072,724 | \$98,701 | \$3,171,425 |
| Acquisitions | 8,682 | — | 8,682 |
| Divestitures | (4,757 |) — | (4,757 |
| Foreign currency translation and other | (282,568 |) (77 |) (282,645 |
| Balance at March 31, 2015 | \$2,794,081 | \$98,624 | \$2,892,705 |

Acquisitions represent the original goodwill allocation and final adjustments to the purchase price allocation for the acquisitions during the measurement period subsequent to the applicable acquisition dates. The Company's previously reported results of operations and financial position would not be materially different had the goodwill adjustments recorded during the first nine months of fiscal 2015 been reflected in the same reporting period in which the initial purchase price allocations for those acquisitions were made.

Divestitures primarily represent goodwill associated with the sale of businesses during the first nine months of fiscal 2015.

During the second quarter of fiscal 2014, the Company made a decision to restructure and change the strategic direction of its Worldwide Energy Products Division (EPD). The Company calculated the fair value of EPD using assumptions reflecting the Company's updated strategic direction for this reporting unit, the results of which indicated that the carrying value of EPD exceeded its fair value. As a result, the Company estimated the implied fair value of EPD's goodwill, which resulted in a non-cash impairment charge of \$140,334. The impairment charge is reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other expense (income) caption in the Business Segment Information. The fair value of EPD was calculated using both a discounted cash flow analysis and estimated fair market values of comparable businesses with each valuation method having equal weight. Fair value calculated using a discounted cash flow analysis is classified within level 3 of the fair value hierarchy and requires several assumptions including a risk-adjusted interest rate and future sales and operating margin levels.

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

| | March 31, 2015 | | June 30, 2014 | |
|--------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | \$145,944 | \$84,939 | \$160,030 | \$86,708 |
| Trademarks | 347,425 | 161,276 | 391,268 | 174,114 |
| Customer lists and other | 1,345,307 | 570,036 | 1,481,560 | 583,754 |
| Total | \$1,838,676 | \$816,251 | \$2,032,858 | \$844,576 |

Total intangible amortization expense for the nine months ended March 31, 2015 was \$81,754. The estimated amortization expense for the five years ending June 30, 2015 through 2019 is \$108,218, \$104,395, \$100,452, \$95,109, and \$88,824, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. No such events or circumstances occurred during the nine months ended March 31, 2015.

11. Goodwill and intangible assets, cont'd

During the second quarter of fiscal 2014, in connection with the goodwill impairment review of EPD discussed above, the Company determined that certain intangible assets of EPD, primarily trademarks and customer lists, were impaired resulting in a non-cash impairment charge of \$43,664. The impairment charge is reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other expense (income) caption in the Business Segment Information. The fair value of EPD's intangible assets were determined using an income approach for the individual intangible assets. Fair value calculated using an income approach is classified within level 3 of the fair value hierarchy and requires several assumptions including future sales and operating margins expected to be generated from the use of the individual intangible asset.

12. Retirement benefits

Net pension benefit cost recognized included the following components:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|-----------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$24,506 | \$24,935 | \$74,163 | \$74,621 |
| Interest cost | 44,447 | 48,034 | 135,245 | 143,043 |
| Expected return on plan assets | (54,658) | (56,657) | (164,847) | (169,619) |
| Amortization of prior service cost | 2,306 | 2,949 | 6,903 | 8,843 |
| Amortization of net actuarial loss | 38,171 | 39,914 | 114,896 | 119,593 |
| Amortization of initial net obligation | 4 | 5 | 13 | 15 |
| Net pension benefit cost | \$54,776 | \$59,180 | \$166,373 | \$176,496 |

In the fourth quarter of fiscal 2015, the Company initiated a voluntary retirement program under which certain participants of its U.S. qualified defined benefit pension plan were offered enhanced retirement benefits. The Company will incur an increase in net pension benefit cost during the fourth quarter of fiscal 2015 should certain participants accept the enhanced retirement benefits.

Net postretirement benefit cost recognized included the following components:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|--------------------|-------|-------------------|---------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$163 | \$54 | \$475 | \$466 |
| Interest cost | 558 | 811 | 2,042 | 2,229 |
| Amortization of prior service benefit | (29) | (41) | (91) | (93) |
| Amortization of net actuarial loss | 327 | 56 | 829 | 756 |
| Net postretirement benefit cost | \$1,019 | \$880 | \$3,255 | \$3,358 |

13. Debt

During the second quarter of fiscal 2015, the Company issued \$500,000 aggregate principal of ten-year medium-term notes, \$500,000 aggregate principal of twenty-year medium-term notes and \$500,000 aggregate principal of thirty-year medium-term notes. The ten-year medium-term notes are due in a balloon payment in November 2024 and carry an interest rate of 3.30 percent. The twenty-year medium-term notes are due in a balloon payment in November 2034 and carry an interest rate of 4.20 percent. The thirty-year medium-term notes are due in a balloon payment in November 2044 and carry an interest rate of 4.45 percent. Interest payments are due semi-annually. Debt issuance costs for all medium-term notes issued were approximately \$15,018 and will be amortized over the term of the notes. The Company used a portion of the net proceeds from the notes issuance to repay outstanding commercial paper

borrowings.

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14. Income taxes

The effective tax rate for the first nine months of fiscal 2015 was lower than the comparable prior-year period due to discrete tax costs that occurred in the prior-year, an increase in estimated foreign earnings in low tax rate jurisdictions, and the re-enactment of the U.S. Research and Development tax credit.

