

PARKER HANNIFIN CORP  
Form DEF 14A  
September 24, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**PARKER-HANNIFIN CORPORATION**

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

---

(2) Aggregate number of securities to which the transaction applies:

---

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of the transaction:

---

(5) Total fee paid:

Fee paid previously with preliminary materials.

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

# **PARKER-HANNIFIN CORPORATION**

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

## **NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**OCTOBER 24, 2007**

### **TO OUR SHAREHOLDERS:**

You are cordially invited to attend the annual meeting of the shareholders of Parker-Hannifin Corporation. The meeting will be held at our headquarters located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, on Wednesday, October 24, 2007, at 9:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect three Directors in the class whose three-year term of office will expire in 2010;
2. To consider and vote upon a management proposal to declassify our Board of Directors;
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2008; and
4. To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on August 31, 2007 are entitled to vote at the meeting. Your vote is important, so if you do not expect to attend the meeting, or if you do plan to attend but wish to vote by proxy, please mark, date, sign and return the enclosed proxy card promptly in the envelope provided or vote electronically via the internet or by telephone in accordance with the instructions on the enclosed proxy card.

Thank you for your support of Parker-Hannifin Corporation.

By Order of the Board of Directors

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Thomas A. Piraino, Jr.

Secretary

September 24, 2007

## Table of Contents

|  | <u>Page</u> |
|--|-------------|
| Election of Directors  | 1           |
| Director Independence  | 4           |
| Board Meetings   | 4           |
| Attendance at Annual Meeting   | 4           |
| Audit Committee Financial Experts  | 5           |
| The Audit Committee  | 5           |
| The Human Resources and Compensation Committee                                   | 5           |
| The Finance Committee  | 5           |
| The Corporate Governance and Nominating Committee                                | 5           |
| Executive Sessions   | 5           |
| Review and Approval of Transactions with Related Persons                         | 5           |
| Certain Relationships and Related Transactions                                   | 6           |
| Section 16(a) Beneficial Ownership Reporting Compliance                          | 6           |
| Report of the Audit Committee  | 7           |
| Compensation Discussion and Analysis   | 8           |
| Objectives and Philosophies of the Executive Compensation Program                | 8           |
| Administration, Oversight and Determination of Executive Compensation            | 9           |
| Human Resources and Compensation Committee                                       | 9           |
| Board of Directors   | 9           |
| Executive Officers   | 9           |
| Compensation Consultants and Benchmarking  | 10          |
| General Policies and Practices Relating to Executive Compensation                | 10          |
| General Categories of Executive Compensation                                     | 10          |
| Allocation of Executive Compensation   | 11          |
| Accounting and Tax Considerations  | 11          |
| Hedging of Stock Ownership Positions   | 12          |
| Policies and Practices Relating to Performance-Based Compensation                | 12          |
| General Policies and Practices   | 12          |
| Committee Discretion   | 12          |
| Stock Ownership Guidelines   | 13          |
| Elements of Executive Compensation   | 13          |
| Base Salaries  | 13          |
| Annual Cash Incentive Compensation   | 14          |
| Long-Term Incentive Compensation   | 18          |
| Employee Benefits  | 21          |
| Executive Perquisites  | 25          |
| Other Elements   | 26          |
| Changes to Executive Compensation Program  | 27          |
| Compensation Committee Report  | 28          |
| Compensation Tables  | 29          |
| Summary Compensation Table for Fiscal Year 2007                                  | 29          |
| Grants of Plan-Based Awards for Fiscal Year 2007                                 | 31          |
| Outstanding Equity Awards at June 30, 2007                                       | 33          |
| Option Exercises and Stock Vested for Fiscal Year 2007                           | 36          |
| Pension Benefits for Fiscal Year 2007  | 37          |
| Nonqualified Deferred Compensation for Fiscal Year 2007                          | 38          |
| Potential Payments Upon Termination or Change of Control at June 30, 2007        | 39          |
| Director Compensation for Fiscal Year 2007                                       | 49          |
| Management Proposal to Declassify the Board of Directors                         | 52          |
| Ratification of the Appointment of Independent Registered Public Accounting Firm | 53          |
| Audit Fees   | 53          |



|  | <u>Page</u> |
|--|-------------|
| Audit-Related Fees   | 53          |
| Tax Fees   | 54          |
| All Other Fees   | 54          |
| Audit Committee Pre-Approval Policies and Procedures               | 54          |
| Principal Shareholders   | 55          |
| Shareholders Proposals   | 56          |
| Procedures for Submission and Consideration of Director Candidates | 57          |
| Communications with Directors                                      | 58          |
| General  | 59          |

**Appendix A: Proposed Changes to Article II of Code of Regulations, as amended**



**PARKER-HANNIFIN CORPORATION**

6035 Parkland Boulevard - Cleveland, Ohio 44124-4141

**PROXY STATEMENT**

This Proxy Statement is furnished in connection with the solicitation by our Board of Directors of proxies to be voted at the Annual Meeting of Shareholders scheduled to be held on October 24, 2007, and at all adjournments thereof. Only shareholders of record at the close of business on August 31, 2007 will be entitled to vote at the meeting. On August 31, 2007, 112,127,515 Common Shares were outstanding and entitled to vote at the meeting. Each share is entitled to one vote. This Proxy Statement and the form of proxy are being mailed to shareholders on or about September 24, 2007.

Our shareholders have cumulative voting rights in the election of Directors if any shareholder gives notice in writing to our President, a Vice President or the Secretary not less than 48 hours before the time fixed for holding the meeting that cumulative voting at such election is desired. The fact that such notice has been given must be announced upon the convening of the meeting by the Chairman, the Secretary or by or on behalf of the shareholder giving such notice. In such event, each shareholder has the right to cumulate votes and give one nominee the number of votes equal to the number of Directors to be elected multiplied by the number of votes to which the shareholder is entitled, or to distribute votes on the same principle among two or more nominees, as the shareholder sees fit. If voting at the election is cumulative, the persons named in the proxy will vote Common Shares represented by valid Board of Directors proxies on a cumulative basis for the election of the nominees named below, allocating the votes of such Common Shares in accordance with their judgment.

**ELECTION OF DIRECTORS**

The Directors of the class elected at each Annual Meeting of Shareholders hold office for terms of three years. The Board of Directors presently consists of 10 members divided into three classes. The class whose term expires in 2007 presently consists of three members, the class whose term expires in 2008 presently consists of three members and the class whose term expires in 2009 presently consists of four members. As permitted under our Code of Regulations, Linda S. Harty was elected to the Board of Directors in January 2007 to a term expiring in October 2007. Nickolas W. Vande Steeg, a Director since 2004 and a member of the class whose term expires in October 2007, elected to retire as a Director as of December 31, 2006. None of our Directors are related to each other.

Shareholder approval is sought to elect Linda S. Harty, Candy M. Obourn and Donald E. Washkewicz, Directors whose terms of office expire in 2007, to the class whose three-year term of office will expire in 2010. The number of Directors in the class whose term expires in 2010 has been fixed by the Directors at three. A plurality of the Common Shares voted in person or by proxy is required to elect a Director.

Should any nominee become unable to accept nomination or election, the proxies will be voted for the election of another person for Director as the Board of Directors may recommend. However, the Board of Directors has no reason to believe that this contingency will occur.

**NOMINEES FOR ELECTION AS DIRECTORS FOR TERMS EXPIRING IN 2010**

**LINDA S. HARTY**, 46, was elected to the Board of Directors in January 2007. She is a member of the Audit Committee and the Finance Committee. Ms. Harty has been an Executive Vice President – Finance and Chief Financial Officer – Healthcare Supply Chain Services of Cardinal Health, Inc. (healthcare products and services) since March 2007. She was previously Executive Vice President of Cardinal Health from August 2006 to March 2007; Treasurer of Cardinal Health from January 2005 to March 2007; Senior Vice President of Cardinal Health from January 2005 to August 2006; Senior Vice President and Chief Financial Officer of RTM Restaurant Group (restaurant franchisee group) from July 2003 to January 2005; and Senior Vice President and Treasurer of BellSouth Corporation (communication services) from August 2000 to June 2003.

**CANDY M. OBOURN**, 57, has served as a Director since 2002. She is a member of the Corporate Governance and Nominating Committee and the Human Resources and Compensation Committee. Ms. Obourn has been Chief Executive Officer and President of Active Healthcare (women’s health care products) since February 2006. She was previously General Manager, Film Capture, Digital & Film Imaging Systems of Eastman Kodak Company (photography and digital imaging) from November 2004 to February 2006; Senior Vice President of Eastman Kodak from January 2000 to February 2006; and Chief Operating Officer, Health Imaging Group of Eastman Kodak from January 2002 to November 2004.

**DONALD E. WASHKEWICZ**, 57, has served as a Director since 2000. Mr. Washkewicz has been our Chairman of the Board of Directors since October 2004; our Chief Executive Officer since July 2001; and our President since January 2007. He was previously our President from February 2000 to October 2004.

**The Board of Directors unanimously recommends a vote FOR each of the nominees to the Board of Directors.**

**PRESENT DIRECTORS WHOSE TERMS EXPIRE IN 2008**

**WILLIAM E. KASSLING**, 63, has served as a Director since 2001. He is Chairman of the Corporate Governance and Nominating Committee and a member of the Audit Committee. Mr. Kassling has been Chairman of the Board of Wabtec Corporation (technology-based equipment for the rail industry) since 1990. He was previously Chief Executive Officer of Wabtec from May 2004 to February 2006 and President of Wabtec from May 2004 to February 2006.

**JOSEPH M. SCAMINACE**, 54, was elected to the Board of Directors in October 2004. He is a member of the Corporate Governance and Nominating Committee and the Human Resources and Compensation Committee. Mr. Scaminace has been a Director, the Chief Executive Officer and President of OM Group, Inc. (metal-based specialty chemicals) since June 2005. He was previously the President and Chief Operating Officer of The Sherwin Williams Company (paints and coatings) from October 1999 to May 2005. Mr. Scaminace is also a Director of The Boler Company.

**WOLFGANG R. SCHMITT**, 63, has served as a Director since 1992. He is Chairman of the Human Resources and Compensation Committee and a member of the Audit Committee. Mr. Schmitt has been the Chief Executive Officer of Trends 2 Innovation (strategic growth consultants) since May 2000.

## PRESENT DIRECTORS WHOSE TERMS EXPIRE IN 2009

**ROBERT J. KOHLHEPP**, 63, has served as a Director since July 2002. He is Chairman of the Audit Committee and a member of the Finance Committee. Mr. Kohlhepp has been Vice Chairman of Cintas Corporation (uniform rental) since July 2003 and has been a Director of Cintas since 1979. He was the Chief Executive Officer of Cintas from August 1995 to July 2003. Mr. Kohlhepp is also a director of Eagle Hospitality Properties Trust, Inc.

**GIULIO MAZZALUPI**, 66, has served as a Director since 1999. He is a member of the Audit Committee and the Finance Committee. Now retired, Mr. Mazzalupi was the President, Chief Executive Officer and a Director of Atlas Copco AB (industrial manufacturing) in Sweden until July 2002.

**KLAUS-PETER MÜLLER**, 63, has served as a Director since 1998. He is Chairman of the Finance Committee and a member of the Corporate Governance and Nominating Committee. Mr. Müller has been Chairman of the Board of Managing Directors of Commerzbank AG (international banking) in Frankfurt, Germany since May 2001 and a member of the Board of Managing Directors of Commerzbank since 1990. In March 2005, Mr. Müller was named President of the Association of German Banks, Berlin, Germany.

**MARKOS I. TAMBAKERAS**, 57, has served as a Director since April 2005. He is a member of the Human Resources and Compensation Committee and the Finance Committee. Now retired, Mr. Tambakeras was the Chairman of the Board of Kennametal Inc. (global tooling solutions supplier) from July 2002 to December 2006. He was previously President and Chief Executive Officer of Kennametal from July 1999 to December 2005. He is also a Director of ITT Industries, Inc.

**Director Independence.** In making a determination as to the independence of our Directors for purposes of considering membership on our Board of Directors and Committees, we have followed the rules of the New York Stock Exchange and have broadly considered our Independence Standards for Directors and the materiality of each Director's relationship with us. Based upon the foregoing criteria, the Board of Directors has determined that the following persons who served as Directors during any part of fiscal year 2007 are independent: Linda S. Harty, William E. Kassling, Robert J. Kohlhepp, Peter W. Likins, Giulio Mazzalupi, Klaus-Peter Müller, Candy M. Obourn, Joseph M. Scaminace, Wolfgang R. Schmitt and Markos I. Tambakeras.

**Board Meetings.** During the fiscal year ended June 30, 2007, there were seven meetings of our Board of Directors. Each Director attended at least 75% of the meetings held by the Board of Directors and the Committees of the Board of Directors on which he or she served.

**Attendance at Annual Meeting.** We hold a regularly scheduled meeting of our Board of Directors in conjunction with our Annual Meeting of Shareholders. Directors are expected to attend the Annual Meeting of Shareholders absent an appropriate reason. All of the members of the Board of Directors attended our 2007 Annual Meeting of Shareholders, except for Linda S. Harty, who was not a Director at the time.

**Audit Committee Financial Experts.** We have a standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. Our Board of Directors has determined that Robert J. Kohlhepp, the Chairman of the Audit Committee, and Linda S. Harty, a member of the Audit Committee, are audit committee financial experts as defined in the federal securities laws. Mr. Kohlhepp and Ms. Harty are independent as defined for audit committee members in the listing standards of the New York Stock Exchange.

**The Audit Committee,** which met nine times during the fiscal year ended June 30, 2007, is responsible for, among other things, appointing, determining the compensation of and overseeing the work of the independent registered public accounting firm and ensuring its independence, approving all non-audit engagements with the independent registered public accounting firm and reviewing with our financial management and our independent registered public accounting firm annual and quarterly financial statements, the proposed internal audit plan for each calendar year, the proposed independent audit plan for each fiscal year, the results of the audits and the adequacy of our internal control structure.

**The Human Resources and Compensation Committee.** We have a standing compensation committee. The Human Resources and Compensation Committee, which met five times during the fiscal year ended June 30, 2007, is responsible for, among other things, annually reviewing and approving the salaries and other compensation (including stock incentives) of our executive officers, reviewing and determining the compensation of our non-employee Directors, engaging and determining the fees of compensation consultants, overseeing regulatory compliance with respect to compensation matters, reviewing management succession of key executives, and reviewing corporate policies and programs for the development of management personnel.

**The Finance Committee,** which met twice during the fiscal year ended June 30, 2007, is responsible for, among other things, reviewing our capital structure and tax and risk management strategies and reviewing and approving our debt and equity offerings, share repurchase programs and the funding and investment policies for defined benefit plans, defined contribution plans and non-qualified plans sponsored by us.

**The Corporate Governance and Nominating Committee.** We have a standing nominating committee. The Corporate Governance and Nominating Committee, which met twice during the fiscal year ended June 30, 2007, is responsible for, among other things, evaluating and recommending to the Board of Directors qualified nominees for election as Directors and qualified Directors for committee membership, establishing evaluation procedures and completing an annual evaluation of the performance of the Board of Directors, developing and recommending corporate governance principles to the Board of Directors and considering other matters pertaining to the size and composition of the Board of Directors. The Corporate Governance and Nominating Committee will give appropriate consideration to qualified persons recommended by shareholders for nomination as our Directors, provided that such recommendations comply with the procedures set forth under the caption "Procedures for Submission and Consideration of Director Candidates" in this Proxy Statement.

The Board of Directors adopted a written charter for each of the committees of the Board of Directors. These charters, as well as our Code of Ethics, Guidelines on Corporate Governance Issues and Independence Standards for Directors, are posted and available under the Corporate Governance page on our investor relations internet website at [www.phstock.com](http://www.phstock.com). Shareholders may request copies of these corporate governance documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

**Executive Sessions.** In accordance with the listing standards of the New York Stock Exchange, the non-management Directors are scheduled to meet regularly in executive sessions without management, and if required, the independent Directors will meet at least once annually. Additional meetings of the non-management Directors may be scheduled from time to time when the non-management Directors decide such meetings are desirable. The Chairman of the Corporate Governance and Nominating Committee will preside at such meetings. The Corporate Governance and Nominating Committee Charter provides that the Chairman of the Corporate Governance and Nominating Committee has a term limit of three years. The non-management Directors met four times during the fiscal year ended June 30, 2007.

***Review and Approval of Transactions with Related Persons.*** The Corporate Governance and Nominating Committee charter provides that the Corporate Governance and Nominating Committee is responsible for considering questions of possible conflicts of interest of Board members and management and for making recommendations to prevent, minimize or eliminate such conflicts of interest. Our Code of Ethics provides that our

Directors, officers, employees, and their spouses and other close family members, must avoid interests or activities that create any actual or potential conflict of interest. These restrictions cover, among other things, interests or activities that result in receipt of improper personal benefits by any person as a result of his or her position as our Director, officer, employee, or as a spouse or other close family member of any of our Directors, officers or employees. The Code of Ethics also requires our Directors, officers and employees to promptly disclose any potential conflicts of interest to our General Counsel. We also require that each of our executive officers and Directors complete a detailed annual questionnaire which requires, among other things, disclosure of any transactions with a related person meeting the minimum threshold for disclosure under the relevant Securities and Exchange Commission ( SEC ) rules. All responses to the annual questionnaires are reviewed and analyzed by our legal counsel and, if necessary or appropriate, presented to the Corporate Governance and Nominating Committee for analysis, consideration and, if appropriate, approval.

***Certain Relationships and Related Transactions.*** Russell G. Chester, Vice President-Enterprise Compliance, is the spouse of Pamela J. Huggins, our Vice President and Treasurer. Mr. Chester's salary and bonus for the fiscal year ended June 30, 2007 was \$311,108. We have taken the necessary steps to ensure the avoidance of any conflicting interests resulting from this relationship.

***Section 16(a) Beneficial Ownership Reporting Compliance.*** Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, Directors and beneficial owners of more than 10% of our Common Shares to file initial stock ownership reports and reports of changes in ownership with the SEC and the New York Stock Exchange. SEC regulations require that we are furnished with copies of these reports. Based solely on a review of these reports and written representations from the executive officers and Directors, we believe that there was compliance with all such filing requirements for the fiscal year ended June 30, 2007, except that John K. Oelslager, a Vice President and President of the Filtration Group, inadvertently filed one late Form 4 to report the movement of shares to his wife's trust in 2005 and Joseph M. Scaminace, a Director, inadvertently filed one late Form 4 to report a purchase of shares.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of five Directors, each of whom is independent in compliance with the independence standards applicable to audit committee members in the listing standards of the New York Stock Exchange. The responsibilities of the Audit Committee are set forth in the written Audit Committee Charter, a copy of which is available on the Corporate Governance page of Parker-Hannifin's investor relations website at [www.phstock.com](http://www.phstock.com).

In fulfilling its responsibilities, the Audit Committee has reviewed and discussed Parker-Hannifin's audited consolidated financial statements for the fiscal year ended June 30, 2007 with management and with PricewaterhouseCoopers LLP ( PwC ), Parker-Hannifin's independent registered public accounting firm for the fiscal year ended June 30, 2007.