The Company and its subsidiaries file federal and state income tax returns in the U.S. and in various foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is open to assessment of its federal income tax returns by the U.S. Internal Revenue Service for fiscal years after 2011. The Company is also open to assessment for all significant state, local and foreign jurisdictions for fiscal years after 2006. Unrecognized tax benefits reflect the difference between positions taken or expected to be taken on income tax returns and the amounts reflected in the financial statements.

As of March 31, 2015, the Company had gross unrecognized tax benefits of \$146,482. The total amount of gross unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$79,710. If recognized, a significant portion of the gross unrecognized tax benefits would be offset against an asset currently recorded in the Consolidated Balance Sheet. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, is \$10,502. It is reasonably possible that within the next 12 months the amount of gross unrecognized tax benefits could be reduced by up to approximately \$110,000 as a result of the revaluation of existing uncertain tax positions arising from developments in the examination process or the closure of tax statutes. Any increase in the amount of unrecognized tax benefits within the next 12 months is expected to be insignificant.

15. Financial instruments

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities and other investments, long-term investments, and accounts receivable as well as obligations under accounts payable, trade, notes payable and long-term debt. Due to their short-term nature, the carrying values for cash and cash equivalents, accounts receivable, accounts payable, trade and notes payable approximate fair value.

Marketable securities and other investments include deposits, which are recorded at cost, and investments classified as available-for-sale, which are recorded at fair value with unrealized gains and losses recorded in accumulated other comprehensive (loss). The amortized cost and fair value of available-for-sale investments at March 31, 2015 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| Fixed income mutual funds | \$222,088 | \$301 | \$— | \$222,389 |
| Government bonds | 63,594 | 5 | 6 | 63,593 |
| Corporate bonds | 138,319 | — | 154 | 138,165 |
| Asset-backed and mortgage-backed securities | 10,753 | 2 | 17 | 10,738 |

At March 31, 2015, there were no facts or circumstances that indicated the unrealized losses were other than temporary. All available-for-sale investments in an unrealized loss position have been in that position for less than twelve months.

The contractual maturities of available-for-sale investments at March 31, 2015 are as follows:

| | Amortized Cost | Fair Value |
|--------------------|-------------------|---------------|
| Less than one year | \$19,245 | \$19,239 |
| One to three years | 179,575 | 179,434 |
| Above three years | 13,846 | 13,823 |

15. Financial instruments cont'd

Actual maturities of available-for-sale investments may differ from their contractual maturities as the Company has the ability to liquidate the available-for-sale investments after giving appropriate notice to the issuer.

The carrying value of long-term debt (excluding capital leases) and estimated fair value of long-term debt (excluding capital leases) are as follows:

| | March 31, 2015 | June 30, 2014 |
|---|-------------------|------------------|
| Carrying value of long-term debt (excluding capital leases) | \$2,939,620 | \$1,508,420 |
| Estimated fair value of long-term debt (excluding capital leases) | 3,295,663 | 1,708,723 |

The fair value of long-term debt was determined based on observable market prices in the active market in which the security is traded and is classified within level 2 of the fair value hierarchy.

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

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

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value.

The following summarizes the location and fair value of derivative financial instruments reported in the Consolidated Balance Sheet as of March 31, 2015 and June 30, 2014:

| | Balance Sheet Caption | March 31, 2015 | June 30, 2014 |
|-------------------------------|--------------------------------|-------------------|------------------|
| Net investment hedges | | | |
| Cross-currency swap contracts | Other assets | \$26,747 | \$— |
| Cross-currency swap contracts | Other liabilities | — | 45,790 |
| Cash flow hedges | | | |
| Costless collar contracts | Non-trade and notes receivable | 7,712 | 3,508 |
| Forward exchange contracts | Non-trade and notes receivable | 63 | (41) |
| Costless collar contracts | Other accrued liabilities | 6,651 | 378 |

The cross-currency swap and costless collar contracts are reflected on a gross basis in the Consolidated Balance Sheet. The presentation of forward exchange contracts is on a net basis, the effect of which is immaterial to the Consolidated Balance Sheet. The Company has not entered into any master netting arrangements.

Gains or losses on derivatives that are not hedges are adjusted to fair value through the cost of sales caption in the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings.

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

15. Financial instruments cont'd

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

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|---------|-------------------|---------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Forward exchange contracts | \$(331 |) \$442 | \$148 | \$(182 |
| Costless collar contracts | (424 |) 766 | (1,788 |) 7,486 |

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

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--------------------|----------|-------------------|-----------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Cross-currency swap contracts | \$22,684 | \$(2,393 |) \$44,813 | \$(13,881 |
| Foreign denominated debt | 17,151 | (1,013 |) 42,296 | (7,895 |

There was no ineffectiveness of the cross-currency swap contracts or foreign denominated debt, nor was any portion of these financial instruments excluded from the effectiveness testing, during the nine months ended March 31, 2015 and 2014.

A summary of financial assets and liabilities that were measured at fair value on a recurring basis at March 31, 2015 and June 30, 2014 are as follows:

| | Total Value at | Quoted Prices | Significant Other | Significant |
|---|----------------|-------------------|-------------------|---------------------|
| | | In Active Markets | Observable Inputs | Unobservable Inputs |
| | March 31, 2015 | (Level 1) | (Level 2) | (Level 3) |
| Assets: | | | | |
| Fixed income mutual funds | \$222,389 | \$59,450 | \$162,939 | \$— |
| Government bonds | 63,593 | 63,593 | — | — |
| Corporate bonds | 138,165 | 138,165 | — | — |
| Asset-backed and mortgage-backed securities | 10,738 | — | 10,738 | — |
| Derivatives | 34,522 | — | 34,522 | — |
| Liabilities: | | | | |
| Derivatives | 6,651 | — | 6,651 | — |
| | Total Value at | Quoted Prices | Significant Other | Significant |
| | June 30, 2014 | In Active Markets | Observable Inputs | Unobservable Inputs |
| | June 30, 2014 | (Level 1) | (Level 2) | (Level 3) |
| Assets: | | | | |
| Derivatives | \$3,508 | \$— | \$3,508 | \$— |
| Liabilities: | | | | |
| Derivatives | 46,209 | — | 46,209 | — |

Fixed income mutual funds consist of investments in mutual funds with variable net asset values. The fair values of the fixed income mutual funds, government bonds, corporate bonds and asset-backed and mortgage-backed securities are determined using the closing market price reported in the active market in which the fund is traded or the market price for similar assets that are traded in an active market.

15. Financial instruments cont'd

Derivatives consist of forward exchange, costless collar and cross-currency swap contracts, the fair values of which are calculated using market observable inputs including both spot and forward prices for the same underlying currencies. The calculation of fair value of the cross-currency swap contracts also utilizes a present value cash flow model that has been adjusted to reflect the credit risk of either the Company or the counterparty.

There are no other financial assets or financial liabilities that are marked to market on a recurring basis. Fair values are transferred between levels of the fair value hierarchy when facts and circumstances indicate that a change in the method of estimating the fair value of a financial asset or financial liability is warranted.

16. Deconsolidation of subsidiary

During the second quarter of fiscal 2014, the Company and GE Aviation, a non-related party, finalized a joint venture in which the Company sold a 50 percent equity interest in one of its wholly-owned subsidiaries. The sale of the 50 percent equity interest in the wholly-owned subsidiary resulted in a loss of control of the subsidiary, and therefore it was deconsolidated from the Company's financial statements during the second quarter of fiscal 2014. The Company's equity interest in the joint venture with GE Aviation is accounted for using the equity method of accounting. A significant portion of the underlying net assets of the joint venture are related to goodwill.

The Company recognized a pre-tax gain of \$413 million on the deconsolidation, measured as the fair value of the consideration received for the 50 percent equity interest in the former subsidiary and the fair value of the retained investment less the carrying amount of the former subsidiary's net assets. Approximately \$186 million of the pre-tax gain is attributable to the remeasurement of the retained investment in the former subsidiary to its current fair value. The gain is reflected in the other (income) net caption in the Consolidated Statement of Income and the other expense (income) caption in the Business Segment Information for the nine months ended March 31, 2014.

The fair value of the retained investment in the joint venture with GE Aviation was determined using both a market and income approach. Cash consideration paid was the primary input used for the market approach. The fair value calculated using an income approach required several assumptions including future projected cash flows discounted using a rate approximating the cost of capital of the joint venture and is classified within level 3 of the fair value hierarchy.

PARKER-HANNIFIN CORPORATION

FORM 10-Q

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2015
AND COMPARABLE PERIODS ENDED MARCH 31, 2014

OVERVIEW

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

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

- Purchasing Managers Index (PMI) on manufacturing activity specific to regions around the world with respect to most mobile and industrial markets;

- Global aircraft miles flown and global revenue passenger miles for commercial aerospace markets and Department of Defense spending for military aerospace markets; and

- Housing starts with respect to the North American residential air conditioning market and certain mobile construction markets.

A PMI above 50 indicates that the manufacturing activity specific to a region of the world in the mobile and industrial markets is expanding. A PMI below 50 indicates the opposite. Recent PMI levels for some regions around the world were as follows:

| | March 31, 2015 | December 31, 2014 | June 30, 2014 |
|--------------------|----------------|-------------------|---------------|
| United States | 51.5 | 55.5 | 55.3 |
| Eurozone countries | 52.2 | 50.6 | 51.8 |
| China | 49.6 | 49.6 | 50.7 |
| Brazil | 46.2 | 50.2 | 48.7 |

Global aircraft miles flown and global revenue passenger miles have both increased approximately six percent from their comparable fiscal 2014 levels. The Company anticipates that U.S. Department of Defense spending with regard to appropriations and operations and maintenance for the U.S. Government's fiscal year 2015 will be approximately one percent higher than the comparable fiscal 2014 level.

Housing starts in March 2015 were approximately two percent lower than housing starts in March 2014 and were approximately four percent higher than housing starts in June 2014.

The Company remains focused on maintaining its financial strength by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash. The Company has been able to borrow funds at affordable interest rates and had a debt to debt-shareholders' equity ratio of 39.7 percent at March 31, 2015 compared to 34.0 percent at December 31, 2014 and 25.9 percent at June 30, 2014. Net of cash and cash equivalents and marketable securities and other investments, the debt to debt-shareholders' equity ratio was 20.9 percent at March 31, 2015 compared to 14.9 percent at December 31, 2014 and 2.0 percent at June 30, 2014.

The Company believes many opportunities for profitable growth are available. The Company intends to focus primarily on business opportunities in the areas of energy, water, food, environment, defense, life sciences, infrastructure and transportation.

The Company believes it can meet its strategic objectives by:

- Serving the customer and continuously enhancing its experience with the Company;
- Successfully executing its Win Strategy initiatives relating to premier customer service, financial performance and profitable growth;
- Maintaining its decentralized division and sales company structure;
- Fostering an entrepreneurial culture;
- Engineering innovative systems and products to provide superior customer value through improved service, efficiency and productivity;
- Delivering products, systems and services that have demonstrable savings to customers and are priced by the value they deliver;
- Acquiring strategic businesses;
- Organizing around targeted regions, technologies and markets;
- Driving efficiency by implementing lean enterprise principles; and
- Creating a culture of empowerment through its values, inclusion and diversity, accountability and teamwork.