The Audit Committee has discussed with PwC the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee has received and reviewed the written disclosures and the letter from PwC required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, and has discussed with PwC their objectivity and independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that Parker-Hannifin's audited consolidated financial statements for the fiscal year ended June 30, 2007 be included in its Annual Report on Form 10-K, as amended, for the fiscal year ended June 30, 2007 filed with the SEC.

### **Audit Committee:**

Robert J. Kohlhepp, Chairman

Linda S. Harty

William E. Kassling

Giulio Mazzalupi

Wolfgang R. Schmitt



## COMPENSATION DISCUSSION AND ANALYSIS

The SEC modified the rules regarding proxy statement disclosure of executive compensation in 2006. This is our first Proxy Statement under the modified rules. The modified rules require this Proxy Statement to include new and different tables, change the content of our Compensation Committee Report and place greater emphasis on providing discussion and analysis of our executive compensation practices. As a result, the information contained in this Proxy Statement is not directly comparable to our fiscal year 2006 Proxy Statement.

The information contained in this Compensation Discussion and Analysis does not take into account the three-for-two stock split authorized by our Board of Directors on August 16, 2007. The stock split will be effected on October 1, 2007, which is after the date of filing of this Proxy Statement.

### *OBJECTIVES AND PHILOSOPHIES OF THE EXECUTIVE COMPENSATION PROGRAM.*

In fiscal year 2001, we introduced the Win Strategy as the foundation of our business. The Win Strategy represents the unified vision of our employees worldwide, and defines the key goals, operational priorities and metrics used to profitably grow our business. The Win Strategy also provides the means by which we can measure and reward success.

The Win Strategy centers on three fundamental goals: premier customer service; financial performance; and profitable growth. The Win Strategy outlines various strategic components intended to advance those goals in all aspects of our business. Those strategic components include on-time delivery of quality products, value-added services and systems, strategic purchasing of goods and services, lean operations, talent development, strategic pricing, product innovation and strong distribution. We are confident that a worldwide focus on the goals of the Win Strategy will maximize the long-term value of our shareholders' investments by helping us to achieve our objectives of top-quartile performance among our competitors and peers and steady appreciation of our stock price.

Our executive compensation program covers all compensation paid to our executive officers. Our executive officers include the Chief Executive Officer, Chief Financial Officer and four other most highly compensated executive officers identified in the Summary Compensation Table for Fiscal Year 2007 on page 29, which we refer to as the Named Executive Officers. Mr. Vande Steeg retired as Chief Operating Officer on March 31, 2007, but still qualifies as a Named Executive Officer based on his fiscal year 2007 compensation.

The objective of our executive compensation program is to encourage and reward performance that advances each of the three fundamental goals of the Win Strategy. The program is designed to:

align the financial interests of our executive officers and our shareholders by encouraging and rewarding performance that achieves significant financial and operational performance goals;

encourage and reward our executive officers for experience, expertise, level of responsibility, seniority, leadership qualities, advancement, individual accomplishment and other significant contributions to the enhancement of shareholder value and to the success of our business;

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

attract, retain and motivate highly-talented and ethical individuals at all levels who are focused on the long-term success of our business and who are equipped, motivated and poised to lead and manage our business presently and in the future;

offer compensation that keeps us competitive with companies that compete with us for talented employees and shareholder investment;

promote internal equity by allocating a greater proportion of the compensation for executive officers, as compared to other employees, to elements that are dependent on the performance of our business, and holding executive officers accountable for performance that falls short of expectations; and

maintain a level of flexibility sufficient to adjust for trends and changes in the continuously expanding and evolving global business and regulatory environment.

*ADMINISTRATION, OVERSIGHT AND DETERMINATION OF EXECUTIVE COMPENSATION.*

*Human Resources and Compensation Committee.*

The Human Resources and Compensation Committee of the Board of Directors, which we refer to as the Committee, consists of four directors. Each member of the Committee is independent as defined in the listing standards of the New York Stock Exchange, Inc. The responsibilities of the Committee are described in a written Human Resources and Compensation Committee Charter amended by the Board of Directors on April 16, 2007. A copy of the Charter can be found on the Corporate Governance page of our investor relations website at [www.phstock.com](http://www.phstock.com).

The Charter specifically describes the duties and responsibilities of the Committee with respect to the administration, oversight and determination of executive compensation. These duties and responsibilities include:

setting the compensation of the Chief Executive Officer, and reviewing and approving the compensation programs for other executive officers;

reviewing and evaluating the annual performance of the Chief Executive Officer, and reviewing performance evaluations of other executive officers;

monitoring the operation and performance of the executive compensation program;

establishing the achievement of relevant performance goals of the Chief Executive Officer; and

performing other duties and responsibilities assigned by the Board of Directors.

The Committee also retains the discretion to authorize periodic compensation adjustments due to promotions or increases in the responsibilities of our executive officers.

In fulfilling its duties and responsibilities, the Committee seeks periodic input, advice and recommendations from the Board of Directors, the executive officers, executive compensation consultants and other resources, including recommendations from the Vice President Human Resources on the compensation and performance of the Chief Executive Officer. The Committee is not bound by that input or advice or those recommendations. The Committee at all times exercises independent discretion in its executive compensation decisions.

*Board of Directors.*

The Board of Directors approves all incentive compensation and equity-based plans reviewed and approved by the Committee. The Board of Directors does not authorize or approve any other specific executive compensation matters. The Board of Directors oversees the Committee's performance and reviews all material information relating to other executive compensation matters approved by the Committee. This oversight ensures that the Committee fulfills its duties and responsibilities and that the executive compensation program is reasonable and appropriate,

meets its objectives and effectively serves the interests of our business and our shareholders.

***Executive Officers.***

Executive officers also play a role in the administration, oversight and determination of executive compensation. At the beginning of each fiscal year, each executive officer sets annual performance goals for his or her direct reports, which may include other executive officers. The performance goals are designed to promote individual performance that advances the goals of the Win Strategy. Throughout the fiscal year, each executive officer's performance is reviewed and evaluated against his or her performance goals. At the end of the fiscal year, each executive officer conducts a final performance review for each of his or her direct reports. Based on those reviews, the executive officers, other than the Chief Executive Officer, recommend any annual compensation adjustments and awards for their executive officer direct reports to the Chief Executive Officer.

The Chief Executive Officer similarly reviews and evaluates his direct reports, which include the other Named Executive Officers. The Chief Executive Officer also reviews and evaluates the recommendations made with respect to other executive officers and makes any modifications that he deems appropriate. The Chief Executive Officer then recommends to the Committee annual compensation adjustments and awards for all executive officers other than himself.

The Chief Executive Officer, the Vice President Human Resources and the Secretary attend all meetings of the Committee other than those relating to the performance or compensation of the Chief Executive Officer.

The executive officers also periodically consult with and assist the Committee in calculating incentive compensation payouts, establishing and monitoring performance goals and attending to other executive compensation matters.

*COMPENSATION CONSULTANTS AND BENCHMARKING.*

The Committee annually reviews and evaluates our executive compensation program to verify that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective. The Committee engages Towers, Perrin, Forster & Crosby, Inc., an independent human resources and compensation consulting firm, which we refer to as Towers Perrin, to assist the Committee in its review and evaluation.

Towers Perrin collects and analyzes proxy statement data and prepares market studies of base salaries, annual bonuses, long-term incentive compensation and total cash and direct compensation offered to executives of other multi-national diversified manufacturing companies, which we refer to as the Peer Group. The Committee regularly reviews and updates the Peer Group to make sure that it consists of companies which directly compete with us for talented employees and shareholder investment. The Peer Group for fiscal year 2007 consisted of the following companies:

Caterpillar Inc.  
Cooper Industries, Ltd.  
Cummins Inc.  
Danaher Corporation  
Deere & Company  
Dover Corporation  
Eaton Corporation

Emerson Electric Co.  
Flowsolve Corporation  
Goodrich Corporation  
Honeywell International, Inc.  
Illinois Tool Works Inc.  
Ingersoll Rand Company  
ITT Industries, Inc.

Johnson Controls  
Pall Corporation  
Rockwell Automation, Inc.  
SPX Corporation  
Textron, Inc.

Towers Perrin also reviews and analyzes proxy statement data and market studies prepared by leading human resources and compensation consultants for approximately 100 of the Fortune 500 companies with annual revenues between \$5 billion and \$20 billion.

Based on the data and market studies, Towers Perrin provides the Committee with a comprehensive annual review of total compensation for the Chief Executive Officer and base salaries, annual cash incentive compensation and long-term incentive compensation for other executive officers. Towers Perrin uses its annual review to advise the Committee with respect to the effectiveness and competitiveness of the executive compensation program. The Committee uses the annual review to establish competitive base salaries, annual cash incentive compensation and long-term incentive compensation.

Towers Perrin periodically interacts directly with us to gather information on proposals that we may make to the Committee and to better understand our executive compensation program and its objectives. We also periodically engage Towers Perrin to assist us in calculating target awards and payouts of incentive compensation and addressing other executive compensation matters.

*GENERAL POLICIES AND PRACTICES RELATING TO EXECUTIVE COMPENSATION.*

*General Categories of Executive Compensation.*

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Our executive compensation program offers the specific elements of compensation described in the Elements of Executive Compensation section beginning on page 13. Each specific element can be classified as one of the following general categories:

Base Salaries

Annual Cash Incentive Compensation

Long-Term Incentive Compensation

Employee Benefits

Executive Perquisites

The program is structured to offer a reasonable balance of cash and non-cash and short-term and long-term elements of compensation. The program provides a mix of those elements specifically designed to encourage and reward contributions to the advancement of the Win Strategy.

***Allocation of Executive Compensation.***

The Committee seeks to provide base salaries, annual cash incentive compensation and long-term incentive compensation to each executive officer, and to all executive officers as a group, at approximately the median of the Peer Group. The Committee evaluates the Towers Perrin annual review, the annual performance reviews of the executive officers and the performance of our business as a whole in its decisions to materially increase or decrease the amount of each element. The Committee also provides employee benefits and executive perquisites to stay competitive in attracting, retaining and motivating present and future executive officers. The Committee does not consider amounts realized from prior or other compensation in determining the levels of compensation paid to executive officers.

The Committee makes sure that executive officers, as compared to other employees, have a greater proportion of their total compensation allocated to elements that are based on long-term and short-term corporate performance. The Committee structures the program in this manner because executive officers have greater responsibility and influence over the performance of our business. The Committee does not have any formal policies or guidelines with respect to the allocation of executive compensation between short-term and long-term elements, cash and non-cash elements or different forms of non-cash elements. In practice, however, the Committee has taken the following approaches.

*Allocation between short-term and long-term elements.* The Committee uses the Towers Perrin annual review to set the total of each executive officer's base salary and annual cash incentive compensation at approximately the midpoint value of his or her comparable position within the Peer Group. The Committee also uses the annual review to set the total target value of each executive officer's long-term incentive compensation as a multiple of the midpoint of the base salary range of his or her comparable position within the Peer Group.

*Allocation between cash and non-cash elements.* Base salaries and annual cash incentive compensation are paid in cash. Long-term incentive compensation is paid in equity because of the long-term nature of equity awards and our desire to encourage performance that drives long-term appreciation of our stock price.

*Allocation between different forms of non-cash elements.* The Committee allocates 50% of the total target value of each executive officer's long-term incentive compensation to Stock Incentives, which we describe on page 20, and 50% to LTI Awards, which we describe on page 18. The Committee takes this approach to balance the allocation between elements based on long-term financial, operational and strategic metrics and those based on long-term performance of our common stock. The Committee avoids allocating an unbalanced percentage to Stock Incentives to avoid any appearance that the executive compensation program is a positive or negative indicator of current common stock value or anticipated common stock performance.

The Committee generally makes all elements of executive compensation available to all executive officers and makes executive compensation decisions on a consistent and equitable basis. The Committee generally does not offer any element to an executive officer that is not available to other executive officers. The Committee does, however, provide annual cash incentive compensation under the Volume Incentive Plan described on page 17 only to operating group presidents. In addition, as described on page 26, the Committee provided to Mr. Vande Steeg certain elements that are not available to other executive officers.

***Accounting and Tax Considerations.***

We continuously review and evaluate the impact of tax laws, accounting changes and similar factors affecting our executive compensation program. For example, our recent adoption of FAS 123R, which results in recognition of compensation expense for Stock Incentives, and the recent enactment of Section 409A of the Internal Revenue Code, which impacts deferred compensation arrangements, are considered as we contemplate future changes to the program.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

In addition, we try to structure the program to maximize our ability to deduct compensation payments for tax purposes. The Committee takes into account whether particular elements are performance-based compensation under Section 162(m) of the Internal Revenue Code. Section 162(m) sets a limit of \$1,000,000 on the amount we can deduct for compensation paid to each of the Chief Executive Officer and the three other most highly compensated executive officers other than the Chief Financial Officer. This limit does not apply to



compensation that qualifies as performance-based compensation under Section 162(m). Base salary does not qualify as performance-based compensation under Section 162(m). The Committee tries to make sure that annual cash incentive compensation and long-term incentive compensation qualify as fully deductible performance-based compensation. At the 2005 Annual Meeting of Shareholders, the shareholders approved our Performance Bonus Plan. The Performance Bonus Plan is designed to ensure that annual cash incentive compensation and long-term incentive compensation awarded under the plan is performance-based compensation exempt from the \$1,000,000 deduction limit under Section 162(m).

The executive compensation program is structured to achieve flexibility, maximize benefits and minimize detriments for our business and our executive officers from a tax and accounting perspective. The Committee's approach may also be affected by tax law and accounting practice interpretations and changes and other factors beyond its control.

#### ***Hedging of Stock Ownership Positions.***

We maintain an insider trading policy which, among other things, prohibits the hedging of stock ownership positions by executive officers.

#### ***POLICIES AND PRACTICES RELATING TO PERFORMANCE-BASED COMPENSATION.***

##### ***General Policies and Practices.***

To ensure that our executive compensation program meets its objective to drive and support the Win Strategy, the Committee allocates the majority of compensation for executive officers to annual cash incentive compensation and long-term incentive compensation. Each of the performance-based elements of compensation within those categories are directly tied to appreciation of our stock price and/or to significant financial and operational performance goals. More than one-half of the targeted total compensation for the executive officers is, therefore, at risk and may significantly fluctuate from year to year based on our financial, operational and stock performance. The Committee uses performance-based elements to align the financial interests of our executive officers and our shareholders.

Stock Incentives provide a return to the recipient only if our stock price increases. Each other element of annual cash incentive compensation and long-term incentive compensation provides a return to the recipient only if we meet certain financial and operational performance goals. At the beginning of the applicable performance period, the Committee establishes the performance goals and the payment amount or formula upon achieving those goals. At the end of the period, the Committee determines whether or not the goals were achieved and the final payment amounts. The Committee reviews and evaluates the performance measures at least annually to ensure that they remain consistent with the objectives of the executive compensation program.

##### ***Committee Discretion.***

Annual cash incentive and long-term incentive compensation are structured to maximize their deductibility under Section 162(m) of the Internal Revenue Code. The Committee grants all LTI Awards under the Performance Bonus Plan because it is difficult to predict over a long-term period which executive officers will be covered by Section 162(m) and whether or not awards to those executive officers will exceed \$1,000,000. The Committee awards annual cash incentive compensation under the Performance Bonus Plan only to executive officers whose annual compensation for the fiscal year could exceed \$1,000,000. For fiscal year 2007, those individuals included only the Chief Executive

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Officer, the Chief Operating Officer, the Chief Financial Officer and the Executive Vice President Sales, Marketing and Operations Support, which we refer to as the Office of the Chief Executive. All other executive officers received annual cash incentive compensation outside of the Performance Bonus Plan.

The Committee generally does not relax the pre-determined performance goals or increase the amount of any performance-based compensation following the award date. The Committee can, however, increase the amount of any award of annual cash incentive compensation made outside of the Performance Bonus Plan if appropriate to account for corporate policy changes, major corporate programs, the negative impact of acquisitions on goodwill and amortization expense, losses on dispositions of real property during plant moves or shutdowns and other unexpected occurrences that negatively impact awards. The Committee has historically

exercised this discretion only with respect to RONA Bonuses, which we describe on page 16. The Committee exercises this discretion to encourage our employees to engage in activities and initiatives that drive and support the Win Strategy but have an adverse impact on RONA Bonuses, such as significant research and development programs.

The Committee can reduce the amount of any award of annual cash incentive compensation or long-term incentive compensation other than Stock Incentives outside of the Performance Bonus Plan. The Committee also can reduce the amount of any award under the Performance Bonus Plan as long as the award would continue to qualify as performance-based compensation under Section 162(m). The Committee retains this discretion for the following purposes:

to ensure greater control over final performance-based compensation amounts based on its assessment of our overall financial performance;

to preserve the integrity and deductibility of payments and ensure that performance-based compensation continues to effectively serve the interests of our business and our shareholders; and

to avoid inappropriately rewarding or penalizing executive officers based on events or circumstances that were not expected at the beginning of the performance period.

The Committee has historically exercised this discretion only with respect to RONA Bonuses awarded to the members of the Office of the Chief Executive. At the beginning of the year, the Committee determines for each member a target RONA Bonus in excess of the amount that it ultimately expects to approve. At the end of the year, the Committee exercises its discretion to reduce the amount of the award to an appropriate level as compared to the final amounts paid to the other executive officers.

***STOCK OWNERSHIP GUIDELINES.***

In August 1996, the Committee recommended and our Board of Directors adopted stock ownership guidelines to further align the financial interests of our executive officers, directors and shareholders by encouraging the accumulation and retention of our common stock by directors and executive officers. The guidelines are as follows:

| <b>Participants</b>                           | <b>Guidelines</b>              |
|---|--------------------------------|
| Chief Executive Officer and President         | Three times annual base salary |
| Vice Presidents                               | Two times annual base salary   |
| Other executive officers and group presidents | One times annual base salary   |
| Non-management directors                      | Four times annual retainer     |

The recommended time period for achieving compliance with the guidelines is five years from election or appointment to the position that is subject to the guidelines. The Committee reviews share ownership information with the Chief Executive Officer in August of each year to ensure compliance with the guidelines. As of June 30, 2007, all executive officers and directors in their positions for at least five years were in compliance with the guidelines.

***ELEMENTS OF EXECUTIVE COMPENSATION.***

Our executive compensation program provides the Named Executive Officers with the elements of compensation described below. All of these elements are designed to work together to contribute to our continuing effort to achieve top-quartile performance among our peers and increase our stock price by adhering to the goals of the Win Strategy.

*Base Salaries.*

Each of the Named Executive Officers receives an annual base salary, paid monthly, as compensation for services rendered during the fiscal year. Base salaries encourage and reward attainment of individual performance goals established during the annual performance review process. Base salaries recognize experience, expertise, level of responsibility, seniority, leadership qualities, advancement, individual accomplishment and other significant contributions to the enhancement of shareholder value and the success of our business. We also use base salaries to ensure that the executive compensation program remains competitive to attract, retain and motivate the highly-talented and ethical individuals necessary to advance the goals of the Win Strategy.