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

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

CONSOLIDATED STATEMENT OF INCOME

| (dollars in millions) | Three Months Ended | | Nine Months Ended | | |
|---|--------------------|-----------|-------------------|-------------|---|
| | March 31, | | March 31, | | |
| | 2015 | 2014 | 2015 | 2014 | |
| Net sales | \$3,162.3 | \$3,358.4 | \$9,567.2 | \$9,690.6 | |
| Gross profit | \$789.3 | \$752.5 | \$2,332.8 | \$2,188.3 | |
| Gross profit margin | 25.0 | % 22.4 | % 24.4 | % 22.6 | % |
| Selling, general and administrative expenses | \$372.3 | \$407.2 | \$1,153.0 | \$1,212.8 | |
| Selling, general and administrative expenses, as a percent of sales | 11.8 | % 12.1 | % 12.1 | % 12.5 | % |
| Goodwill and intangible asset impairment | \$— | \$— | \$— | \$188.9 | |
| Interest expense | 35.0 | 20.6 | 83.6 | 62.4 | |
| Other (income), net | \$(6.4) |) \$(4.8) |) \$(32.1) |) \$(424.7) |) |
| Effective tax rate | 26.5 | % 26.4 | % 26.2 | % 35.6 | % |
| Net income | \$285.5 | \$242.5 | \$833.0 | \$740.2 | |
| Net income, as a percent of sales | 9.0 | % 7.2 | % 8.7 | % 7.6 | % |

Net sales for the current-year quarter and first nine months of fiscal 2015 decreased from the comparable prior-year periods primarily due to lower sales in the Diversified Industrial International businesses, primarily due to effect of currency rate changes, more than offsetting higher volume experienced in the Aerospace Systems Segment. An increase in net sales in the Diversified Industrial North American businesses for the first nine months of fiscal 2015 also helped offset the decrease in sales. The effect of currency rate changes decreased net sales by approximately \$205 million in the current-year quarter (\$185 million of which was attributable to the Diversified Industrial International businesses) and \$336 million for the first nine months of fiscal 2015 (\$298 million of which was attributable to the Diversified Industrial International businesses). Acquisitions made in the last 12 months contributed approximately \$3 million and \$12 million in sales in the current-year quarter and first nine months of fiscal 2015, respectively.

Gross profit margin increased in the current-year quarter and first nine months of fiscal 2015 primarily due to lower business realignment charges, higher sales volume and a favorable product mix in the Aerospace Systems Segment and lower fixed overhead costs in the Diversified Industrial International businesses, reflecting the benefits of business realignment actions taken in the prior year. Foreign currency transaction (gain) loss (relating to cash, marketable securities and other investments and intercompany transactions) included in cost of sales for the current-year quarter and prior-year quarter were \$(56.4) million and \$1.1 million, respectively, and \$(79.6) million and \$5.6 million for the first nine months of fiscal 2015 and 2014, respectively. Pension cost included in cost of sales for the current-year quarter and prior-year quarter were \$39.2 million and \$45.2 million, respectively, and \$121.0 million and \$130.3 million for the first nine months of fiscal 2015 and fiscal 2014, respectively. Cost of sales for the current-year quarter and prior-year quarter also included business realignment charges of \$4.8 million and \$31.1 million, respectively, and \$15.4 and \$46.3 million for the first nine months of fiscal 2015 and fiscal 2014, respectively.

Selling, general and administrative expenses decreased for the current-year quarter and first nine months of fiscal 2015 primarily due to lower business realignment expenses and stock compensation expense, partially offset by higher incentive compensation expense. Selling, general and administrative expenses for the first nine months of fiscal 2015 includes higher expenses associated with the Company's deferred compensation programs. Stock compensation expense decreased primarily as a result of a lower number of stock awards granted in fiscal 2015. Pension cost included in selling, general and administrative expenses for the current-year quarter and prior-year quarter was \$15.4 million and \$16.5 million, respectively and \$46.7 million and \$48.7 million for the first nine months of fiscal 2015 and fiscal 2014, respectively. Business realignment charges included in selling, general and administrative expenses were \$2.9 million and \$28.8 million for the current-year quarter and prior-year quarter, respectively, and \$7.3 million and \$38.0 million for the first nine months of fiscal 2015 and fiscal 2014, respectively.

Goodwill and intangible asset impairment relates to the Worldwide Energy Products Division. Refer to Note 11 to the Consolidated Financial Statements for further discussion.

Interest expense for the current-year quarter and first nine months of fiscal 2015 increased from the comparable prior-year periods primarily due to a higher weighted-average interest rate on borrowings. The higher weighted-average interest rate primarily resulted from the issuance of \$1,500 million of medium-term notes during the second quarter of fiscal 2015.

Other (income), net in the current-year quarter and first nine months of fiscal 2015 includes income of \$4.9 million and \$16.1 million, respectively, related to equity method investments, a gain of \$1.3 million and \$8.9 million, respectively, related to the sale of businesses and an expense of \$0.8 million and \$7.9 million, respectively, related to asset writedowns. Other (income), net in the prior-year quarter and first nine months of fiscal 2014 included income of \$4.3 million and \$5.5 million, respectively, related to equity method investments, and an expense of \$0.8 million and \$3.0 million, respectively, related to asset writedowns. Other (income), net for the first nine months of fiscal 2014 included a gain of \$412.6 million related to the deconsolidation of a subsidiary (refer to Note 16 to the Consolidated Financial Statements for further discussion).