The Committee establishes a base salary range for each Named Executive Officer by using the Towers Perrin annual review to analyze base salaries of persons holding comparable positions within the Peer Group. The Committee determines the base salary for each Named Executive Officer for the next fiscal year based on the Named Executive Officer's annual performance review, and compares the amount to the applicable market range to make sure that it is reasonable. The Committee may also increase base salaries, where appropriate, periodically throughout the fiscal year based on the results of interim performance reviews. The Committee generally tries to target base salary amounts at approximately the median of the Peer Group.

During fiscal year 2007, the Named Executive Officers received the base salaries included in the Salary column of the Summary Compensation Table for Fiscal Year 2007 on page 29. Those amounts reflect the following percentage increases in base salaries of the Named Executive Officers at the end of fiscal year 2007 as compared to their base salaries at the end of fiscal year 2006:

| Named Executive Officer | Percentage Increase in Base Salary |
|-------------------------|------------------------------------|
| Donald E. Washkewicz    | 5.00%                              |
| Timothy K. Pistell      | 5.26%                              |
| John D. Myslenski       | 4.60%                              |
| Robert P. Barker*       | 12.50%                             |
| Lee C. Banks*           | 21.21%                             |
| Nickolas W. Vande Steeg | 5.73%                              |

\* Mr. Barker received a percentage increase of 6.25% at the beginning of fiscal year 2007, with the remainder of his increase being awarded on December 7, 2006 due to his November 1, 2006 promotion from Vice President and President Aerospace Group to Senior Vice President, Operating Officer and President Aerospace Group. Mr. Banks received a percentage increase of 11.99% at the beginning of fiscal year 2007 based on his fiscal year 2006 performance rating of outstanding. The remainder of Mr. Banks' increase was awarded on December 7, 2006 due to his November 1, 2006 promotion from Vice President and President Hydraulics Group to Senior Vice President and Operating Officer.

**Annual Cash Incentive Compensation.**

The Named Executive Officers are eligible to receive annual cash incentive compensation based on pre-determined financial and growth objectives relating to free cash flow, return on net assets and revenue growth. This category of compensation consists of three specific elements, which we refer to as Target Incentive Bonuses, RONA Bonuses and Volume Incentive Bonuses. All of the Named Executive Officers are eligible to receive Target Incentive Bonuses and RONA Bonuses. Only operating group presidents, which include Mr. Barker and, during a portion of fiscal year 2007, included Mr. Banks, are eligible to receive Volume Incentive Bonuses.

The Committee allocates a significant portion of the total compensation for executive officers to annual cash incentive compensation, which is wholly dependent on achieving pre-determined financial and operational goals. During fiscal year 2007, the Committee targeted RONA Bonuses and Target Incentive Bonuses to represent approximately 80-110% of base salary for the Chief Executive Officer and the Chief Operating Officer, 45-66% of base salary for the Chief Financial Officer, the Executive Vice President Sales, Marketing and Operations Support, and other executive officers with operational profit and loss responsibility, and 30-60% of base salary for all other executive officers. The following table reflects the target percentage of base salary represented by Target Incentive Bonuses and RONA Bonuses for each Named Executive Officer in fiscal year 2007:

| Named Executive Officer | Target Percentage of Base Salary Target Incentive Bonuses and RONA Bonuses |
|-------------------------|--|
|-------------------------|--|

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

|                         |      |
|-------------------------|------|
| Donald E. Washkewicz    | 107% |
| Timothy K. Pistell      | 63%  |
| John D. Myslenski       | 66%  |
| Robert P. Barker        | 59%  |
| Lee C. Banks            | 58%  |
| Nickolas W. Vande Steeg | 80%  |

The Committee pre-determines the performance measures applicable to each element by analyzing our annual goals and objectives for each performance measure and, for Target Incentive Bonuses, the Towers Perrin annual review. The Committee directly and materially links annual cash incentive compensation to performance that drives and supports the Win Strategy.

**Target Incentive Bonuses.**

During fiscal year 2007, the Named Executive Officers received annual cash incentive compensation based on our free cash flow margin, which we refer to as Target Incentive Bonuses. Free cash flow margin is calculated as the percentage of sales represented by actual operating cash flow less capital expenditures, excluding discretionary pension contributions made during the fiscal year.

The Committee identified free cash flow margin as a performance measure critical to the financial performance and profitable growth goals of the Win Strategy. Maximizing free cash flow allows us to continue to pay annual dividends, acquire our outstanding shares to prevent shareholder dilution caused by Stock Incentives, and reinvest in our business by funding innovation and financing growth through acquisitions of businesses and technologies. Target Incentive Bonuses encourage executive officers to maximize free cash flow by increasing net income, implementing lean initiatives, controlling inventory, collecting receivables, controlling accounts payable and limiting capital expenditures. We have also identified a strong correlation between increases in free cash flow and increases in operating earnings.

During the first quarter of fiscal year 2007, the Committee set the following target awards for each of the Named Executive Officers after evaluating our annual plan for free cash flow margin and comparing the plan to the historical performance of the Peer Group to ensure its reasonableness:

| Named Executive Officer | Target Awards            |
|-------------------------|--------------------------|
|                         | Target Incentive Bonuses |
| Donald E. Washkewicz    | \$600,000                |
| Timothy K. Pistell      | \$175,000                |
| John D. Myslenski       | \$205,000                |
| Robert P. Barker        | \$ 85,000                |
| Lee C. Banks*           | \$100,000                |
| Nickolas W. Vande Steeg | \$310,000                |

\* Mr. Banks received a target award of \$67,000 at the beginning of fiscal year 2007, with the remainder of his award being granted on December 7, 2006 due to his November 1, 2006 promotion from Vice President and President Hydraulics Group to Senior Vice President and Operating Officer.

The Committee developed the following table to illustrate how final Target Incentive Bonus amounts would be calculated at the end of fiscal year 2007:

|                                    | Less than |      |      |      |      |      |      | Greater than or equal |
|------------------------------------|-----------|------|------|------|------|------|------|-----------------------|
| <b>FY07 Free Cash Flow Margin:</b> | 3.1%      | 3.1% | 4.1% | 5.1% | 6.1% | 7.1% | 8.1% | to 9.1%               |
| <b>Payout %</b>                    | 0%        | 25%  | 50%  | 75%  | 100% | 133% | 167% | 200%                  |

This table illustrates that each recipient of a Target Incentive Bonus would receive a year-end payout of 100% of his or her target award if our free cash flow margin for fiscal year 2007 was 6.1%, and a maximum payout of 200% of his or her target award if our free cash flow margin was greater than or equal to 9.1%. This table also illustrates that no Target Incentive Bonuses would be paid if our free cash flow margin for fiscal year 2007 was less than 3.1%. The payouts are calculated on a sliding-scale basis using this table. For example, a free cash flow margin of 6.6% would result in a payout of 116.67% of the applicable target award.

The Committee designed the Target Incentive Bonuses to reward executive officers directly in relation to our fiscal year 2007 annual plan and performance against the Peer Group. The Committee determined that a 6.1% free cash flow margin accurately represented our fiscal year 2007 annual plan. In addition, the Committee estimated that 3.1%, 6.1% and 9.1% margins would represent bottom-quartile, median and top-quartile free cash flow margin results within the Peer Group during fiscal year 2007.



Our actual free cash flow margin for fiscal year 2007 was 8.19%. As a result, each of the Named Executive Officers received 169.67% of his target award, as included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29. Target Incentive Bonuses are paid in one lump sum in August for each of the members of the Office of the Chief Executive, and are paid in three installments in March, June and August for all other executive officers. The March and June payments are estimated based on year-to-date results and the August payment represents the balance of the Target Incentive Bonus payable based on the actual results for the entire fiscal year. All payments are made in cash, except that the August payment may, at the election of the recipient, be deferred as a credit to the recipient's account under the Executive Deferral Plan, which we describe on page 23.

***RONA Bonuses.***

During fiscal year 2007, each of the Named Executive Officers received annual cash incentive compensation, which we refer to as RONA Bonuses. RONA Bonuses are based on the following performance measures:

for the members of the Office of the Chief Executive, return on consolidated net assets;

for executive officers responsible for individual operating units (other than the members of the Office of the Chief Executive), the return on average division net assets for the divisions in that operating unit; and

for all other executive officers, return on average net assets for all divisions.

Return on net assets is calculated by dividing earnings (segment operating income for the fiscal year) by average assets (average of inventory, accounts receivable, prepaid expenses, property, plant and equipment, goodwill and intangibles, less trade accounts payable and contract reserves, at the beginning of the fiscal year and at the end of each quarter of the fiscal year).

The Committee identified return on net assets as a performance measure critical to the financial performance and profitable growth goals of the Win Strategy. The Committee uses RONA Bonuses to encourage executive officers and other employees to increase segment revenues and control net average assets by reducing investments in assets and increasing efficiency in managing those investments. In addition, RONA Bonuses encourage executive officers and other employees to increase sales and to reduce materials handling and other costs associated with excess inventory levels by taking profit margins, asset turnover and outside leveraging into account in measuring overall performance.

RONA Bonuses are paid in one lump sum in August for each of the members of the Office of the Chief Executive. For all other executive officers, RONA Bonuses are paid in four installments in October, January, April and August. Each installment is based on actual year-to-date results. We hold back 25% of the year-to-date estimate from the October, January and April installments to ensure that we have the flexibility to reconcile the August payment to final year-end results. All payments are made in cash, except that August payments may, at the election of the recipient, be deferred as a credit to the recipient's Executive Deferral Plan account. The Committee calculates RONA Bonuses at each payment date as follows:

The applicable return on net assets is calculated by dividing earnings (year-to-date segment operating income) by average assets (average of inventory, accounts receivable, prepaid expenses, property, plant and equipment, goodwill and intangibles, less trade accounts payable and contract reserves, at the beginning of the fiscal year and at the end of each applicable quarter-end to date).

The multiple is calculated as follows:

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

For that portion of the applicable return on net assets which is less than or equal to 35%, the multiple is 1% for every 5.6% of return on net assets.

For that portion of return on net assets in excess of 35%, the multiple is 1% for every 11.2% of the excess.

The amount of the payout is calculated by multiplying the number of RONA Bonus shares awarded to the recipient by the multiple, and multiplying that total by the recipient's base salary for the fiscal year.

During the first quarter of fiscal year 2007, the Committee awarded to each of the Named Executive Officers the following number of RONA Bonus shares based on the following RONA Bonus target amounts after evaluating our annual plan for returns on net assets:

| Named Executive Officer | RONA Bonus Shares | RONA Bonus Target Amount |
|-------------------------|-------------------|--------------------------|
| Donald E. Washkewicz    | 22                | \$635,250                |
| Timothy K. Pistell      | 14                | \$217,000                |
| John D. Myslenski       | 14                | \$231,000                |
| Robert P. Barker*       | 7                 | \$148,750                |
| Lee C. Banks            | 8                 | \$177,400                |
| Nickolas W. Vande Steeg | 16                | \$310,000                |

\* On December 7, 2006, Mr. Barker received one additional RONA Bonus share, for a total of eight RONA Bonus shares and an adjusted RONA Bonus target amount of \$180,000, due to his November 1, 2006 promotion from Vice President and President Aerospace Group to Senior Vice President, Operating Officer and President Aerospace Group.

During fiscal year 2007, each of the Named Executive Officers received the RONA Bonuses included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29. On August 15, 2007, the Committee compared the original amounts awarded to the members of the Office of the Chief Executive with the final amounts paid to the other executive officers. Based on that comparison, the Committee determined that it would be appropriate to reduce the final amounts awarded to the members of the Office of the Chief Executive by 23.10%. The amounts reported in the table represent the final amounts awarded to the members of the Office of the Chief Executive and the other Named Executive Officers following that exercise of discretion.

#### ***Volume Incentive Bonuses.***

During fiscal year 2007, each of our operating group presidents received additional annual cash incentive compensation under our Volume Incentive Plan, which we refer to as Volume Incentive Bonuses. Mr. Barker served as an operating group president during fiscal year 2007 and Mr. Banks served as an operating group president during a portion of fiscal year 2007. We determined that effective January 1, 2007, Mr. Barker and Mr. Banks would no longer be eligible to accrue Volume Incentive Bonuses due to their respective promotions to Senior Vice President and Operating Officer.

Volume Incentive Bonuses encourage our operating group presidents and other participants to maximize sales growth within their operating groups internally and through acquisitions. Based on our continued focus on increased market share, returns on invested capital and price-earnings multiples, the Committee identified sales growth as a performance measure critical to advance the financial performance and profitable growth goals of the Win Strategy. The Committee uses Volume Incentive Bonuses to reward participants for performance that exceeds our annual sales growth goals. Volume Incentive Bonuses are only available if sales growth within the applicable operating group exceeds our annual goal of 10% sales growth for that operating group.

Each operating group president receives a Volume Incentive Bonus equal to 1% of base salary for each 1% of sales by which his or her operating group exceeds its sales for the prior year by between 10% and 15%, and 2% of base salary for each 1% of sales by which his or her operating group exceeds its sales for the prior year by more than 15%. Volume Incentive Bonuses are capped at an overall maximum of 15% of base salary and, to encourage internal growth, acquisitions may only account for up to 5% of the sales increase. In addition, to ensure that only profitable growth will be rewarded, sales growth above 15% will increase the amount of a Volume Incentive Bonus only if the operating group exceeds corporate goals with respect to return on sales and its assets-to-sales ratio. Volume Incentive Bonuses are paid in cash and in one lump sum in August.

During fiscal year 2007, Mr. Barker's operating group exceeded its sales for the prior year by 11.50% and Mr. Banks' former operating group exceeded its sales for the prior year by 10.90%. The Committee determined that Mr. Barker and Mr. Banks should not continue to accrue Volume Incentive Bonuses due to their respective promotions to Senior Vice President and Operating Officer. The Committee pro-rated the Volume Incentive Bonuses earned by Mr. Barker and Mr. Banks through January 1, 2007. As a result, during fiscal year 2007, each of Messrs. Barker and Banks received the Volume Incentive Bonuses included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29.

***Long-Term Incentive Compensation.***

The Named Executive Officers receive long-term incentive compensation consisting of long-term incentive awards, which we refer to as LTI Awards, and stock options with tandem stock appreciation rights, which we refer to as Stock Incentives. The target amounts of LTI Awards and the number of Stock Incentives awarded to the Named Executive Officers are based on similar compensation awarded to persons holding comparable positions within the Peer Group shown by the Towers Perrin annual review.

LTI Awards and Stock Incentives encourage long-term focus on shareholder value and are directly and materially linked to performance that advances both the financial performance and profitable growth goals of the Win Strategy over the long-term. LTI Award payouts are based on a comparison of our performance against the Peer Group in certain annual revenues, earnings and return on invested capital results over a three-year performance period. The holders of Stock Incentives realize a payout only if our stock price increases above the applicable grant price over a long-term vesting period. LTI Awards and Stock Incentives work together to align the long-term financial interests of our executive officers and shareholders.

LTI Awards and Stock Incentives are granted to eligible employees on an annual basis at the first meeting of the Committee following our public earnings release for the fourth-quarter of the preceding fiscal year. This meeting is typically held in August of each year and is scheduled at least one year in advance. The only exceptions to this practice are that pro-rated LTI Awards are granted to individuals who become executive officers, are promoted to new executive officer positions or are given increased responsibilities during a performance period, and reload grants of Stock Incentives occur automatically upon certain exercises of Stock Incentives. The Committee does not grant LTI Awards or Stock Incentives to executive officers in anticipation of the release of significant positive earnings announcements or other material non-public information likely to result in changes to the price of our common stock. Similarly, the Committee does not time the release of material non-public information based on Stock Incentive grant dates.

***LTI Awards.***

Each of the Named Executive Officers received an LTI Award during the first quarter of fiscal year 2007. The LTI Award payouts will be calculated following the three-year performance period ending June 30, 2009 by comparing our compound annual revenue growth, compound annual growth in fully diluted earnings per share from continuing operations and average return on invested capital from continuing operations against the corresponding results for all members of the Peer Group during that period.

The Committee has identified long-term growth in revenues, earnings per share and returns on invested capital as performance measures critical to the financial performance and profitable growth goals of the Win Strategy. The Committee uses LTI Awards to encourage executive officers to maximize those measures by providing on-time delivery of quality products, value-added services and systems, strategic procurement of goods and services, lean operations, strategic pricing, product innovation and strong distribution.

During the first quarter of fiscal year 2007, the Committee established weights of 20% for compound annual revenue growth, 40% for compound annual growth in fully diluted earnings per share from continuing operations and 40% for average return on invested capital from continuing operations for the fiscal year 2007-08-09 performance period. The Committee determined that higher weights for the earnings per share and return on invested capital measures would allow the more profitable growth measures to have a greater impact on LTI Award payouts. The Committee awarded to each of the Named Executive Officers the following target LTI Award restricted shares and values, which the Committee determined to be competitive compared to similar long-term incentive compensation offered within the Peer Group:

| <b>Named Executive Officer</b> | <b>Target LTI Award Restricted Shares</b> | <b>Target LTI Award Values</b> |
|--------------------------------|---|--------------------------------|
| Donald E. Washkewicz           | 38,750                                    | \$2,600,000                    |
| Timothy K. Pistell             | 8,650                                     | \$ 657,000                     |
| John D. Myslenski              | 11,425                                    | \$ 856,000                     |
| Robert P. Barker*              | 7,038                                     | \$ 536,000                     |
| Lee C. Banks**                 | 7,038                                     | \$ 536,000                     |
| Nickolas W. Vande Steeg        | 14,275                                    | \$1,048,000                    |

---

\* Mr. Barker received an award of 5,800 target LTI Award restricted shares with a target LTI Award value of \$442,000 at the beginning of fiscal year 2007, with his award being increased on December 7, 2006 due to his November 1, 2006 promotion from Vice President and President Aerospace Group to Senior Vice President, Operating Officer

and President Aerospace Group. Mr. Barker's target LTI Award restricted shares for the fiscal year 2005-06-07 and 2006-07-08 performance periods were also increased from 7,900 to 8,250 and 5,500 to 6,107, respectively, due to his promotion.

\*\* Mr. Banks received an award of 5,800 target LTI Award restricted shares with a target LTI Award value of \$442,000 at the beginning of fiscal year 2007, with his award being increased on December 7, 2006 due to his November 1, 2006 promotion from Vice President and President Hydraulics Group to Senior Vice President and Operating Officer. Mr. Banks' target LTI Award restricted shares for the fiscal year 2005-06-07 and 2006-07-08 performance periods were also increased from 7,900 to 8,250 and 5,500 to 6,107, respectively, due to his promotion.

The target LTI Award restricted shares shown in this table are also included in the Estimated Future Payouts Under Equity Incentive Plan Awards Target column of the Grants of Plan-Based Awards for Fiscal Year 2007 table on pages 31 and 32. The Stock Awards column of the Summary Compensation Table for Fiscal Year 2007 on page 29 includes the Financial Accounting Standards Board Statement No. 123(R) expense that we recognized for these awards in fiscal year 2007.

The Committee developed the following table to illustrate how final LTI Award payouts would be calculated at the end of fiscal year 2009:

|                                    |                    |      |      |      |                       |
|------------------------------------|--------------------|------|------|------|-----------------------|
|                                    | Less than or equal |      |      |      | Greater than or equal |
| <b>Peer Group Percentile Rank:</b> | to 35th            | 45th | 55th | 65th | to 75th               |
| <b>Payout %</b>                    | 0%                 | 50%  | 100% | 150% | 200%                  |

At the end of fiscal year 2009, the Committee will determine our percentile rank as compared to the Peer Group for each of the three performance measures. Using this table, the Committee will calculate the portion of the target LTI Award value payable with respect to each performance measure. The Committee will multiply each portion by its applicable weight and add up the total to determine the total LTI Award payout for the fiscal year 2007-08-09 performance period. This table illustrates that LTI Award participants will receive the maximum payout of 200% of the applicable target LTI Award value if we rank at or above the 75th percentile among the Peer Group in all three performance measures, and will receive no payout if we rank at or below the 35th percentile in all three performance measures. LTI Awards are paid after the end of the applicable three-year performance period in restricted stock or, at the election of the recipient, as a contribution to the recipient's Executive Deferral Plan account. The restricted stock has a three-year vesting period and entitles the holder to receive non-refundable dividends and vote the shares during that vesting period. The amount of any Executive Deferral Plan contribution will be the number of restricted shares earned multiplied by the closing price of our common stock on June 30, 2009.

The Committee designed LTI Awards to reward executive officers directly in relation to our long-term performance against the Peer Group. The Committee determined that requiring performance at the 55th percentile for a 100% payout would encourage executive officers to achieve performance in excess of median Peer Group performance. The Committee also determined that requiring performance at the 75th percentile for a maximum payout, and awarding no payout for performance at or below the 35th percentile, would further encourage executive officers to achieve top-quartile performance within the Peer Group.

In addition, each of the Named Executive Officers received a payout under LTI Awards granted in fiscal year 2005 for the three-year performance period ended June 30, 2007. The Committee determined that we achieved the following percentile rankings among the Peer Group with respect to the LTI Award performance measures for that performance period:

| Performance Measure | Result | Percentile Rank |
|---------------------|--------|-----------------|
|---------------------|--------|-----------------|

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

|  |        |      |
|--|--------|------|
| Compound annual revenue growth               | 14.70% | 80th |
| Compound annual growth in fully diluted EPS* | 37.00% | 62nd |
| Average return on invested capital*          | 21.00% | 80th |

---

\* Unlike the performance measures described above for the fiscal year 2007-08-09 performance period, the compound annual growth in fully diluted earnings per share and average return on invested capital performance measures for the



fiscal year 2005-06-07 performance period shown in this table, as well as for the fiscal year 2006-07-08 performance period, include discontinued operations.

As a result, each of the Named Executive Officers received the LTI payout in fiscal year 2007 included in the Stock Awards Number of Shares or Units of Stock That Have Not Vested column of the Outstanding Equity Awards at June 30, 2007 table on pages 33 and 34. Each payment represents a total payout of 174.44% of the target LTI Award values for the three-year performance period ended June 30, 2007.

### *Stock Incentives.*

Each of the Named Executive Officers received Stock Incentives under our 2003 Stock Incentive Plan during the first quarter of fiscal year 2007. The Committee grants Stock Incentives to executive officers to encourage and reward efforts and accomplishments that advance the goals of the Win Strategy and make other contributions in maximizing our stock price.

The number of Stock Incentives granted by the Committee is determined by utilizing the Black-Scholes valuation model to convert a target dollar value (adjusted for risk of non-vesting) into the number of Stock Incentives to be granted. The Committee uses the Towers Perrin annual review to set the target dollar values at the median of similar compensation awarded by the Peer Group. The following table shows the Black-Scholes Value and the number of Stock Incentives granted to each of the Named Executive Officers in the first quarter of fiscal year 2007:

| <b>Named Executive Officer</b> | <b>Black-Scholes Target Value</b> | <b>Fiscal Year 2007 Stock Incentive Grants (# of Underlying Shares)</b> |
|--------------------------------|-----------------------------------|---|
| Donald E. Washkewicz           | \$2,600,000                       | 104,500   |
| Timothy K. Pistell             | \$ 657,000                        | 26,700  |
| John D. Myslenski              | \$ 856,000                        | 34,500  |
| Robert P. Barker               | \$ 442,000                        | 18,150  |
| Lee C. Banks                   | \$ 442,000                        | 18,150  |
| Nickolas W. Vande Steeg        | \$1,048,000                       | 43,500  |

The fiscal year 2007 Stock Incentive grants shown in this table are also included in the All Other Option Awards: Number of Securities Underlying Options column of the Grants of Plan-Based Awards for Fiscal Year 2007 table on pages 31 and 32 and the Option Awards Number of Securities Underlying Unexercised Options Unexercisable column of the Outstanding Equity Awards at June 30, 2007 table on pages 33 and 34. The Option Awards column of the Summary Compensation Table for Fiscal Year 2007 on page 29 includes the Financial Accounting Standards Board Statement No. 123(R) expense that we recognized for these awards in fiscal year 2007.

As required by the terms of our 2003 Stock Incentive Plan, all Stock Incentives have an exercise price equal to the closing price of our common stock on the date of grant. The plan does not permit the re-pricing of Stock Incentives. The Committee analyzes the terms of our 2003 Stock Incentive Plan and the Towers Perrin annual review to establish all other terms of Stock Incentives. Grants have a ten-year term and vest in one-third increments over three years following the grant date. Upon vesting, the holder may exercise all or any portion of the award as either a stock option or a stock appreciation right, but not both. When vested, each option entitles the holder to purchase the shares underlying the option at the grant price. When vested, each stock appreciation right entitles the holder to receive the increase in value of one common share from the grant date to the date of exercise.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Upon exercise of options or stock appreciation rights, common shares are issued directly to the holder. The appreciation in stock appreciation rights is calculated by subtracting the grant price from the fair market value of the common shares on the day prior to the date of exercise, and multiplying the result by the number of stock appreciation rights exercised. The number of common shares to be issued is determined by dividing that appreciation by the closing price of the common shares on the day prior to the date of exercise.

If an executive officer exercises a Stock Incentive as an option by surrendering shares to satisfy the exercise price, the executive officer will receive a reload grant of stock appreciation rights to restore the appreciation lost on the shares that were surrendered to pay the option cost. The number of stock appreciation rights granted is equal to the number of shares surrendered. The reload grant has the same expiration date as the underlying grant. The reload grant price is equal to the closing stock price of our common stock on the date of exercise of the underlying grant. The reload grant vests one year from the date of exercise if the executive officer remains employed with us and retains ownership of the shares received from the exercise for one year, less shares surrendered or sold to pay income taxes. Grants of stock options or stock appreciation rights made prior to the executive officer's appointment as an executive officer do not offer these reload grants.

During fiscal year 2007, certain Named Executive Officers exercised Stock Incentives previously awarded under our 2003 Stock Incentive Plan and 1993 Stock Incentive Program, which are included in the Option Awards Number of Shares Acquired on Exercise column of the Option Exercises and Stock Vested for Fiscal Year 2007 table on page 36.

***Employee Benefits.***

The Named Executive Officers are eligible to participate in various employee benefit plans and programs. These plans and programs reflect experience, expertise, level of responsibility, longevity and advancement. We use these plans to ensure that our executive compensation program remains sufficiently competitive to attract, retain and motivate the executive officers and other employees necessary to advance the goals of the Win Strategy.

***Qualified Benefit Plans.***

During fiscal year 2007, the Named Executive Officers participated in the following tax-qualified benefit plans and programs:

The Parker-Hannifin Consolidated Pension Plan, which we refer to as the Pension Plan; and

The Parker Retirement Savings Plan, which we refer to as the Retirement Savings Plan.

The Pension Plan is a qualified defined benefit pension plan in which most full-time non-union U.S. salaried employees hired prior to April 1, 2004 participate. The Pension Plan offers normal retirement, early retirement and death benefits. The monthly normal retirement benefit is the greater of a minimum benefit and an amount based on final average pay. The calculation of the minimum benefit and final average pay amounts can be summarized as follows:

|                          |  |
|--------------------------|--|
| <b>Minimum Benefit:</b>  | \$21.00 multiplied by years of service, up to a maximum of 40 years.   |
| <b>Final Average Pay</b> | 0.75% of the highest five consecutive year average of monthly base salary, Target Incentive Bonuses and RONA Bonuses up to the social security wage base, multiplied by years of service up to a maximum of 35 years; plus |
| <b>Amount:</b>           |  |

1.36% of the highest five consecutive year average of monthly base salary, Target Incentive Bonuses and RONA Bonuses in excess of the social security wage base, multiplied by years of service up to a maximum of 35 years; plus

0.50% of the highest five consecutive year average of monthly base salary, Target Incentive Bonuses and RONA Bonuses, multiplied by years of service in excess of 35 up to a maximum of 5 years.

The amount of the benefit is reduced by 6% per year for each year prior to age 65 if retirement occurs before age 65 and after age 55. We elected to freeze new participation in the Pension Plan in 2004. All participants as of April 1, 2004 were given the option to either remain in the Pension Plan or terminate in favor of maintaining a retirement income account under the Retirement Savings Plan. Employees hired after April 1, 2004 were not eligible to participate in the Pension Plan and instead maintain a retirement income account under the Retirement Savings Plan. Each of the Named Executive Officers other than Mr. Vande Steeg elected to remain in and continue to accrue benefits under the Pension Plan. Mr. Vande Steeg elected to terminate his participation in the Pension Plan and maintain a retirement income account under the Retirement Savings Plan. All benefits accrued by Mr. Vande Steeg and the other employees who elected to terminate participation in the

Pension Plan were frozen as of June 30, 2004. Those employees initiated their retirement income accounts on July 1, 2004. The Committee does not grant extra years of credited service under the Pension Plan, and we do not have any policy that allows us to do so.

The Retirement Savings Plan is a qualified defined contribution pension plan under Section 401(k) of the Internal Revenue Code. Most full-time U.S. employees are eligible to participate in the Retirement Savings Plan. Participants may make pre-tax contributions to the Retirement Savings Plan up to the applicable statutory limit. We provide to each participant a matching contribution of 100% on the first 3% of pay contributed and 50% on the 4th and 5th percent of pay contributed. As described above, certain participants also maintain a retirement income account within the Retirement Savings Plan. We provide to each holder of a retirement income account an annual contribution equal to a percentage of the amount of the participant's annual compensation up to the Internal Revenue Service statutory limit (currently \$225,000 per year) determined based on age and length of service. These contributions range from 0.5% to 6% of the participant's compensation which does not exceed that limit. Participants accrue earnings on contributions based on the performance of various investment funds available within the Retirement Savings Plan. The contributions made by us under the Retirement Savings Plan for the Named Executive Officers during fiscal year 2007 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29.

***Non-Qualified Benefit Plans.***

During fiscal year 2007, the Named Executive Officers participated in the following non-qualified benefit plans and programs:

The Parker Hannifin Savings Restoration Plan, which we refer to as the Savings Restoration Plan;

The Parker Hannifin Executive Deferral Plan, which we refer to as the Executive Deferral Plan;

The Parker-Hannifin Corporation Pension Restoration Plan, which we refer to as the Pension Restoration Plan; and

The Parker-Hannifin Corporation Supplemental Executive Retirement Benefits Program, which we refer to as the Supplemental Retirement Program.

The Savings Restoration Plan is available to employees who earn base salaries in excess of \$130,000 per year. The Savings Restoration Plan was established to restore deferral opportunities and matching contributions lost because of statutory limits in the Retirement Savings Plan. Specifically, the Savings Restoration Plan allows executive officers to defer a portion of their pre-tax compensation and receive matching contributions from us that would have been available under the Retirement Savings Plan if the Internal Revenue Service statutory limit did not exist. Each Named Executive Officer may annually defer to his or her Savings Restoration Plan account any portion of the compensation that he cannot defer under the Retirement Savings Plan due to the statutory limit, up to the greater of 20% of base pay or \$25,000. We provide to each participant a matching contribution of common stock equal to 100% on the first 3% of pay contributed and 50% on the 4th and 5th percent of pay contributed. We also take into account the matching contributions made under the Retirement Savings Plan to ensure that the maximum match under both plans does not exceed \$17,000. In addition, certain participants also maintain a separate retirement income account within the Savings Restoration Plan similar to the Retirement Savings Plan. We provide to each holder of a retirement income account an annual contribution equal to a percentage of the amount of the participant's annual compensation in excess of Internal Revenue Service statutory limit determined based on age and length of service. These contributions range from 0.5% to 6% of the amount of the participant's compensation in excess of that limit. All deferrals and contributions are made under the Savings Restoration Plan by accounting entry rather than any physical exchange of cash or common stock. Participants also accrue earnings, on an accounting-entry basis, on deferrals based on the performance of various investment fund choices and on contributions based on the performance of our common stock. Participants are our unsecured creditors for their respective account balances. Account balances are paid out upon any of the following events as follows:

**Retirement:**

Balances are distributed to the participant in either a lump sum or in periodic installments, based on a prior election by the participant. The participant can delay the first payment for up to five years following retirement or until age 70, whichever is earlier. Balances continue to accumulate earnings under the various investment funds at all times during the payout period.

|                                    |  |
|------------------------------------|--|
| <b>Termination Before</b>          | Balances accruing prior to December 31, 2004 are, at our election, distributed to the participant in either a lump sum upon termination or in periodic installments. Account balances accruing on or after January 1, 2005 are distributed to the participant in a lump sum upon termination.  |
| <b>Retirement:<br/>Disability:</b> | If we determine that a participant is totally disabled, the participant's account balance will be paid upon termination in the same manner as if he or she retired.  |
| <b>Withdrawals During</b>          | Balances can be withdrawn without penalty during employment only if we determine that the participant suffered severe financial hardship. Balances accruing prior to December 31, 2004 can also be withdrawn voluntarily during employment, subject to a 10% forfeiture penalty.   |
| <b>Employment:<br/>Death:</b>      | Balances are distributed to the participant's beneficiary in a lump sum.   |
| <b>Change in Control:</b>          | Balances accruing prior to December 31, 2004 are distributed to the participant in a lump sum without penalty if the participant expressly elected a lump sum. If the participant did not expressly elect a lump sum, distributions are treated as unscheduled withdrawals and are subject to a forfeiture penalty of 5% if they are withdrawn within 30 days or 10% if they are withdrawn beyond the 30-day period. Balances accruing on or after January 1, 2005 are distributed to the participant in a lump sum. |

Our contributions made under the Savings Restoration Plan for the Named Executive Officers during fiscal year 2007 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29. All contributions, earnings, withdrawals, distributions and aggregate balances for the Named Executive Officers participating in the Savings Restoration Plan during fiscal year 2007 are included in the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38.

The Executive Deferral Plan is available to executive officers and certain other key employees. The Executive Deferral Plan provides executive officers with an opportunity to defer a portion of their compensation (in addition to that deferred under the Retirement Savings Plan and the Savings Restoration Plan) on a pre-tax basis, including annual cash incentive compensation and LTI Award payouts, and to accumulate tax-deferred earnings on the deferrals. Each executive may defer to his or her account up to 80% of base salary, 80% of RONA Bonuses and August Target Incentive Bonuses and 100% of LTI Award payouts. Similar to the Savings Restoration Plan, all deferrals are made under the Executive Deferral Plan by accounting entry rather than any physical exchange of cash. Participants also accrue earnings on an accounting-entry basis based on the performance of various investment fund choices. Participants are our unsecured creditors for their respective account balances. Account balances are paid out upon the same events and in the same manner as account balances under the Savings Restoration Plan, except for distributions made upon a change in control. In that case, balances are distributed to the participant or the participant's beneficiary in a lump sum. Prior to distribution, the balances are increased to reflect any gross-up amount necessary to offset federal excise taxes and any after-tax value the participant would have received if the account had remained in place and been paid as elected by the participant. All contributions, earnings, withdrawals, distributions and aggregate balances for the Named Executive Officers participating in the Executive Deferral Plan during fiscal year 2007 are included in the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38.

The Pension Restoration Plan is available to all Pension Plan and Savings Restoration Plan participants. The Pension Restoration Plan was established to restore benefits lost because of statutory limits on the Pension Plan. Specifically, the benefits available under the Pension Restoration Plan equal the amount that would be payable to the participant under the Pension Plan in the absence of deferrals to the Savings Restoration Plan and the Executive Deferral Plan and in excess of the Internal Revenue Service statutory limit if that limit did not exist. Participation in the Pension Restoration Plan terminates for any individual who becomes vested under the Supplemental Retirement Program. Mr. Pistell and Mr. Vande Steeg are currently vested under the Supplemental Retirement Program. All of the other Named Executive Officers participated in the Pension Restoration Plan during fiscal year 2007.

The Supplemental Retirement Program was established to provide executive officers with retirement benefits supplemental to the benefits under the Pension Plan. The benefit provided under the Supplemental

Retirement Program is intended, at age 65, to provide 55% of the average of the three highest years of base salary plus annual cash incentive compensation. The benefit is subject to reduction for early retirement, payments received under the Pension Plan, 50% of primary social security benefits and contributions to the participant's retirement income accounts under the Retirement Savings Plan and the Savings Restoration Plan. Volume Incentive Bonuses, LTI Awards and Stock Incentives are not considered in calculating benefits available under the Supplemental Retirement Program. Participants vest at age 60, or at age 55 with the consent of the Committee, and with five years of participation in the Supplemental Retirement Program, or a lesser period established by the Committee at the time they become participants. To receive a benefit under the Supplemental Retirement Program, however, a participant must have at least 10 years of service. During fiscal year 2007, the Finance Committee of the Board of Directors adopted an amendment to the Pension Plan which allows us to shift some of our obligations under the Supplemental Retirement Program to the Pension Plan. Under the amendment, as participants vest under the Supplemental Retirement Program, their Pension Plan formulas will be modified to shift a portion of their benefits from the Supplemental Retirement Program to the Pension Plan (up to the limits established by statute and under the Pension Plan). We incurred no additional cost or liability and participants receive no additional value under the Supplemental Retirement Program as a result of the amendment. We and the participants do, however, receive various tax benefits as a result of the amendment.

***Health and Welfare Benefits.***

The Named Executive Officers participated in various health and welfare programs generally available to all employees during fiscal year 2007. The Named Executive Officers also participated in our Officer Life Insurance Plan and Executive Long-Term Disability Plan.

Under the Officer Life Insurance Plan, we pay all required premiums for life insurance on the Named Executive Officers with death benefits equal to:

five times base salary during employment and two times final base salary after retirement at age 65 for the Chief Executive Officer;

four times base salary during employment and two times final base salary after retirement at age 65 for the other members of the Office of the Chief Executive; and

three times base salary during employment and two times final base salary after retirement at age 65 for all other Named Executive Officers and other participants.

If the participant retires between ages 55 and 65, the post-retirement death benefit is reduced by 10% of base salary for each year prior to age 65 that the participant retires. The amount of the death benefit is adjusted each year on January 1st based on the participant's base salary as of the preceding December 1st. The policies underlying the plan are cash value life insurance policies owned by the participants. We pay all premiums for the greater of 10 years or the number of years remaining until the participant reaches age 65. The premiums are designed to allow accumulation of cash surrender values sufficient to fund the policy during retirement up to age 95, assuming that the participant invests only in the policy's fixed income account. Cash surrender values accrue earnings prior to distribution based on their investment in various funds offered within the policies. The premiums we paid on behalf of the Named Executive Officers during fiscal year 2007 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29.