Effective tax rate for the first nine months of fiscal 2015 was lower than the comparable prior-year period due to discrete tax costs that occurred in the prior-year, an increase in estimated foreign earnings in low tax jurisdictions and the re-enactment of the U.S. Research and Development tax credit. The Company expects the effective tax rate for fiscal 2015 will be approximately 26.5 percent.

RESULTS BY BUSINESS SEGMENT

Diversified Industrial Segment

| (dollars in millions) | Three Months Ended | | Nine Months Ended | |
|-----------------------|--------------------|-----------|-------------------|-----------|
| | March 31, 2015 | 2014 | March 31, 2015 | 2014 |
| Net sales | | | | |
| North America | \$1,441.6 | \$1,455.2 | \$4,302.6 | \$4,168.5 |
| International | 1,148.2 | 1,357.5 | 3,599.1 | 3,905.2 |

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| | | | | | |
|------------------|-----------|-----------|-----------|-----------|---|
| Operating income | | | | | |
| North America | 235.5 | 243.0 | 726.6 | 677.8 | |
| International | \$139.5 | \$126.9 | \$465.8 | \$434.5 | |
| Operating margin | | | | | |
| North America | 16.3 | % 16.7 | % 16.9 | % 16.3 | % |
| International | 12.1 | % 9.4 | % 12.9 | % 11.1 | % |
| Backlog | \$1,662.9 | \$1,903.4 | \$1,662.9 | \$1,903.4 | |

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The Diversified Industrial Segment operations experienced the following percentage changes in net sales in the current-year period versus the comparable prior-year period:

| | Period ending March 31, | | | |
|--|-------------------------|----|-------------|----|
| | Three Months | | Nine Months | |
| Diversified Industrial North America – as reported | (0.9 |)% | 3.2 | % |
| Acquisitions | — | % | 0.2 | % |
| Currency | (1.1 |)% | (0.8 |)% |
| Diversified Industrial North America – without acquisitions and currency | 0.2 | % | 3.8 | % |
| Diversified Industrial International – as reported | (15.4 |)% | (7.8 |)% |
| Acquisitions | 0.2 | % | 0.1 | % |
| Currency | (13.6 |)% | (7.6 |)% |
| Diversified Industrial International – without acquisitions and currency | (2.0 |)% | (0.3 |)% |
| Total Diversified Industrial Segment – as reported | (7.9 |)% | (2.1 |)% |
| Acquisitions | 0.1 | % | 0.1 | % |
| Currency | (7.1 |)% | (4.0 |)% |
| Total Diversified Industrial Segment – without acquisitions and currency | (0.9 |)% | 1.8 | % |

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

Excluding the effects of acquisitions and changes in currency exchange rates, Diversified Industrial North American sales remained relatively flat for the current-year quarter as an increase in demand from distributors and end-users in the car and light truck and construction equipment markets was partially offset by lower demand in the farm and agriculture equipment market. The increase in Diversified Industrial North American sales for the first nine months of fiscal 2015 is primarily due to higher demand from distributors as well as from end-users in the construction equipment, car and light truck, refrigeration and air conditioning, oil and gas, and heavy-duty truck markets, partially offset by lower demand in the farm and agriculture equipment market. Excluding the effects of acquisitions and changes in currency exchange rates, Diversified Industrial International sales for the current-year quarter decreased due to lower volume in Europe and Latin America, partially offset by higher volume in the Asia Pacific region. Diversified Industrial International sales for the first nine months of fiscal 2015 remained relatively flat as increases in volume in the Asia Pacific region and Europe were offset by the absence of sales from divested businesses in Europe and lower volume in Latin America.

The decrease in operating margins in the Diversified Industrial North American businesses for the current-year quarter was primarily due to higher material prices and higher research and development expenses, partially offset by a favorable product mix. The increase in operating margins in the Diversified Industrial North American businesses for the first nine months of fiscal 2015 was primarily due to higher volume, a favorable product mix and manufacturing efficiencies, partially offset by higher material prices and higher warehouse, shipping and manufacturing support costs. The increase in operating margins in the Diversified Industrial International businesses for the current-year quarter and first nine months of fiscal 2015 was primarily due to lower fixed overhead costs, primarily resulting from business realignment actions taken in the prior year and lower business realignment charges in the current-year quarter and first nine months of fiscal 2015, partially offset by higher material costs due to changes in currency exchange rates.

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The following business realignment expenses are included in Diversified Industrial North America and Diversified Industrial International operating income:

| (dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|--------|-------------------|----------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Diversified Industrial North America | \$ 689 | \$ 100 | \$ 1,018 | \$ 1,751 |
| Diversified Industrial International | 6,514 | 59,482 | 21,118 | 81,669 |

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The business realignment charges consist primarily of severance costs resulting from plant closures as well as general work force reductions. The majority of the Diversified Industrial International business realignment charges were incurred in Europe. The Company does not anticipate that cost savings realized from the work force reduction measures taken during the first nine months of fiscal 2015 in the Diversified Industrial North American businesses will have a material impact on future operating income. The Company expects work force reduction measures taken in the Diversified Industrial International businesses will increase future annual operating income by approximately two percent. The Company expects to continue to take the actions necessary to structure appropriately the operations of the Diversified Industrial Segment. Such actions are expected to result in approximately \$10 million in additional business realignment charges in the remainder of fiscal 2015.