We established the Executive Long-Term Disability Plan during fiscal year 2007. The plan is intended to replace a reasonable amount of an executive officer's income upon disability. The plan provides a total benefit in the event of a qualifying disability of two-thirds of base salary plus RONA Bonuses paid during the calendar year ending December 31 of the year prior to the disability, up to a maximum of \$33,000 per month. Our executive officers are no longer eligible to receive the long-term disability benefit generally available to other employees.



*Change in Control Agreements.*

We are not a party to any written employment agreements with our executive officers. We have, however, entered into separate Change in Control Severance Agreements with our executive officers, which we refer to as the Change in Control Agreements. We are not obligated to pay severance to executive officers under any agreement other than the Change in Control Agreements. The executive officers are, however, eligible to receive severance upon termination for reasons other than a change in control in accordance with our general severance policy for salaried employees. The Change in Control Agreements are designed to attract, retain and motivate executive officers, provide for stability and continuity of management in the event of any actual or

threatened change in control, encourage executive officers to remain in service after a change in control and ensure that executive officers are able to devote their entire attention to maximizing shareholder value and safeguarding employee interests in event of a change in control. The Committee determined that the amounts payable under the Change in Control Agreements are necessary to achieve those objectives. The Potential Payments upon Termination or Change of Control at June 30, 2007 tables and the related narrative descriptions beginning on page 39 provide additional information on the Change in Control Agreements.

***Indemnification Agreements.***

We enter into separate Indemnification Agreements with each of our executive officers. Each agreement remains in effect during and after employment with respect to any action taken while the individual serves as an executive officer. The agreements are designed to attract, retain and motivate executive officers by encouraging reasonable and measured risk-taking in the interests of our business and our shareholders, and protecting against liabilities incurred in the performance of their duties to the maximum extent permitted by Ohio law.

The agreements provide for indemnification for all expenses, including attorney fees, judgments, fines and settlement amounts, that the executive officer incurs by reason of his or her service:

in a civil action or proceeding by another party (unless it is proven that the officer's act or failure to act was taken with deliberate intent to cause injury to our business or in reckless disregard for the best interest of our business); or

in a criminal action or proceeding (unless the officer had reasonable cause to believe his or her conduct was unlawful).

***Executive Perquisites.***

During fiscal year 2007, we made various executive perquisites available to each of the Named Executive Officers. We offer these perquisites to promote the business objectives for each perquisite described below and to reward experience, expertise, level of responsibility, seniority, leadership qualities and advancement. We also use these perquisites to ensure that our executive compensation program remains competitive to attract, retain and motivate the individuals necessary to advance the goals of the Win Strategy. Attributed costs of these perquisites for the Named Executive Officers during fiscal year 2007 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2007 on page 29.

***Private Clubs.*** We pay or reimburse initiation fees and monthly dues for one private club for each executive officer. We also gross-up the payments to account for taxes assessed against the executive officers with respect to those amounts. We offer these perquisites to encourage executive officers to entertain business colleagues and customers, engage in social interaction with peers from other companies, local leadership and the community, and hold business meetings at offsite locations. We also pay or reimburse the fees, dues and assessments for additional clubs at the Office of the Chief Executive and Senior Vice President levels on a business-needs basis and only with appropriate advance approval.

***Health and Fitness Clubs.*** We reimburse each of our executive officers for membership fees and monthly dues for one health and/or fitness club. We offer this perquisite to preserve our investment in our executive officers by encouraging the executive officers to engage in regular exercise and seek other preventive health measures that contribute to productivity and longevity.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

**Financial Planning, Tax Preparation and Estate Planning.** We pay or reimburse our executive officers for financial, estate and tax planning and tax preparation fees and expenses up to \$10,500 per year or, during the final year of employment, \$25,000 or 2.5 times the annual allowance then in effect. We offer this perquisite to assist our executive officers in obtaining high-quality financial counseling and to enable them to concentrate on business matters rather than on personal financial planning.

**Home Security.** We require all of our executive officers to maintain a security system in their primary residences. We pay for system installations and upgrades and periodic monitoring services. We also pay for the costs of installing, upgrading and servicing security systems in secondary residences with appropriate advance approval. We offer this perquisite to preserve our investment in our executive officers by ensuring the personal safety and security of the executive officers and their families in their homes.

**Spousal Travel.** In limited circumstances and only with appropriate advance approval, we reimburse our executive officers for transportation, lodging, meals, entertainment and other travel expenses for their spouses or

other family members who accompany them on out-of-town business. We also gross-up the payments to account for taxes assessed against the executive officers with respect to those amounts. We offer these perquisites to encourage executive officers to spend an appropriate amount of time with their direct reports in locations away from corporate headquarters, to allow executive officers and their spouses to develop a more personal relationship with the executive officers' subordinates and their families, and to encourage spouses to attend retirement parties, funerals, business dinners and other corporate functions at locations away from their homes.

**Executive Physicals.** We pay for annual physicals, colonoscopies, mammograms and pap smears, and any necessary travel vaccinations, for each of our executive officers and certain other key employees. We offer this perquisite as part of our overall preventive medicine program to promptly identify and address medical issues and to preserve our investment in our executive officers by encouraging executive officers to maintain healthy lifestyles and be proactive in addressing actual or potential health issues.

**Leased Vehicles.** We lease an automobile for each of our executive officers and for certain other key employees. We offer this perquisite to provide executive officers with use of a company car for business travel needs, recognizing that the vehicles can also be used for personal purposes. We pay or reimburse each of the executive officers for lease payments on one automobile, typically for a three-year term. The Named Executive Officers have a maximum allowance of \$1,570 per month. We also reimburse the executive officers for the cost of tires and maintenance and provide insurance on each vehicle during the lease term. We require each executive officer to take title to his or her vehicle at the end of the lease term because we amortize the entire cost of the vehicle over the lease term. The executive officer is responsible for the payment of all taxes assessed on the fair market value of the vehicle at the time of title transfer.

**Company Apartments.** We maintain apartments in Cleveland, Ohio, Newport Beach, California and London, England to provide accommodations to employees working off-site at or relocating to our primary facilities. The apartments are also available to the executive officers for personal use with appropriate advance approval if they are not otherwise being used for business purposes.

**Entertainment Venues.** We maintain loges, boxes and tickets at various entertainment venues to provide civic support to arts, entertainment and other cultural activities within our home city and to provide a favorable setting for our employees to entertain customers and other business associates. The loges, boxes and tickets are, however, available to executive officers and all other employees for personal use if they are not otherwise being used for business purposes. We pay all costs of admission, but all costs of food are paid by the executive officer or employee using the venue only for personal use.

**Corporate Aircraft.** In limited circumstances, we provide our executive officers with use of corporate aircraft for non-business purposes at no cost. The executive officers may only use corporate aircraft for non-business travel if the flight was previously authorized for business purposes, there are available seats that are not being used for those business purposes and the officer's use does not involve a deviation or extension of the planned business-travel itinerary.

**OTHER ELEMENTS.**

As referenced on page 11, the Committee has provided to Mr. Vande Steeg additional elements of compensation that are not generally available to other executive officers. These elements were provided to Mr. Vande Steeg in connection with his service as a senior executive officer because he was identified by the Board of Directors as essential to our plans to drive and support the Win Strategy. These additional elements consisted of:

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

special benefits to relocate from California to Ohio, consisting of (i) the use of a corporate-owned residence with all taxes, utilities and routine maintenance paid by us, from his January 1, 2002 election as Corporate Vice President and Operating Officer through his March 31, 2007 retirement as Chief Operating Officer, and (ii) following his March 31, 2007, retirement reimbursement of moving expenses and initiation fees for one country club membership to which he was entitled during his tenure as an executive officer;

a special retention bonus following his October 27, 2004 election as President, consisting of 15,000 shares of restricted stock paid in two installments of 10,000 shares on October 29, 2004 and 5,000 shares on August 17, 2005; and

a special bonus in consideration for services rendered as a senior executive officer, consisting of 5,000 shares of restricted stock on November 20, 2006.

All shares of restricted stock granted to Mr. Vande Steeg were scheduled to vest three years after their respective grant dates. The grants provided that vesting would accelerate to the date of Mr. Vande Steeg's retirement so long as retirement occurred after December 31, 2006. Mr. Vande Steeg retired as an executive officer as of March 31, 2007 and all of the shares vested as of that date. The shares entitled Mr. Vande Steeg to receive non-refundable dividends and vote the shares during their respective vesting periods. The restricted shares granted to Mr. Vande Steeg on November 20, 2006 are included in the All Other Stock Awards: Number of Shares of Stock or Units column of the Grants of Plan-Based Awards for Fiscal Year 2007 table on page 32.

**CHANGES TO EXECUTIVE COMPENSATION PROGRAM.**

On August 15, 2007, the Committee authorized and adopted the following changes to our executive compensation program for fiscal year 2008:

**Stock Ownership Guidelines:** The Committee increased the stock ownership guidelines for our executive officers to the amounts shown in the following table, and extended the deadline for compliance with the guidelines by our current executive officers to June 30, 2012:

| Participants                                  | Guidelines                     |
|---|--------------------------------|
| Chief Executive Officer and President         | Five times annual base salary  |
| Executive or Senior Vice Presidents           | Three times annual base salary |
| Other executive officers and group presidents | Two times annual base salary   |

**Calculation of Target Incentive Bonuses:** The Committee evaluated our fiscal year 2008 annual plan for free cash flow margin and developed the following table to illustrate how final Target Incentive Bonus amounts will be calculated at the end of fiscal year 2008:

|                                    | Less than |       |       |       |       |       |       | Greater than |        |
|------------------------------------|-----------|-------|-------|-------|-------|-------|-------|--------------|--------|
|                                    | 3.00%     | 4.00% | 5.00% | 6.00% | 7.00% | 8.00% | 9.00% | 10.00%       | 11.00% |
| <b>FY08 Free Cash Flow Margin:</b> | 0%        | 25%   | 50%   | 75%   | 100%  | 133%  | 167%  | 200%         |        |
| <b>Payout %</b>                    | 0%        | 25%   | 50%   | 75%   | 100%  | 133%  | 167%  | 200%         |        |

**Calculation of 2008-09-10 LTI Awards:** The Committee evaluated long-term incentive compensation offered within the Peer Group and developed the following table to illustrate how final LTI Award payouts for the three-year performance period ending June 30, 2010 will be calculated:

|                                    | Less than |      |      |      | Greater than |       |
|------------------------------------|-----------|------|------|------|--------------|-------|
|                                    | 35th      | 50th | 65th | 80th | 95th         | 100th |
| <b>Peer Group Percentile Rank:</b> | 0%        | 50%  | 100% | 150% | 200%         |       |
| <b>Payout %</b>                    | 0%        | 50%  | 100% | 150% | 200%         |       |

**Pro Rated LTI Awards:** The Committee awarded Mr. Pistell a pro rata adjustment to his LTI Awards for the fiscal year 2006-07-08 and 2007-08-09 performance periods due to an overall increase in his day-to-day responsibilities. The Committee originally awarded to Mr. Pistell 7,925 target LTI Award restricted shares at the beginning of fiscal year 2006 and 8,650 target LTI Award restricted shares at

the beginning of fiscal year 2007. Those awards were adjusted to 9,050 and 10,500 target LTI Award restricted shares, respectively.

**Early Vesting:** The Committee approved the vesting of Mr. Myslenski as a participant in the Supplemental Retirement Program and in all of his outstanding LTI Awards effective as of his April 1, 2008 retirement. Mr. Myslenski, who will be age 57 at the time of his retirement, was scheduled to vest in the Supplemental Retirement Program at age 60 and would have received immediate vesting in his LTI Awards if he retired after age 60. The Committee approved this early vesting in connection with Mr. Myslenski's service as a senior executive officer because he was identified by the Committee as an essential contributor to our efforts to drive and support the Win Strategy. Mr. Myslenski's benefits under the Supplemental Retirement Program will be adjusted for early retirement in accordance with the terms of the program. A significant portion of our obligations under the Supplemental Retirement Program resulting from this early vesting will be shifted to the Pension Plan to ensure that we maximize all available tax benefits.

## **COMPENSATION COMMITTEE REPORT**

The Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with the Corporation's management and, based on such review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

### **Human Resources and Compensation Committee:**

Wolfgang R. Schmitt, Chairman

Candy M. Obourn

Joseph M. Scaminace

Markos I. Tambakeras



## COMPENSATION TABLES

## SUMMARY COMPENSATION TABLE FOR FISCAL YEAR 2007

The following table sets forth compensation information for the Named Executive Officers for fiscal year 2007.

| Name and Principal Position   | Year | Salary    | Bonus | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation | Total      |
|---|------|-----------|-------|--------------|---------------|--|---|------------------------|------------|
|   |      | (\$)(1)   | (\$)  | (\$)(2)      | (\$)(3)       | (\$)(4)                                | (\$)(5)   | (\$)(6)                | (\$)       |
| (a)   | (b)  | (c)       | (d)   | (e)          | (f)           | (g)                                    | (h)   | (i)                    | (j)        |
| Donald E. Washkewicz,<br>Chief Executive Officer,<br>President and<br>Chairman of the Board                     | 2007 | 1,155,000 |       | 8,327,900    | 3,416,592     | 1,854,009                              | 2,030,036   | 281,472                | 17,065,009 |
| Timothy K. Pistell,<br>Chief Financial Officer<br>and Executive Vice<br>President Finance<br>and Administration | 2007 | 620,000   |       | 2,484,349    | 954,142       | 582,495                                | 1,101,530   | 223,044                | 5,965,560  |
| John D. Myslenski,<br>Executive Vice<br>President Sales,<br>Marketing and<br>Operations Support                 | 2007 | 660,000   |       | 3,366,029    | 1,826,121     | 651,820                                | 687,641   | 196,002                | 7,387,613  |
| Robert P. Barker,<br>Senior Vice President,<br>Operating Officer and<br>President Aerospace<br>Group            | 2007 | 441,667   |       | 1,833,069    | 497,324       | 464,190                                | 478,254   | 103,732                | 3,818,236  |
| Lee C. Banks,<br>Senior Vice President<br>and Operating Officer   | 2007 | 467,834   |       | 1,834,000(7) | 409,369       | 388,891                                | 207,140   | 102,148                | 3,409,382  |
| Nickolas W. Vande<br>Steeg (8)  | 2007 | 581,250   |       | 4,021,758(9) | 1,364,379     | 700,453                                | 2,164,789   | 458,566                | 9,291,195  |

- (1) This column includes the following amounts deferred under the Savings Restoration Plan: Mr. Washkewicz \$7,608; Mr. Pistell \$7,027; Mr. Myslenski \$28,358; Mr. Barker \$13,500; Mr. Banks \$22,500; and Mr. Vande Steeg \$31,108. These amounts are also reported in the Executive Contributions in Last Fiscal Year column of the Nonqualified Deferred Compensation Table for Fiscal Year 2007 table on page 38.
- (2) This column represents the dollar amount recognized for financial statement reporting purposes for fiscal year 2007 in accordance with FAS 123R for: (i) the final adjustment to the amount reported in our fiscal year 2006 financial statements of LTI Award restricted shares earned in fiscal year 2006 under our 2004-05-06 Long Term Incentive Plan for all Named Executive Officers; (ii) LTI Award restricted shares under our 2005-06-07 Long Term Incentive Plan

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

and our 2006-07-08 and 2007-08-09 LTI Awards under the Performance Bonus Plan for all Named Executive Officers; and (iii) restricted stock awards under our 2003 Stock Incentive Plan for Mr. Vande Steeg. This column includes amounts awarded in and prior to fiscal year 2007. The amounts do not reflect whether a Named Executive Officer has actually realized a financial benefit from the awards. Since we are unable to calculate the final payout at the end of the performance period under a LTI Award until our financial statements are completed approximately 30 days after the end of the fiscal year, the expense reported in our financial statements is calculated by comparing data from the Peer Group's most recent year-end financial statements as included in their Annual Reports on Form 10-K to our rolling forecast for earnings together with data from our year-to-date financial statements at the end of May. From this data, an estimate of the payout percentage is determined. The estimated payout percentage is applied to each Named Executive Officer's target LTI Award and their awards are valued by using the closing price of our common stock on June 30. This is the amount being reported for the LTI Award restricted shares under our 2005-06-07 Long Term Incentive Plan. Once our financial statements for the fiscal year are final, we are able to determine our actual performance against the Peer Group. This adjusted amount is then reported in our financial statements for the following fiscal year. This is the amount being reported for the LTI Award restricted shares under our 2004-05-06 Long Term Incentive Plan. Using historical data to track how we performed against the Peer Group for the last three performance periods, we calculated the estimated value of our 2006-07-08 and 2007-08-09 LTI Awards assuming a payout of 150% of the target LTI Award value and using the closing price of our common stock on June 30. In calculating the FAS 123R value of Mr. Vande Steeg's restricted stock, the restricted stock awards granted in 2004 and 2005 were expensed assuming a retirement date of December 31, 2006 which was Mr. Vande Steeg's

anticipated retirement date. The restricted stock award granted in 2006 was expensed through March 31, 2007, Mr. Vande Steeg's actual retirement date. No LTI Award restricted shares or restricted stock awards were forfeited by the Named Executive Officers during fiscal year 2007.

- (3) This column represents the dollar amount recognized for financial statement reporting purposes for fiscal year 2007 in accordance with FAS 123R of stock option and Stock Incentive grants under our 2003 Stock Incentive Plan and may include amounts from stock options and Stock Incentives granted in and prior to fiscal year 2007. The amounts do not reflect whether a Named Executive Officer has actually realized a financial benefit from the awards. Assumptions used in the calculation of this amount are included in Note 12 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K, as amended, filed with the SEC, except that, for officers, we assumed the expected life of a Stock Incentive grant for fiscal year 2005 was 4.2 years, for fiscal year 2006 was 5.9 years and for fiscal year 2007 was 5.8 years. No stock options or Stock Incentive awards were forfeited by the Named Executive Officers during fiscal year 2007.
- (4) Amounts consist of the following Target Incentive Bonuses, RONA Bonuses and Volume Incentive Bonuses for fiscal year 2007, which were paid in one or more installments with the final payment in August or September 2007:  
*Target Incentive Bonus for fiscal year 2007:* Mr. Washkewicz \$1,018,020; Mr. Pistell \$296,923; Mr. Myslenski \$347,824; Mr. Barker \$144,220; Mr. Banks \$151,006 (of this amount he deferred receipt of \$67,405 into his account in the Executive Deferral Plan, as also reported in the Executive Contributions in Last Fiscal Year column of the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38); and Mr. Vande Steeg \$394,483.  
*RONA Bonus for fiscal year 2007:* Mr. Washkewicz \$835,989; Mr. Pistell \$285,572; Mr. Myslenski \$303,996; Mr. Barker \$316,782; Mr. Banks \$235,860 (of this amount he deferred receipt of \$115,512 into his account in the Executive Deferral Plan, as also reported in the Executive Contributions in Last Fiscal Year column of the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38); and Mr. Vande Steeg \$305,970.  
*Volume Incentive Bonus for fiscal year 2007:* Mr. Barker \$3,188; and Mr. Banks \$2,025.
- (5) Amounts consist of the change in annual actuarial present value of pension benefits for each of the Named Executive Officers, as also reported in the Pension Benefits for Fiscal Year 2007 table on page 37. None of the Named Executive Officers received above-market or preferential earnings on deferred compensation.
- (6) The following table describes each component of the All Other Compensation column in the Summary Compensation Table for Fiscal Year 2007:

| Name                    | Company Contributions to Life Insurance |               |               |             | Total All Other Compensation |
|-------------------------|---|---------------|---------------|-------------|------------------------------|
|                         | Defined Contribution Plans              | Premiums Paid | Tax Gross-Ups | Perquisites |                              |
|                         | (\$)                                    | (\$)          | \$(a)         | \$(b)       | (\$)                         |
| Donald E. Washkewicz    | 14,018                                  | 145,175       | 32,126        | 90,153(c)   | 281,472                      |
| Timothy K. Pistell      | 18,286                                  | 72,974        | 66,257        | 65,527(c)   | 223,044                      |
| John D. Myslenski       | 22,104                                  | 88,118        | 22,172        | 63,608      | 196,002                      |
| Robert B. Barker        | 15,110                                  | 51,115        | 6,828         | 30,679      | 103,732                      |
| Lee C. Banks            | 18,968                                  | 42,049        | 10,588        | 30,543      | 102,148                      |
| Nickolas W. Vande Steeg | 123,879                                 | 66,730        | 72,991        | 194,966(c)  | 458,566                      |

- (a) Represents the amounts we reimbursed for the payment of taxes with respect to one or more of the following items: (i) private club dues and initiation fees, (ii) spousal travel, and (iii) holiday gift certificate and/or promotional awards.
- (b) Unless otherwise indicated in note (c) to this table, no Named Executive Officer received an executive perquisite in an amount that exceeds the greater of \$25,000 or 10% of the total amount of executive perquisites received by the Named Executive Officer. Reported in this column are amounts reimbursed by us with respect to one or more of the following executive perquisites: (i) private club dues and initiation fees; (ii) financial planning, tax preparation and estate planning services; (iii) home security system installation, maintenance and monitoring fees; (iv) leased vehicle; (v) use of Company owned housing; (vi) spousal travel; (vii) executive physicals and (viii) relocation benefits. The Named Executive Officers also use our loge, box seats or tickets to various entertainment venues. However, there is no incremental cost to us for their use of these loges, box seats and tickets.
- (c) Amounts include: (i) \$34,144 received by Mr. Washkewicz for private club dues; (ii) \$25,475 received by Mr. Pistell for spousal travel; and (iii) the following amounts received by Mr. Vande Steeg: \$86,124 for private club dues and initiation fees and \$30,665 for special relocation benefits.

- (7) Mr. Banks elected to defer \$1,409,023 that he earned under our 2005-06-07 Long Term Incentive Plan pursuant to the Executive Deferral Plan. This amount is also reported in the Executive Contributions in Last Fiscal Year column of the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38.
- (8) Mr. Vande Steeg retired as President of the Company effective December 31, 2006 and as Chief Operating Officer of the Company effective March 31, 2007, but still qualifies as a Named Executive Officer based on his fiscal year 2007 compensation.
- (9) Pursuant to the terms of our 2005-06-07 Long Term Incentive Plan, since Mr. Vande Steeg was retired at the time of payout, the \$2,818,144 that he earned under that plan was paid in cash.

## GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR 2007

The following table sets forth information with respect to non-equity and equity incentive plan awards granted to the Named Executive Officers during fiscal year 2007.

| Name                   | Grant Date | Compen-<br>sation<br>Committee<br><br>Action<br>Date (If<br>Different<br>than Grant<br>Date) | Estimated Future Payouts                  |                |                 |   |               |                | All Other<br>Stock<br>Awards:<br>Number of<br>Shares of<br>Stock or<br>Units | All Other<br>Option<br>Awards:<br>Number of<br>Securities<br>Under-<br>lying<br>Options | Exercise<br>or Base<br>Price of<br>Option<br>Awards<br>(\$/Sh) | Grant<br>Date Fair<br>Value of<br>Stock<br>and<br>Option<br>Awards |
|------------------------|------------|--|---|----------------|-----------------|---|---------------|----------------|--|---|--|--|
|                        |            |  | Under Non-Equity Incentive<br>Plan Awards |                |                 | Estimated Future Payouts<br>Under<br>Equity Incentive Plan Awards |               |                |  |   |  |  |
| (a)                    | (b)        | (c)  | Threshold<br>(\$)                         | Target<br>(\$) | Maximum<br>(\$) | Threshold<br>(#)  | Target<br>(#) | Maximum<br>(#) | (j)  | (k)   | (l)  | (m)  |
| Donald E. Washkewicz   |            |  |   |                |                 |   |               |                |  |   |  |  |
| Target Incentive Bonus | 8/16/2006  |  |   |                |                 |   |               |                |  |   |  |  |
| RONA Bonus             | 8/16/2006  |  |   |                |                 |   |               |                |  |   |  |  |
| LTI Award (07-08-09)   | 8/16/2006  |  |   |                |                 |   |               |                |  |   |  |  |
| Stock Incentives       | 8/16/2006  |  |   |                |                 |   |               | 77,500         |  |   |  |  |
| Stock Incentives(5)    | 5/04/2007  |  | 0   | 600,000        | 1,200,000       |   |               |                |  |   |  |  |
|                        |            |  | 0   | (1)            | (1)             |   |               |                |  |   |  |  |
| Stock Incentives(5)    | 5/04/2007  |  |   |                |                 | 0   | 38,750        |                |  |   |  | 2,891,912  |
|                        |            |  |   |                |                 |   |               |                |  | 104,500   | 74.63  | 2,519,495  |
| Stock Incentives(5)    | 5/04/2007  | 8/08/2001  |   |                |                 |   |               |                |  | 79,921  | 94.92  | 1,919,702  |
|                        |            | 2/03/2000  |   |                |                 |   |               |                |  | 22,326  | 94.92  | 446,297  |
|                        |            | 8/11/1999  |   |                |                 |   |               |                |  | 5,811   | 94.92  | 89,896   |
| Stock Incentives(5)    | 5/21/2007  | 8/12/1998  |   |                |                 |   |               |                |  | 4,483   | 96.66  | 51,196   |
| Timothy K. Pistell     |            |  |   |                |                 |   |               |                |  |   |  |  |
| Target Incentive Bonus | 8/16/2006  |  |   |                |                 |   |               |                |  |   |  |  |
| RONA Bonus             | 8/16/2006  |  |   |                |                 |   |               |                |  |   |  |  |
| LTI Award (07-08-09)   | 8/16/2006  |  | 0   | 175,000        | 350,000         |   |               |                |  |   |  |  |
|                        |            |  | 0   | (1)            | (1)             |   |               |                |  |   |  |  |
|                        |            |  |   |                |                 | 0   | 8,650         | 17,300         |  |   |  | 645,550  |
| Stock Incentives       | 8/16/2006  |  |   |                |                 |   |               |                |  | 26,700  | 74.63  | 643,737  |
| John D. Myslenski      | 8/16/2006  |  | 0   | 205,000        | 410,000         |   |               |                |  |   |  |  |
|                        |            |  | 0   | (1)            | (1)             |   |               |                |  |   |  |  |
| Target Incentive Bonus | 8/16/2006  |  |   |                |                 | 0   | 11,425        | 22,850         |  |   |  | 852,648  |
|                        |            |  |   |                |                 |   |               |                |  | 34,500  | 74.63  | 831,795  |
| RONA Bonus             | 8/16/2006  | 8/13/2003  |   |                |                 |   |               |                |  | 21,712  | 86.19  | 608,370  |
|                        |            | 9/04/2003  |   |                |                 |   |               |                |  | 10,190  | 93.36  | 308,451  |
| LTI Award (07-08-09)   | 8/16/2006  |  |   |                |                 |   |               |                |  |   |  |  |
| Stock Incentives       | 3/26/2007  |  |   |                |                 |   |               |                |  |   |  |  |
| Stock Incentives(5)    | 5/01/2007  |  |   |                |                 |   |               |                |  |   |  |  |

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

|   |            |           |        |         |   |          |           |        |        |         |
|---|------------|-----------|--------|---------|---|----------|-----------|--------|--------|---------|
| Stock Incentives(5)<br>Robert P. Barker |            |           |        |         |   |          |           |        |        |         |
| Target Incentive Bonus                  | 8/16/2006  |           |        |         |   |          |           |        |        |         |
| Volume Incentive Bonus                  | 8/16/2006  |           |        |         |   |          |           |        |        |         |
| RONA Bonus                              | 8/16/2006  |           |        |         |   |          |           |        |        |         |
| LTI Award (07-08-09)                    | 12/07/2006 |           |        |         |   |          |           |        |        |         |
| LTI Award (06-07-08)                    | 12/07/2006 |           |        |         |   |          |           |        |        |         |
| LTI Award (05-06-07)                    | 12/07/2006 | 0         | 85,000 | 170,000 |   |          |           |        |        |         |
|   |            | 0         | (2)    | 66,250  |   |          |           |        |        |         |
|   |            | 0         | (1)    | (1)     |   |          |           |        |        |         |
| Stock Incentives                        | 8/16/2006  |           |        |         | 0 | 7,038(3) | 14,076(3) |        |        | 582,817 |
|   |            |           |        |         | 0 | 6,107(3) | 12,214(3) |        |        | 505,721 |
|   |            |           |        |         | 0 | 8,250(3) | 16,500(3) |        |        | 683,182 |
| Stock Incentives(5)                     | 6/04/2007  |           |        |         |   |          |           | 18,150 | 74.63  | 437,597 |
|   |            | 8/13/2003 |        |         |   |          |           | 12,123 | 102.41 | 424,790 |
| Stock Incentives(5)                     | 6/04/2007  | 8/11/2004 |        |         |   |          |           | 10,604 | 102.41 | 371,564 |

| Name                    | Grant Date | Compen- sation Committee Action Date (If Different than Grant Date) | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |            |         | Estimated Future Payouts Under Equity Incentive Plan Awards |           |           | All Other Stock Awards: Number of Shares of Stock or Units | All Other Option Awards: Number of Securities Underlying Options | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards |
|-------------------------|------------|---|---|------------|---------|---|-----------|-----------|--|--|---|--|
|                         |            |   | Threshold   | Target     | Maximum | Threshold   | Target    | Maximum   |  |  |   |  |
|                         |            |   | (\$)  | (\$)       | (\$)    | (#)   | (#)       | (#)       |  |  |   |  |
|                         |            |   | (d)   | (e)        | (f)     | (g)   | (h)       | (i)       |  |  |   |  |
| Lee C. Banks            |            |   |   |            |         |   |           |           |  |  |   |  |
| Target Incentive Bonus  | 12/07/2006 |   |   |            |         |   |           |           |  |  |   |  |
| Volume Incentive Bonus  | 8/16/2006  |   |   |            |         |   |           |           |  |  |   |  |
| RONA Bonus              | 8/16/2006  |   |   |            |         |   |           |           |  |  |   |  |
| LTI Award (07-08-09)    | 12/07/2006 |   |   | 178,000    |         |   |           |           |  |  |   |  |
| LTI Award (06-07-08)    | 12/07/2006 |   | 0   | 89,000(3)  |         |   |           |           |  |  |   |  |
| LTI Award (05-06-07)    | 12/07/2006 |   | 0   | (2) 70,175 |         |   | 14,076(4) |           |  |  |   |  |
| Stock Incentives        | 8/16/2006  |   | 0   | (1) (1)    |         | 0   | 7,038(4)  | 12,214(4) |  |  | 582,817   |  |
| Stock Incentives(5)     | 4/25/2007  | 8/08/2001   |   |            |         | 0   | 6,107(4)  |           | 18,150   | 74.63  | 505,721   |  |
| Nickolas W. Vande Steeg |            |   |   |            |         | 0   | 8,250(4)  | 16,500(4) | 4,831  | 89.94  | 683,185   |  |
| Target Incentive Bonus  | 8/16/2006  |   |   |            |         |   |           |           |  |  |   |  |
| RONA Bonus              | 8/16/2006  |   |   |            |         |   |           |           |  |  |   |  |
| LTI Award (07-08-09)    | 8/16/2006  |   | 0   | 310,000(1) | 620,000 |   |           |           |  |  |   |  |
| Restricted Stock Award  | 11/20/2006 |   | 0   | (1)        |         | 0   | 14,275    | 28,550    |  |  | 1,065,343                                       |  |
| Stock Incentives        | 8/16/2006  | 8/11/2004   |   |            |         |   |           |           | 5,000  |  | 419,500   |  |
|                         |            |   |   |            |         |   |           |           | 43,500   | 74.63  | 1,048,785                                       |  |

- (1) There are no target or maximum amounts for RONA Bonuses. RONA Bonuses are calculated as described in the Compensation Discussion and Analysis on page 16.
- (2) There is no target amount for Volume Incentive Bonuses. Volume Incentive Bonuses are calculated as described in the Compensation Discussion and Analysis on page 17.
- (3) In connection with Mr. Barker's promotion to Senior Vice President and Operating Officer, on December 7, 2006 the Committee authorized an increase in Mr. Barker's 2007-08-09, 2006-07-08 and 2005-06-07 target LTI Award restricted shares previously awarded on August 16, 2006, August 29, 2005 and August 11, 2004, respectively. All other terms and conditions under the original awards remain unaffected by these amendments.
- (4) In connection with Mr. Banks' promotion to Senior Vice President and Operating Officer, on December 7, 2006 the Committee authorized an increase in Mr. Banks' (i) fiscal year 2007 Target Incentive Bonus target award previously awarded on August 16, 2006; and (ii) 2007-08-09, 2006-07-08 and 2005-06-07 target LTI Award restricted shares previously awarded on August 16, 2006, August 29, 2005 and August 11, 2004, respectively. All other terms and conditions under the original awards remain unaffected by these amendments.
- (5) Represents reload grants of stock options which are exercisable on the date following completion of one year of continuous full-time employment after the exercise of the underlying stock option, provided, the Named Executive Officer retains ownership for one year of the shares resulting from the underlying option exercise, less shares surrendered or sold to satisfy tax obligations. Reload grants of stock options have accelerated vesting in the event of a Change in Control as defined on page 41.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

The elements of executive compensation included in each Named Executive Officer's total compensation as reported in the Summary Compensation Table for Fiscal Year 2007 above and the compensation programs under which the grants described in the Grants of Plan-Based Awards for Fiscal Year 2007 table above were made are described in the Compensation Discussion and Analysis, beginning on page 13.

### OUTSTANDING EQUITY AWARDS AT JUNE 30, 2007

The following table sets forth information with respect to option awards and stock awards held by the Named Executive Officers as of June 30, 2007.

| Name<br>(a)          | Option Awards   |   |                               |                            | Stock Awards   |  |   | Equity Incentive  |
|----------------------|---|---|-------------------------------|----------------------------|--|--|---|---|
|                      | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$)(d) | Option Expiration Date (e) | Number of Shares or Units of Stock That Have Not Vested (#)(f) | Value of Shares or Units of Stock That Have Not Vested (\$)(g) | Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(h) | Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(i) |
| Donald E. Washkewicz |   | 4,483(1)  | 96.66                         | 8/11/2008                  |  |  |   |   |
|                      |   | 5,811(2)  | 94.92                         | 8/10/2009                  |  |  |   |   |
|                      |   | 22,326(2)   | 94.92                         | 2/02/2010                  |  |  |   |   |
|                      |   | 79,921(2)   | 94.92                         | 8/07/2011                  |  |  |   |   |
|                      |   | 104,500(3)  | 74.63                         | 8/15/2016                  |  |  |   |   |
|                      |   | 23,921  | 83.70                         | 8/08/2010                  |  |  |   |   |
|                      |   | 7,277   | 73.46                         | 8/08/2010                  |  |  |   |   |
|                      |   | 33,834  | 67,666(4)                     | 65.65                      | 8/09/2015  |  |   |   |
|                      |   | 102,500   | 54.39                         | 8/10/2014                  |  |  |   |   |
|                      |   | 116,800   | 47.29                         | 8/12/2013                  |  |  |   |   |
|                      | 125,400   | 39.84   | 8/06/2012                     |                            |  |  |   |   |



Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

|                    |        |           |       |           |           |           |           |           |
|--------------------|--------|-----------|-------|-----------|-----------|-----------|-----------|-----------|
|                    |        |           |       |           | 38,612(5) | 3,780,501 |           |           |
|                    |        |           |       |           | 59,904(6) | 5,865,201 |           |           |
|                    |        |           |       |           | 57,216(7) | 5,602,019 |           |           |
|                    |        |           |       |           |           |           | 66,400(8) | 6,501,224 |
| Timothy K. Pistell |        | 26,700(3) | 74.63 | 8/15/2016 |           |           | 77,500(8) | 7,588,025 |
|                    | 13,953 |           | 79.83 | 4/16/2013 |           |           |           |           |
|                    | 5,199  |           | 68.28 | 8/06/2012 |           |           |           |           |
|                    | 8,167  | 16,333(4) | 65.65 | 8/09/2015 |           |           |           |           |
|                    | 2,411  |           | 72.28 | 8/12/2007 |           |           |           |           |
|                    | 2,633  |           | 72.28 | 8/11/2008 |           |           |           |           |
|                    | 3,076  |           | 72.28 | 8/10/2009 |           |           |           |           |
|                    | 3,244  |           | 72.28 | 8/08/2010 |           |           |           |           |
|                    | 4,285  |           | 72.28 | 8/07/2011 |           |           |           |           |
|                    | 30,500 |           | 54.39 | 8/10/2014 |           |           |           |           |
|                    | 26,300 |           | 47.29 | 8/12/2013 |           |           |           |           |
|                    |        |           |       |           | 8,809(5)  | 862,489   |           |           |
|                    |        |           |       |           | 22,186(6) | 2,172,231 |           |           |
|                    |        |           |       |           | 21,107(7) | 2,066,586 |           |           |
|                    |        |           |       |           |           |           | 15,850(8) | 1,551,874 |
|                    |        |           |       |           |           |           | 17,300(8) | 1,693,843 |