Diversified Industrial Segment backlog decreased from the prior-year quarter and the June 30, 2014 amount of \$1,861.0 million as shipments exceeded orders in all businesses with the largest decrease occurring in the European and North American businesses. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale. The Company anticipates Diversified Industrial North American sales for fiscal 2015 will increase between one percent and two percent from the fiscal 2014 level and Diversified Industrial International sales for fiscal 2015 will decrease between 12 percent and 11 percent from the fiscal 2014 level. Diversified Industrial North American operating margins in fiscal 2015 are expected to range from 16.2 percent to 16.3 percent and Diversified Industrial International operating margins in fiscal 2015 are expected to range from 12.8 percent to 13.0 percent. The forecasted Diversified Industrial North American operating margins in fiscal 2015 do not include the potential impact of the voluntary retirement program discussed in Note 12 to the Consolidated Financial Statements.

Aerospace Systems Segment

| (dollars in millions) | Three Months Ended | | Nine Months Ended | | |
|-----------------------|--------------------|-----------|-------------------|-----------|---|
| | March 31, | | March 31, | | |
| | 2015 | 2014 | 2015 | 2014 | |
| Net sales | \$572.4 | \$545.7 | \$1,665.4 | \$1,616.9 | |
| Operating income | \$73.3 | \$64.0 | \$205.5 | \$166.3 | |
| Operating margin | 12.8 | % 11.7 | % 12.3 | % 10.3 | % |
| Backlog | \$1,848.3 | \$1,923.9 | \$1,848.3 | \$1,923.9 | |

The increase in net sales in the Aerospace Systems Segment for the current-year quarter and first nine months of fiscal 2015 was primarily due to higher volume in the commercial original equipment manufacturer (OEM) and military aftermarket businesses, partially offset by lower volume in the commercial aftermarket and military OEM businesses. The higher margins in the current-year quarter were primarily due to higher military aftermarket volume and lower engineering development costs, partially offset by an unfavorable OEM product mix. The higher margins for the first nine months of fiscal 2015 were primarily due to a favorable OEM product mix, higher military aftermarket volume and lower engineering development costs.

The decrease in backlog from the prior-year quarter was primarily due to lower orders than shipments in the military OEM and commercial and military aftermarket businesses partially offset by orders exceeding shipments in the commercial OEM business. The decrease in backlog from the June 30, 2014 amount of \$1,993.6 million was primarily due to shipments exceeding orders in the commercial and military OEM businesses and commercial aftermarket business, partially offset by orders exceeding shipments in the military aftermarket business. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale. For fiscal 2015, sales are expected to increase between three percent and five percent from the fiscal 2014 level (excluding fiscal 2014

sales of \$49.5 million from a deconsolidated subsidiary) and operating margins are expected to range from 13.3 percent to 13.5 percent. Forecasted operating margins in fiscal 2015 do not include the potential impact of the voluntary retirement program discussed in Note 12 to the Consolidated Financial Statements. A higher concentration of commercial OEM volume in future product mix and higher than expected new product development costs could result in lower margins.

Corporate general and administrative expenses

Corporate general and administrative expenses were \$45.5 million in the current-year quarter compared to \$38.4 million in the comparable prior-year quarter and were \$152.3 million for the first nine months of fiscal 2015 compared to \$132.4 million for the first nine months of 2014. As a percent of sales, corporate general and administrative expenses increased to 1.4 percent in the current-year quarter from 1.1 percent in the prior-year quarter and increased to 1.6 percent in the first nine months of fiscal 2015 from 1.4 percent in the first nine months of fiscal 2014. The higher expense in the current-year quarter and first nine months of fiscal 2015 is primarily due to an increase in incentive compensation, charitable contributions and research and development expenses. The higher expense for the first nine months of fiscal 2015 is also attributable to higher expenses related to the Company's deferred compensation programs.

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

| (dollars in millions) | Three Months Ended, | | Nine Months Ended, | | |
|---|---------------------|----------|--------------------|---------|---|
| | March 31, | | March 31, | | |
| Expense (income) | 2015 | 2014 | 2015 | 2014 | |
| Foreign currency transaction | \$(56.4 |) \$1.1 | \$(79.6 |) \$5.6 | |
| Stock-based compensation | 9.2 | 10.8 | 48.6 | 62.1 | |
| Pensions | 23.5 | 26.5 | 73.0 | 81.4 | |
| Divestitures and asset sales and writedowns | 0.9 | 1.5 | 1.3 | (410.5 |) |
| Goodwill and intangible asset impairment | — | — | — | 188.9 | |
| Other items, net | 2.3 | 5.5 | (9.6 |) 7.5 | |
| | \$(20.5 |) \$45.4 | \$33.7 | \$(65.0 |) |

Foreign currency transaction primarily relates to the impact of changes in foreign exchange rates on cash, marketable securities and other investments and intercompany transactions. A significant portion of the foreign currency transaction gain for the current-year quarter and first nine months of fiscal 2015 related to intercompany loans and was attributable to the Swiss National Bank lifting the cap on the fluctuation of the exchange rate used to measure the Swiss Franc against the Euro. The Company has since settled these particular intercompany loans. The decrease in stock-based compensation expense in the current-year quarter and first nine months of fiscal 2015 is primarily due to fewer stock awards granted in fiscal 2015. Included in divestitures and asset sales and writedowns for the nine months ended March 31, 2014 is a gain of approximately \$413 million resulting from the deconsolidation of a subsidiary. Refer to Note 16 to the Consolidated Financial Statements for further discussion. Refer to Note 11 to the Consolidated Financial Statements for further discussion of the goodwill and intangible asset impairment.