| Name              | Option Awards   |   |                            |                        | Stock Awards  |  |  | Equity Incentive   |
|-------------------|---|---|----------------------------|------------------------|---|--|--|--|
|                   | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#) | Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| John D. Myslenski |   | 10,190(9)   | 93.36                      | 9/03/2013              |   |  |  |  |
|                   |   | 21,712(10)  | 86.19                      | 8/12/2013              |   |  |  |  |
|                   |   | 34,500(3)   | 74.63                      | 8/15/2016              |   |  |  |  |
|                   | 7,748   |   | 82.05                      | 8/07/2011              |   |  |  |  |
|                   | 18,886  |   | 82.72                      | 8/07/2011              |   |  |  |  |
|                   | 9,697   |   | 72.26                      | 8/06/2012              |   |  |  |  |
|                   | 14,886  |   | 66.65                      | 8/06/2012              |   |  |  |  |
|                   | 11,500  | 23,000(4)   | 65.65                      | 8/09/2015              |   |  |  |  |
|                   | 50,500  |   | 54.39                      | 8/10/2014              |   |  |  |  |
|                   | 10,531  |   | 54.15                      | 8/11/2008              |   |  |  |  |
|                   |   |   |                            | 15,686(5)              |   |  |  |  |
|                   |   |   |                            | 32,584(6)              |   |  |  |  |
|                   |   |   |                            | 28,259(7)              | 1,535,816   |  |  |  |
|                   |   |   |                            |                        | 3,190,299   | 22,600(8)  | 2,212,766  |  |
|                   |   |   |                            |                        | 2,766,839   | 22,850(8)  | 2,237,244  |  |
| Robert P. Barker  |   | 10,604(11)  | 102.41                     | 8/10/2014              |   |  |  |  |
|                   |   | 12,123(11)  | 102.41                     | 8/12/2013              |   |  |  |  |
|                   |   | 18,150(3)   | 74.63                      | 8/15/2016              |   |  |  |  |
|                   | 5,667   | 11,333(4)   | 65.65                      | 8/09/2015              |   |  |  |  |
|                   | 12,150  |   | 39.84                      | 8/06/2012              |   |  |  |  |
|                   | 9,400   |   | 44.42                      | 8/07/2011              |   |  |  |  |
|                   | 5,960   |   | 35.9375                    | 8/08/2010              |   |  |  |  |
|                   | 4,510   |   | 45.00                      | 8/10/2009              |   |  |  |  |
|                   | 5,710   |   | 30.75                      | 1/27/2009              |   |  |  |  |
|                   |   |   |                            |                        | 14,391(7)   | 1,409,023  |  |  |
|                   |   |   |                            |                        |   | 12,214(8)  | 1,195,873  |  |
|                   |   |   |                            |                        |   | 14,076(8)  | 1,378,181  |  |
| Lee C. Banks      |   | 4,831(12)   | 89.94                      | 8/07/2011              |   |  |  |  |
|                   |   | 18,150(3)   | 74.63                      | 8/15/2016              |   |  |  |  |
|                   | 7,530   |   | 72.26                      | 8/06/2012              |   |  |  |  |
|                   | 5,667   | 11,333(4)   | 65.65                      | 8/09/2015              |   |  |  |  |
|                   | 20,000  |   | 54.39                      | 8/10/2014              |   |  |  |  |
|                   | 12,775  |   | 47.29                      | 8/12/2013              |   |  |  |  |
|                   |   |   |                            | 7,440(5)               | 728,450   |  |  |  |

|           |           |
|-----------|-----------|
| 12,214(8) | 1,195,873 |
| 14,076(8) | 1,378,181 |

| Name<br>(a)             | Option Awards   |   |                               |                            | Stock Awards   |  |   | Equity Incentive  |
|-------------------------|---|---|-------------------------------|----------------------------|--|--|---|---|
|                         | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$)(d) | Option Expiration Date (e) | Number of Shares or Units of Stock That Have Not Vested (#)(f) | Value of Shares or Units of Stock That Have Not Vested (\$)(g) | Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(h) | Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(i) |
| Nickolas W. Vande Steeg |   |   | 74.63                         | 8/15/2016                  |  |  |   |   |
|                         |   | 43,500(3)   | 73.46                         |                            |  |  |   |   |
|                         | 22,832  |   |                               | 8/06/2012                  |  |  |   |   |
|                         | 14,500  | 29,000(4)   | 65.65                         | 8/09/2015                  |  |  |   |   |
|                         | 56,000  |   | 54.39                         | 8/10/2014                  |  |  |   |   |
|                         | 18,994  |   | 49.43                         | 9/03/2013                  |  |  |   |   |
|                         | 39,875  |   | 47.29                         | 8/12/2013                  |  |  | 16,653(8)(13)   |   |
|                         |   |   |                               |                            |  |  |   | 1,630,495   |
|                         |   |   |                               |                            |  |  | 7,138(8)(13)  | 698,882   |

- (1) Represents reload grants of stock options made on May 21, 2007. Assuming continued full-time employment, the grants will vest on May 21, 2008.
- (2) Represents reload grants of stock options made on May 4, 2007. Assuming continued full-time employment, the grants will vest on May 4, 2008.
- (3) Represents Stock Incentives granted on August 16, 2006. The grants will vest over a three year period from the date of grant in 1/3 increments.
- (4) Represents Stock Incentives granted on August 10, 2005. The grants will vest over a three year period from the date of grant in 1/3 increments.
- (5) Represents LTI Award restricted shares under our 2003-04-05 Long Term Incentive Plan, as amended and restated, that will vest on August 10, 2008.
- (6) Represents LTI Award restricted shares under our 2004-05-06 Long Term Incentive Plan that will vest on August 16, 2009.
- (7) Represents LTI Award restricted shares under our 2005-06-07 Long Term Incentive Plan that will vest on August 15, 2010.
- (8) Since the payout under our LTI Award restricted shares in fiscal year 2006 exceeded the target, this number has been adjusted assuming a payout of 200% of the original target award.
- (9) Represents reload grants of stock options made on May 1, 2007. Assuming continued full-time employment, the grants will vest on May 1, 2008.
- (10) Represents reload grants of stock options made on March 26, 2007. Assuming continued full-time employment, the grants will vest on March 26, 2008.
- (11) Represents reload grants of stock options made on June 4, 2007. Assuming continued full-time employment, the grants will vest on June 4, 2008.
- (12) Represents reload grants of stock options made on April 25, 2007. Assuming continued full-time employment, the grants will vest on April 25, 2008.
- (13) Due to Mr. Vande Steeg's retirement on March 31, 2007, this amount is the pro-rated number of shares Mr. Vande Steeg may receive based on the number of full calendar quarters worked during the three-year performance period under the award. Pursuant to the terms of the plan, the payout will be in cash.

---

**OPTION EXERCISES AND STOCK VESTED FOR FISCAL YEAR 2007**

The following table sets forth information with respect to stock options exercised and LTI Award restricted shares and restricted stock awards vested for the Named Executive Officers during fiscal year 2007.

| Name<br>(a)             | Option Awards        |                   | Stock Awards        |                           |
|-------------------------|----------------------|-------------------|---------------------|---------------------------|
|                         | Number of Shares     | Value Realized on | Number of Shares    | Value Realized on         |
|                         | Acquired on Exercise | Exercise          | Acquired on Vesting | Value Realized on Vesting |
|                         | (#)<br>(b)           | (\$)<br>(c)       | (#)<br>(d)          | (\$)<br>(e)               |
| Donald E. Washkewicz    | 244,627              | 12,440,091        | 17,278              | 1,691,689                 |
| Timothy K. Pistell      |                      |                   | 4,522               | 442,749                   |
| John D. Myslenski       | 58,869               | 2,385,544         | 6,263               | 613,210                   |
| Robert P. Barker        | 46,300               | 2,410,056         |                     |                           |
| Lee C. Banks            | 9,800                | 446,096           |                     |                           |
| Nickolas W. Vande Steeg | 49,600               | 2,257,792         | 70,492(1)           | 6,084,165                 |

(1) Mr. Vande Steeg's number of shares acquired on vesting is higher than the other Named Executive Officers because of the immediate vesting of his restricted shares upon retirement.

### PENSION BENEFITS FOR FISCAL YEAR 2007

The following table sets forth the actuarial present value of the benefits accumulated by each of the Named Executive Officers under the Pension Plan, the Pension Restoration Plan and the Supplemental Retirement Program.

| Name<br>(a)                         | Plan Name<br>(b)                | Number of Years of      | Present Value of           | Payments During         |
|-------------------------------------|---------------------------------|-------------------------|----------------------------|-------------------------|
|                                     |                                 | Credited Service<br>(c) | Accumulated Benefit<br>(d) | Last Fiscal Year<br>(e) |
|                                     |                                 | (#)                     | (\$)(1)                    | (\$)                    |
| Donald E. Washkewicz                | Pension Plan                    | 35                      | 543,800                    | 0                       |
|                                     | Pension Restoration Plan        |                         |                            |                         |
|                                     | Supplemental Retirement Program | 35                      | 5,429,545                  | 0                       |
| Timothy K. Pistell                  | Pension Plan                    | 35                      | 2,848,291                  | 0                       |
|                                     | Pension Restoration Plan        | 38.1                    | 1,361,141                  | 0                       |
|                                     | Supplemental Retirement Program | 38.1                    | 1,924,550                  | 0                       |
| John D. Myslenski                   | Pension Plan                    | 38.1                    | 715,024                    | 0                       |
|                                     | Pension Restoration Plan        | 34                      | 515,656                    | 0                       |
|                                     | Supplemental Retirement Program | 34                      | 2,108,522                  | 0                       |
| Robert P. Barker                    | Pension Plan                    | 34                      | 1,283,960                  | 0                       |
|                                     | Pension Restoration Plan        | 33.9                    | 553,561                    | 0                       |
|                                     | Supplemental Retirement Program | 33.9                    | 1,151,420                  | 0                       |
| Lee C. Banks                        | Pension Plan                    | 33.9                    | 893,067                    | 0                       |
|                                     | Pension Restoration Plan        | 15.6                    | 111,927                    | 0                       |
|                                     | Supplemental Retirement Program | 15.6                    | 196,693                    | 0                       |
| Nickolas W. Vande Steeg,<br>retired | Pension Plan                    | 15.6                    | 725,301                    | 0                       |
|                                     | Pension Restoration Plan        | 32.7(2)                 | 27,336                     | 1,969,969               |
|                                     | Supplemental Retirement Program | 32.7(2)                 | 1,945,425                  | 0                       |
|                                     |                                 | 35.4                    | 910,837                    | 4,684,256               |

- (1) The present value of the accumulated benefits is calculated under each plan using the following assumptions: (i) a discount rate of 6.30%, (ii) no pre-retirement decrements, (iii) retirement at age 65, and (iv) the RP-2000 Combined Health Mortality Table for both males and females (post-retirement only).  
For the Pension Plan and the Pension Restoration Plan additional assumptions include: (i) 85% males and 50% females are married, (ii) males are 3 years older than their spouses, (iii) married participants elect 50% joint and survivor, and (iv) single participants elect a life annuity.  
For the Supplemental Retirement Program additional assumptions include: (i) 100% of all employees are married, (ii) actual spouses ages were used, and (iii) all participants elect 75% joint and survivor.
- (2) Mr. Vande Steeg's participation and years of credited service in the Pension Plan and the Pension Restoration Plan were frozen as of June 30, 2004 as described in the Compensation Discussion and Analysis on page 21.

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

The Pension Plan, the Pension Restoration Plan and the Supplemental Retirement Program are described in the Compensation Discussion and Analysis, beginning on page 21.

## NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL YEAR 2007

The following table sets forth the contributions, earnings, withdrawals/distributions and aggregate balances for the Named Executive Officers participating in the Savings Restoration Plan and the Executive Deferral Plan during fiscal year 2007.

| Name<br>(a)             | Executive        | Registrant       | Aggregate        | Aggregate     | Aggregate            |
|-------------------------|------------------|------------------|------------------|---------------|----------------------|
|                         | Contributions in | Contributions in | Earnings in Last | Withdrawals/  | Aggregate Balance at |
|                         | Last Fiscal Year | Last Fiscal Year | Fiscal Year      | Distributions | Last Fiscal Year End |
|                         | (\$)(1)<br>(b)   | (\$)(2)<br>(c)   | (\$)<br>(d)      | (\$)<br>(e)   | (\$)<br>(f)          |
| Donald E. Washkewicz    | 7,608            | 4,601            | 692,050          | 0             | 3,945,279            |
| Timothy K. Pistell      | 7,027            | 5,288            | 299,872          | 0             | 1,899,984            |
| John D. Myslenski       | 28,358           | 9,117            | 92,260           | 0             | 1,062,473            |
| Robert P. Barker        | 13,500           | 4,320            | 328,836          | 0             | 3,477,977            |
| Lee C. Banks            | 1,614,440        | 7,226            | 526,863          | 0             | 2,879,367            |
| Nickolas W. Vande Steeg | 31,108           | 99,771           | 515,770          | 74,950        | 3,549,099            |

- (1) For each of the Named Executive Officers, amounts are included in the Salary column and referenced in footnote 1 of the Summary Compensation Table for Fiscal Year 2007 on page 29. For Mr. Banks, amounts are also included in the Non-Equity Incentive Plan Compensation column and referenced in footnotes 4 and 7 of the Summary Compensation Table for Fiscal Year 2007 on pages 29 and 30.
- (2) Amounts are included along with our contributions to the Retirement Savings Plan, which is a qualified deferred compensation plan, in the Company Contributions to Defined Contribution Plans column in footnote 6 to the Summary Compensation Table for Fiscal Year 2007 on page 30.

The Savings Restoration Plan and the Executive Deferral Plan are described in the Compensation Discussion and Analysis, beginning on page 22. The investment options under both plans are identical. During fiscal year 2007, there were up to 10 investment funds that a Named Executive Officer could choose with annual rates of return for the year ended June 30, 2007 ranging from 4.92% to 28.54%. Under the plans, participants have the ability to change their investments at any time.



## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

AT JUNE 30, 2007

Each of the Named Executive Officers, other than Mr. Vande Steeg, may be entitled to payments under our executive compensation program upon a termination of employment or a change in control. The events which may trigger these payments include death, long-term disability, retirement, termination for cause, termination without cause, resignation, change in control or a qualifying termination following a change in control. The following narratives and tables describe the payments the Named Executive Officers may receive under our executive compensation program for each triggering event. Payments to Mr. Vande Steeg, who retired as an executive officer on March 31, 2007, are described below under the caption Payments to Mr. Vande Steeg.

### Payments Generally Available

A Named Executive Officer will receive the following regardless of the manner in which the Named Executive Officer's employment terminates:

Base salary earned but not yet paid as of the date of termination;

Target Incentive Bonuses, RONA Bonuses and Volume Incentive Bonuses earned but not yet paid as of the date of termination;

LTI Award payouts for the most recently completed three-year performance period not yet paid as of the date of termination;

Amounts accrued and vested under the Pension Plan, the Pension Restoration Plan and the Supplemental Retirement Program as of the date of termination, as described in the Compensation Discussion and Analysis beginning on page 21;

Account balances under the Retirement Savings Plan, the Savings Restoration Plan and the Executive Deferral Plan as of the date of termination, as described in the Compensation Discussion and Analysis beginning on page 22; and

Any accrued and unused vacation pay as of the date of termination.

In determining the amounts reflected in the following tables, we used the following general assumptions and principles:

We assumed that each of the triggering events occurred on June 30, 2007. This includes our assumption that, upon a qualifying termination following a change in control, the qualifying termination and change in control both occurred on June 30, 2007.

We did not include amounts for base salaries, Target Incentive Bonuses, RONA Bonuses, Volume Incentive Bonuses or LTI Award payouts for the fiscal year 2005-06-07 performance period in the following tables because the amounts are already earned and are not affected by the triggering events, which are assumed to occur on June 30, 2007.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Amounts were calculated based on each Named Executive Officer's age, compensation and years of service as of June 30, 2007.

With the exception of the values for the Pension Restoration Plan and the Supplemental Retirement Program in the Change in Control and Qualifying Termination Following Change in Control columns, all present values of pension amounts shown assume a 6.30% discount rate and that the annuity payment elected is 75% joint and survivor for the Supplemental Retirement Program and 50% joint and survivor for the Pension Plan and the Pension Restoration Plan.

We did not include amounts for account balances in the Retirement Savings Plan because this plan is available to all salaried employees. We did not include amounts for account balances under the Savings Restoration Plan and the Executive Deferral Plan because these amounts, which are reported under the Aggregate Balance at Last Fiscal Year End column in the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38, would not be enhanced in connection with any triggering event.

### Payments upon Death

Upon the death of a Named Executive Officer, in addition to the Payments Generally Available described above, the estate of the Named Executive Officer will receive the following:

Continued vesting in all outstanding stock options and Stock Incentives and retention of all outstanding stock options and Stock Incentives for the remainder of their ten-year terms;

Accelerated vesting of the unvested portion of the Named Executive Officer's LTI Award deferrals under our Executive Deferral Plan;

Accelerated vesting of restricted stock grants under LTI Awards;

Pro-rated LTI Award payouts for the fiscal year 2006-07-08 and 2007-08-09 performance periods, to be determined at the end of the respective performance periods; and

Death benefits under the Officer Life Insurance Plan as described in the Compensation Discussion and Analysis on page 24.

In determining the amounts payable upon death reported in the following tables, the following assumptions and principles were used:

Where amounts were calculated based on our closing stock price, we used our closing stock price on June 29, 2007 (\$97.91);

Where the triggering event accelerated the vesting of restricted stock, the accelerated shares were valued at an amount per share equal to \$97.91; and

To calculate the estimated value of the LTI Awards, using historical data to track how we performed against the Peer Group for the last three performance periods, we assumed a payout of 150% of the pro-rated target LTI Award and used \$97.91. Because the payout of the LTI Awards is dependent upon our performance against the Peer Group during the three-year performance period, a Named Executive Officer's actual payout could range from a minimum of 0 to a maximum of 200% of the Named Executive Officer's pro-rated target LTI Award.

The death benefit payable under the Officer Life Insurance Plan is funded through individual life insurance policies owned by each of the Named Executive Officers that would be paid by the insurance company issuing the policy.

### Payments upon Long-Term Disability

Upon the long-term disability of a Named Executive Officer, the Named Executive Officer will receive the Payments Generally Available described above, the Payments Upon Death described above other than death benefits under the Officer Life Insurance Plan, and the following:

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Monthly benefits under the Executive Long Term Disability Plan;

Six months of premium payments for medical and dental insurance based on the applicable COBRA rates for the Named Executive Officer; and

Premium payments under the Officer Life Insurance Plan for the greater of ten years from commencement of plan participation or the number of years until the Named Executive Officer reaches age 65.

The benefit in the following tables for each of the Named Executive Officers under the Executive Long Term Disability Plan represents one year of long term disability benefits which are capped at \$396,000 for one year. The disability benefit payable under the plan is funded through group and individual life insurance policies owned by each of the Named Executive Officers that would be paid by the insurance company issuing the policies.

### **Payments upon Retirement**

Upon the retirement of a Named Executive Officer, the Named Executive Officer will receive the **Payments Generally Available** described above and the **Payments Upon Death** described above other than death benefits under the Officer Life Insurance Plan. However, if the Named Executive Officer is less than 60 years old on the date of retirement, then the Named Executive Officer must seek early retirement approval from the Committee to receive payments with respect to the following:

The Supplemental Retirement Program;

Account balance in the unvested portion of the Named Executive Officer's LTI Award deferrals under our Executive Deferral Plan;

Accelerated vesting of restricted stock grants under LTI Awards; and

Pro-rated LTI Award payouts for the fiscal year 2006-07-08 and 2007-08-09 performance periods, to be determined at the end of the respective performance periods.

In addition, the Named Executive Officer must be at least 55 years old on the date of retirement to continue to receive premium payments under the Officer Life Insurance Plan which will continue for the greater of ten years from commencement of plan participation or the number of years until the Named Executive Officer reaches age 65.

In determining the amounts payable upon retirement reported in the following tables, we assumed that the Named Executive Officer did not receive Committee approval for early retirement.