CONSOLIDATED BALANCE SHEET

| (dollars in millions) | March 31, | June 30, |
|--|-----------|-----------|
| | 2015 | 2014 |
| Cash | \$2,030.7 | \$2,187.3 |
| Trade accounts receivable, net | 1,701.0 | 1,858.2 |
| Inventories | 1,387.7 | 1,371.7 |
| Notes payable and long-term debt payable within one year | 665.1 | 816.6 |
| Long-term debt | 2,724.9 | 1,508.1 |
| Shareholders' equity | 5,151.7 | 6,659.4 |
| Working capital | \$3,017.7 | \$2,818.8 |
| Current ratio | 2.09 | 1.87 |

Cash (comprised of cash and cash equivalents and marketable securities and other investments) includes \$1,989 million and \$2,126 million held by the Company's foreign subsidiaries at March 31, 2015 and June 30, 2014,

respectively. Generally, cash and cash equivalents and marketable securities and other investments held by foreign subsidiaries are not readily available for

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use in the United States without adverse tax consequences. The Company's principal sources of liquidity are its cash flows provided by operating activities, commercial paper borrowings or borrowings directly from its line of credit. The Company does not believe the amount of cash held outside the U.S. will have an adverse effect on working capital needs, planned growth, repayment of maturing debt, benefit plan funding, dividend payments or share repurchases.

Trade accounts receivable, net are receivables due from customers for sales of product. Days sales outstanding relating to trade accounts receivable was 49 days at March 31, 2015 and 48 days at June 30, 2014. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

Inventories as of March 31, 2015 increased \$16 million (which includes a decrease of \$119 million from the effect of foreign currency translation) compared to June 30, 2014. An increase in inventories was experienced in both the Diversified Industrial Segment and the Aerospace Systems Segment. Days' supply of inventory was 68 days at March 31, 2015, 61 days at June 30, 2014 and 66 days at March 31, 2014.

Notes payable and long-term debt payable within one year as of March 31, 2015 decreased from the June 30, 2014 amount due primarily to a decrease in commercial paper outstanding. The Company from time to time will utilize short-term intercompany loans to repay commercial paper borrowings. At times, the short-term intercompany loans are outstanding at the end of a fiscal quarter.

Long-term debt as of March 31, 2015 increased from the June 30, 2014 amount as the Company issued \$1,500 million of medium-term notes during the second quarter of fiscal 2015. Refer to Note 13 to the Consolidated Financial Statements for further discussion.

Shareholders' equity activity during the first nine months of fiscal 2015 included a decrease of approximately \$1,344 million as a result of share repurchases and a decrease of approximately \$893 million related to foreign currency translation adjustments, primarily related to the Euro.

CONSOLIDATED STATEMENT OF CASH FLOWS

| (dollars in millions) | Nine Months Ended | |
|--|-------------------|-----------|
| | March 31, 2015 | 2014 |
| Cash provided by (used in): | | |
| Operating activities | \$791.1 | \$817.5 |
| Investing activities | (797.4 |) 28.3 |
| Financing activities | (461.9 |) (582.7 |
| Effect of exchange rates | (128.2 |) 51.6 |
| Net (decrease) increase in cash and cash equivalents | \$(596.4 |) \$314.7 |

Cash flows provided by operating activities for the first nine months of fiscal 2015 benefited from an increase in net income, which was more than offset by an increase in cash used by working capital items. Cash flows provided by operating activities in the first nine months of fiscal 2014 includes a \$189 million impairment charge and a \$413 million gain on the deconsolidation of a subsidiary. Refer to Note 11 and Note 16 to the Consolidated Financial Statements for further discussion of the impairment charge and gain on deconsolidation, respectively. Cash flows provided by operating activities for the first nine months of fiscal 2014 also included \$75 million of voluntary cash contributions made to the Company's domestic qualified defined benefit pension plan. The Company continues to focus on managing its inventory and other working capital requirements.

Cash flows used in investing activities increased in the first nine months of fiscal 2015 primarily due to marketable securities and other investments activity. Cash flows used in investing activities for the first nine months of fiscal 2014 included \$202 million of proceeds from the sale of a 50 percent equity interest in the subsidiary related to the joint venture with GE Aviation (refer to Note 16 to the Consolidated Financial Statements for further discussion).

Cash flows used in financing activities for the first nine months of fiscal 2015 includes the issuance of \$1,500 million of medium-term notes and the repayment of commercial paper notes outstanding at the time of the debt issuance. Cash

flows used in financing activities included the repurchase of 10.7 million common shares for \$1,344 million in the first nine months of fiscal 2015 as compared to the repurchase of 1.3 million common shares for \$150 million in the first nine months of fiscal 2014.

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

| (dollars in millions) | March 31, | June 30, |
|---|-----------|----------|
| Debt to Debt-Shareholders' Equity Ratio | 2015 | 2014 |
| Debt | \$3,390 | \$2,325 |
| Debt & Shareholders' equity | \$8,542 | \$8,984 |
| Ratio | 39.7 | % 25.9 % |

At March 31, 2015, the Company had a line of credit totaling \$2,000 million through a multi-currency revolving credit agreement with a group of banks, \$1,550 million of which was available. The credit agreement expires in October 2017; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The credit agreement requires the payment of an annual facility fee, the amount of which would increase in the event the Company's credit ratings are lowered. Although a lowering of the Company's credit ratings would likely increase the cost of future debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

As of March 31, 2015, the Company was authorized to sell up to \$1,850 million of short-term commercial paper notes. As of March 31, 2015, \$450 million commercial paper notes were outstanding and the largest amount of commercial paper notes outstanding during the third quarter of fiscal 2015 was \$547 million.

The Company's credit agreements and indentures governing certain debt securities contain various covenants, the violation of which would limit or preclude the use of the credit agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. Based on the Company's rating level at March 31, 2015, the most restrictive financial covenant provides that the ratio of secured debt to net tangible assets be less than 10 percent. However, the Company currently does not have secured debt in its debt portfolio. The Company is in compliance with all covenants and expects to remain in compliance during the term of the credit agreements and indentures.

FORWARD-LOOKING STATEMENTS

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

Among other factors which may affect future performance are:

changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, changes in contract cost and revenue estimates for new development programs, and changes in product mix;

•ability to identify acceptable strategic acquisition targets;

•uncertainties surrounding timing, successful completion or integration of acquisitions and similar transactions;

•the ability to successfully divest businesses planned for divestiture and realize the anticipated benefits of such divestitures;

•the determination to undertake business realignment activities and the expected costs thereof and, if undertaken, the

•ability to complete such activities and realize the anticipated cost savings from such activities;

•ability to implement successfully the Company's capital allocation initiatives, including timing, price and execution of share repurchases;

•threats associated with and efforts to combat terrorism;

•uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals;

•competitive market conditions and resulting effects on sales and pricing;

•increases in raw material costs that cannot be recovered in product pricing;

•the Company's ability to manage costs related to insurance and employee retirement and health care benefits; and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Note 15 to the Consolidated Financial Statements. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

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

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of March 31, 2015. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of March 31, 2015, the Company's disclosure controls and procedures were effective.

There was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2015 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PARKER-HANNIFIN CORPORATION
PART II - OTHER INFORMATION

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

On May 15, 2007, the European Commission issued its initial Request for Information to the Company and Parker ITR. On January 28, 2009, the European Commission announced the results of its investigation of the alleged cartel activities. As part of its decision, the European Commission found that Parker ITR infringed Article 81 of the European Community Treaty from April 1986 to May 2, 2007 and fined Parker ITR 25.61 million euros. The European Commission also determined that the Company was jointly and severally responsible for 8.32 million euros of the total fine which related to the period from January 2002, when the Company acquired Parker ITR, to May 2, 2007, when the cartel activities ceased. Parker ITR and the Company filed an appeal to the General Court of the European Union on April 10, 2009. On May 12, 2013, the court reversed in part the decision of the European Commission, reducing the original fine of 25.61 million euros to 6.40 million euros and holding that the Company and Parker ITR are jointly and severally liable for payment of the fine up to 6.30 million euros. The European Commission appealed the ruling to the European Court of Justice. On December 18, 2014, the European Court of Justice reversed the ruling of the General Court and referred the case back to the General Court.

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

(a) Unregistered Sales of Equity Securities. Not applicable.

(b) Use of Proceeds. Not applicable.

(c) Issuer Purchases of Equity Securities.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|--|--------------------------------------|----------------------------------|--|--|
| January 1, 2015 through January 31, 2015 | 3,565,084 | \$ 124.32 | 3,565,084 | 25,131,359 |
| February 1, 2015 through February 28, 2015 | 129,180 | \$ 120.91 | 129,180 | 25,002,179 |
| March 1, 2015 through March 31, 2015 | 150,092 | \$ 119.83 | 150,092 | 24,852,087 |
| Total: | 3,844,356 | \$ 124.03 | 3,844,356 | 24,852,087 |

On August 16, 1990, the Company publicly announced that its Board of Directors authorized the repurchase by the Company of up to 3 million shares of its common stock. From time to time thereafter, the Board of Directors has adjusted the overall maximum number of shares authorized for repurchase under this program and imposed an additional limitation on the number of shares authorized for repurchase in any single fiscal year. On October 22, (1) 2014, the Company publicly announced that the Board of Directors increased the overall maximum number of shares authorized for repurchase under this program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million shares. There is no limitation on the amount of shares that can be repurchased in a fiscal year. There is no expiration date for this program.

ITEM 6. Exhibits.

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

| Exhibit No. | Description of Exhibit |
|-------------|--|
| 10(a) | Parker-Hannifin Corporation Defined Contribution Supplemental Executive Retirement Program adopted January 21, 2015.* |
| 10(b) | Termination Amendment to Parker-Hannifin Corporation Amended and Restated Change in Control Severance Agreement between Donald E. Washkewicz and the Registrant effective February 1, 2015.* |
| 12 | Computation of Ratio of Earnings to Fixed Charges as of March 31, 2015.* |
| 31(a) | Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| 31(b) | Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. * |
| 101.INS | XBRL Instance Document.* |
| 101.SCH | XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the three months ended March 31, 2015 and 2014, (ii) Consolidated Statement of Income for the nine months ended March 31, 2015 and 2014, (iii) Consolidated Statement of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iv) Consolidated Statement of Comprehensive Income for the nine months ended March 31, 2015 and 2014, (v) Consolidated Balance Sheet at March 31, 2015 and June 30, 2014, (vi) Consolidated Statement of Cash Flows for the nine months ended March 31, 2015 and 2014, and (vii) Notes to Consolidated Financial Statements for the nine months ended March 31, 2015.

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/ Jon. P. Marten

Jon P. Marten

Executive Vice President - Finance & Administration and Chief Financial Officer

Date: May 8, 2015

EXHIBIT INDEX

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