#### **Payments upon Termination for Cause or Resignation**

Upon the termination for cause or the resignation of a Named Executive Officer, the Named Executive Officer will receive the Payments Generally Available described above, except if the termination for cause is the result of competition by the Named Executive Officer against us. If the termination for cause results from competition against us, the Named Executive Officer will forfeit his Supplemental Retirement Program benefit.

In determining the amounts payable upon termination for cause under the Supplemental Retirement Program, we did not assume that the termination resulted from competition against us.

#### **Payments Upon Termination Without Cause**

Upon the termination without cause of a Named Executive Officer, the Named Executive Officer will receive the Payments Generally Available described above. In addition, the Named Executive Officer will receive a lump sum payment equal to either (i) one week's pay for each year of service up to a maximum of eight weeks of pay, or (ii) if the Named Executive Officer signs a release acceptable to us, up to a maximum of twenty-six weeks of pay and continuation of premium payments for medical and dental insurance based on the applicable COBRA rates for the Named Executive Officer for up to three months.

In determining the amounts payable upon termination without cause reported in the following tables, we assumed that the Named Executive Officer did not sign a release.

#### **Payments upon a Change in Control**

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

A Change in Control occurs if and when:

subject to certain exceptions, any person (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934) is or becomes a beneficial owner, directly or indirectly, of securities representing 20% or more of the combined voting power of our then outstanding securities eligible to vote for the election of the Board of Directors;

during any period of 24 consecutive months, individuals who at the beginning of such 24-month period were our directors, which we refer to as the Incumbent Board, cease to constitute at least a majority of the Board of Directors, unless the election, or nomination for election, of any person becoming a director subsequent to the beginning of such 24-month period was approved by a vote of at least two-thirds of the Incumbent Board;

our shareholders approve a plan of complete liquidation or dissolution; or

we enter into a merger, consolidation or other reorganization, or sell all of our assets, unless

immediately following the business combination, (1) more than 50% of the total voting power eligible to elect directors of the resulting entity is represented by shares that were common shares immediately prior to the business combination, (2) subject to certain exceptions, no person becomes the beneficial owner, directly or indirectly, of 20% or more of the voting power of the entity resulting from the business combination, and (3) at least a majority of the members of the board of directors of the resulting entity were members of the Incumbent Board at the time of the approval by the Board of Directors of the execution of the initial agreement providing for such business combination, or

the business combination is effected by means of the acquisition of common shares from us, and the Board of Directors approves a resolution providing expressly that such business combination does not constitute a Change in Control.

A Change in Control has the following effects under the executive compensation plans:

any outstanding unvested stock option, stock appreciation right or Stock Incentive held by an executive officer vests and becomes exercisable immediately upon a Change in Control;

any outstanding unvested shares of restricted stock issued or unvested Executive Deferral Plan amounts credited to an executive officer pursuant to LTI Awards vest immediately in the event of a Change in Control;

any outstanding LTI Award to an executive officer will be paid in full in cash upon a Change in Control, at the target amount or on the basis of corporate financial performance to the date of the Change in Control, whichever is greater, and at a stock price equal to the greater of the stock price on the date of a Change in Control or the stock price at the beginning of the three-year performance period;

upon a Change in Control, all amounts previously deferred by the executive under the Executive Deferral Plan, together with a make whole amount designed to compensate the executive for the lost opportunity to continue to defer receipt of such income (and the earnings thereon) pursuant to elections made under the Executive Deferral Plan, will be paid to the executive; and

upon a Change in Control, each participant under the Supplemental Retirement Program will receive three additional years of age and service credit under the Supplemental Retirement Program, a lump-sum payment equal to the present value of the participant's vested benefit under the Supplemental Retirement Program, and a gross-up payment to offset the effect, if any, of the excise tax imposed by Section 4999 of the Internal Revenue Code on such lump sum payment.

In determining the amounts payable upon a Change in Control reported in the following tables, the following assumptions or principles were used:

We used the same assumptions in Payments Generally Available described above;

Where benefits were calculated based on our closing stock price, we used our closing stock price on June 29, 2007 (\$97.91);

Where the triggering event accelerated the vesting of restricted stock, the accelerated shares were valued at an amount per share equal to \$97.91;

Where the triggering event accelerated the vesting of stock options and Stock Incentives, the accelerated stock options and Stock Incentives were valued at an amount per share equal to the difference between \$97.91 and the grant price per share for each of the accelerated stock options and Stock Incentives;

Lump sum present values for the Pension Restoration Plan and the Supplemental Retirement Program assume a 4.87% discount rate for the Pension Restoration Plan and a 3.00% discount rate for the Supplemental Retirement Program; and

To calculate the value of the LTI Awards, using historical data to compare how we performed against the Peer Group for the last three performance periods, we assumed a payout of 150% of the target LTI Award and used \$97.91.

**Payments upon a Qualifying Termination Following Change in Control**

Each of the Change in Control Agreements requires two triggering events to result in any severance payments to the Named Executive Officers:

Change in Control (as defined above in *Payments upon a Change in Control*); and

Subsequent termination of the employment of the Named Executive Officer.

Each Change in Control Agreement provides that, if the employment of the Named Executive Officer is terminated during the three years following a Change in Control, either by us without Cause (as defined in the Change in Control Agreements) or by the Named Executive Officer for Good Reason (as described



below), the Named Executive Officer shall be entitled to receive the Payments upon a Change in Control described above and the following:

pro rata base salary and annual cash incentive compensation for the year of termination of employment;

severance pay equal to three times the executive's annual base salary and annual cash incentive compensation;

continuation of welfare benefits (e.g., medical, life insurance, disability coverage) for a period of three years;

to the extent not previously received, all amounts previously deferred under our non-qualified income deferral plans together with a make-whole amount as described above; and

a gross-up payment to offset the effect, if any, of the excise tax imposed by Section 4999 of the Internal Revenue Code.

Good Reason for termination of employment by the Named Executive Officer includes, without limitation, diminution in duties, reduction in compensation or benefits, relocation, or termination of employment by the executive for any or no reason during the 180-day period beginning on the 91st day after the Change in Control.

#### **Payments to Mr. Vande Steeg**

Mr. Vande Steeg received the following in connection with his retirement as an executive officer on March 31, 2007:

reimbursements of \$86,124 for private club initiation fees and \$50,531 for the payment of taxes of his private club dues and initiation fees to which he was previously entitled as an executive officer and \$30,665 for special relocation benefits, as included in the All Other Compensation column and footnote 6 to the Summary Compensation Table for Fiscal Year 2007 on pages 29-30;

immediate vesting of all of his restricted stock on his date of retirement as reflected in the Number of Shares Acquired on Vesting column in the Option Exercises and Stock Vested for Fiscal Year 2007 table on page 36;

partial lump sum payments under the Pension Plan and the Supplemental Retirement Program as reflected in the Payments During Last Fiscal Year column of the Pension Benefits for Fiscal Year 2007 table on page 37 with the final lump sum payment under the Supplemental Retirement Program to be made on October 1, 2007 in accordance with Section 409A of the Internal Revenue Code; and

monthly distributions from the Savings Restoration Plan and the Executive Deferral Plan as reported in the Aggregate Withdrawals/Distributions column of the Nonqualified Deferred Compensation for Fiscal Year 2007 table on page 38.

Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

The following tables illustrate the payments that each Named Executive Officer would have received if any of the triggering events occurred on June 30, 2007.

|   |                   |                      |                  |                                      |                           | Qualifying Termination |                             |
|---|-------------------|----------------------|------------------|--------------------------------------|---------------------------|------------------------|-----------------------------|
|   | Death             | Long-Term Disability | Retirement       | Termination for Cause or Resignation | Termination Without Cause | Change in Control      | Following Change in Control |
| <b>Donald E. Washkewicz</b>             |                   |                      |                  |                                      |                           |                        |                             |
| Severance Pay                           |                   |                      |                  |                                      | 177,692                   |                        | 7,903,349                   |
| Accelerated Vesting of Stock Incentives |                   |                      |                  |                                      |                           | 4,944,362              | 4,944,362                   |
| Accelerated Vesting of Restricted Stock | 9,645,702         | 9,645,702            |                  |                                      |                           | 9,645,702              | 9,645,702                   |
| Pension Plan                            | 269,622           | 581,272              | 581,272          | 581,272                              | 581,272                   | 581,272                | 581,272                     |
| Pension Restoration Plan                | 2,819,177         | 5,492,334            | 5,492,334        | 5,492,334                            | 5,492,334                 | 6,384,689              | 6,384,689                   |
| Supplemental Retirement Program         | 9,890,717         | 7,579,356            |                  |                                      | 7,579,356                 | 16,201,102             | 16,201,102                  |
| Executive Deferral Plan                 |                   |                      |                  |                                      |                           | 940,550                | 940,550                     |
| LTI Awards                              | 5,144,901         | 5,144,901            |                  |                                      |                           | 10,566,937             | 10,566,937                  |
| Executive Long-Term Disability Benefit  |                   | 396,000              |                  |                                      |                           |                        |                             |
| Executive Long-Term Disability Premiums |                   |                      |                  |                                      |                           |                        | 22,092                      |
| Medical and Dental Benefits             |                   | 5,936                |                  |                                      |                           |                        | 33,552                      |
| Officer Life Insurance Benefit          | 5,775,000         |                      |                  |                                      |                           |                        |                             |
| Officer Life Insurance Premiums         |                   | 605,336              | 71,728           |                                      |                           |                        | 435,525                     |
| Excise and Related Income Tax Gross-up  |                   |                      |                  |                                      |                           | 10,047,030             | 14,548,564                  |
| Vacation Pay                            | 43,992            | 43,992               | 43,992           | 43,992                               | 43,992                    | 43,992                 | 43,992                      |
| <b>Total</b>                            | <b>33,589,111</b> | <b>29,494,829</b>    | <b>6,189,326</b> | <b>6,117,598</b>                     | <b>13,874,646</b>         | <b>59,355,636</b>      | <b>72,251,688</b>           |

| <b>Timothy K. Pistell</b>               | <b>Death</b>      | <b>Long-Term Disability</b> | <b>Retirement</b> | <b>Termination for Cause or Resignation</b> | <b>Termination Without Cause</b> | <b>Change in Control</b> | <b>Qualifying Termination Following Change in Control</b> |
|---|-------------------|-----------------------------|-------------------|---|----------------------------------|--------------------------|---|
| Severance Pay                           |                   |                             |                   |   | 95,385                           |                          | 3,125,618   |
| Accelerated Vesting of Stock Incentives |                   |                             |                   |   |                                  | 1,148,479                | 1,148,479   |
| Accelerated Vesting of Restricted Stock | 3,034,720         | 3,034,720                   | 3,034,720         |   |                                  | 3,034,720                | 3,034,720   |
| Pension Plan                            | 700,228           | 1,464,909                   | 1,464,909         | 1,464,909                                   | 1,464,909                        | 1,464,909                | 1,464,909   |
| Pension Restoration Plan                | 1,011,382         | 2,049,670                   | 2,049,670         | 2,049,670                                   | 2,049,670                        | 2,372,868                | 2,372,868   |
| Supplemental Retirement Program         | 3,323,382         | 1,948,158                   | 1,948,158         | 1,948,158                                   | 1,948,158                        | 3,867,489                | 3,867,489   |
| Executive Deferral Plan                 |                   |                             |                   |   |                                  | 347,881                  | 347,881   |
| LTI Awards                              | 1,199,043         | 1,199,043                   | 1,199,043         |   |                                  | 2,434,287                | 2,434,287   |
| Executive Long-Term Disability Benefit  |                   | 396,000                     |                   |   |                                  |                          |   |
| Executive Long-Term Disability Premiums |                   |                             |                   |   |                                  |                          | 23,509  |
| Medical and Dental Benefits             |                   | 3,575                       |                   |   |                                  |                          | 33,552  |
| Officer Life Insurance Benefit          | 2,480,000         |                             |                   |   |                                  |                          |   |
| Officer Life Insurance Premiums         |                   | 333,018                     | 171,395           |   |                                  |                          | 218,922   |
| Excise and Related Income Tax Gross-up  |                   |                             |                   |   |                                  |                          | 3,048,424   |
| Vacation Pay                            | 23,615            | 23,615                      | 23,615            | 23,615                                      | 23,615                           | 23,615                   | 23,615  |
| <b>Total</b>                            | <b>11,772,370</b> | <b>10,452,708</b>           | <b>9,891,510</b>  | <b>5,486,352</b>                            | <b>5,581,737</b>                 | <b>14,694,248</b>        | <b>21,144,273</b>   |

| John D. Myslenski                       |                   |                      |                  |                                      |                           | Termination       | Qualifying Termination      |  |
|---|-------------------|----------------------|------------------|--------------------------------------|---------------------------|-------------------|-----------------------------|--|
|   | Death             | Long-Term Disability | Retirement       | Termination for Cause or Resignation | Termination Without Cause | Change in Control | Following Change in Control |  |
| Severance Pay                           |                   |                      |                  |                                      | 101,538                   |                   | 3,662,209                   |  |
| Accelerated Vesting of Stock Incentives |                   |                      |                  |                                      |                           | 1,845,969         | 1,845,969                   |  |
| Accelerated Vesting of Restricted Stock | 4,726,116         | 4,726,116            |                  |                                      |                           | 4,726,116         | 4,726,116                   |  |
| Pension Plan                            | 241,881           | 537,598              | 537,598          | 537,598                              | 537,598                   | 537,598           | 537,598                     |  |
| Pension Restoration Plan                | 1,036,735         | 2,082,758            | 2,082,758        | 2,082,758                            | 2,082,758                 | 2,422,529         | 2,422,529                   |  |
| Supplemental Retirement Program         | 4,470,602         | 3,605,795            |                  |                                      | 3,605,795                 | 7,683,760         | 7,683,760                   |  |
| Executive Deferral Plan                 |                   |                      |                  |                                      |                           | 179,898           | 179,898                     |  |
| LTI Awards                              | 1,665,633         | 1,665,633            |                  |                                      |                           | 3,337,507         | 3,337,507                   |  |
| Executive Long-Term Disability Benefit  |                   | 396,000              |                  |                                      |                           |                   |                             |  |
| Executive Long-Term Disability Premiums |                   |                      |                  |                                      |                           |                   | 26,160                      |  |
| Medical and Dental Benefits             |                   | 3,434                |                  |                                      |                           |                   | 33,552                      |  |
| Officer Life Insurance Benefit          | 2,640,000         |                      |                  |                                      |                           |                   |                             |  |
| Officer Life Insurance Premiums         |                   | 385,299              | 47,052           |                                      |                           |                   | 264,354                     |  |
| Excise and Related Income Tax Gross-up  |                   |                      |                  |                                      |                           | 4,104,367         | 6,241,995                   |  |
| Vacation Pay                            | 25,138            | 25,138               | 25,138           | 25,138                               | 25,138                    | 25,138            | 25,138                      |  |
| <b>Total</b>                            | <b>14,806,105</b> | <b>13,427,771</b>    | <b>2,692,546</b> | <b>2,645,494</b>                     | <b>6,352,827</b>          | <b>24,862,882</b> | <b>30,986,785</b>           |  |

| <b>Robert P. Barker</b>                 | <b>Death</b>     | <b>Long-Term Disability</b> | <b>Retirement</b> | <b>Termination for Cause or Resignation</b> | <b>Termination Without Cause</b> | <b>Change in Control</b> | <b>Qualifying Termination Following Change in Control</b> |
|---|------------------|-----------------------------|-------------------|---|----------------------------------|--------------------------|---|
| Severance Pay                           |                  |                             |                   |   | 69,231                           |                          | 2,426,057   |
| Accelerated Vesting of Stock Incentives |                  |                             |                   |   |                                  | 685,863                  | 685,863   |
| Pension Plan                            | 258,785          | 581,581                     | 581,581           | 581,581                                     | 581,581                          | 581,581                  | 581,581   |
| Pension Restoration Plan                | 562,127          | 1,158,190                   | 1,158,190         | 1,158,190                                   | 1,158,190                        | 1,348,896                | 1,348,896   |
| Supplemental Retirement Program         | 2,776,327        | 2,270,262                   |                   |   | 2,270,262                        | 4,683,356                | 4,683,356   |
| Executive Deferral Plan                 |                  |                             |                   |   |                                  | 800,455                  | 800,455   |
| LTI Awards                              | 942,026          | 942,026                     |                   |   |                                  | 1,930,540                | 1,930,540   |
| Executive Long-Term Disability Benefit  |                  | 396,000                     |                   |   |                                  |                          |   |
| Executive Long-Term Disability Premiums |                  |                             |                   |   |                                  |                          | 28,573  |
| Medical and Dental Benefits             |                  | 5,936                       |                   |   |                                  |                          | 33,552  |
| Officer Life Insurance Benefit          | 1,350,000        |                             |                   |   |                                  |                          |   |
| Officer Life Insurance Premiums         |                  | 206,056                     | 55,776            |   |                                  |                          | 153,345   |
| Excise and Related Income Tax Gross-up  |                  |                             |                   |   |                                  | 3,129,414                | 4,564,558   |
| Vacation Pay                            | 31,868           | 31,868                      | 31,868            | 31,868                                      | 31,868                           | 31,868                   | 31,868  |
| <b>Total</b>                            | <b>5,921,133</b> | <b>5,591,919</b>            | <b>1,827,415</b>  | <b>1,771,639</b>                            | <b>4,111,132</b>                 | <b>13,191,973</b>        | <b>17,268,644</b>   |

| Lee C. Banks                               | Death            | Long-Term        |                | Retirement     | Termination<br>for Cause<br>or<br>Resignation | Termination<br>Without<br>Cause | Change in<br>Control | Qualifying<br>Termination |
|--|------------------|------------------|----------------|----------------|---|---------------------------------|----------------------|---------------------------|
|  |                  | Disability       |                |                |   |                                 |                      | Following                 |
|  |                  |                  |                |                |   |                                 |                      | Change in<br>Control      |
| Severance Pay                              |                  |                  |                |                |   | 73,846                          |                      | 2,206,640                 |
| Accelerated Vesting of<br>Stock Incentives |                  |                  |                |                |   |                                 | 826,638              | 826,638                   |
| Accelerated Vesting of<br>Restricted Stock | 728,450          | 728,450          |                |                |   |                                 | 728,450              | 728,450                   |
| Pension Plan                               | 44,604           | 102,191          | 102,191        | 102,191        | 102,191                                       | 102,191                         | 102,191              | 102,191                   |
| Pension Restoration Plan                   | 81,788           | 178,861          | 178,861        | 178,861        | 178,861                                       | 178,861                         | 241,965              | 241,965                   |
| Supplemental Retirement<br>Program         | 1,301,651        | 1,478,114        |                |                |   |                                 | 2,978,491            | 2,978,491                 |
| Executive Deferral Plan                    |                  |                  |                |                |   |                                 | 2,227,128            | 2,227,128                 |
| LTI Awards                                 | 942,026          | 942,026          |                |                |   |                                 | 1,930,540            | 1,930,540                 |
| Executive Long-Term<br>Disability Benefit  |                  | 396,000          |                |                |   |                                 |                      |                           |
| Executive Long-Term<br>Disability Premiums |                  |                  |                |                |   |                                 |                      | 14,187                    |
| Medical and Dental<br>Benefits             |                  | 5,936            |                |                |   |                                 |                      | 33,552                    |
| Officer Life Insurance<br>Benefits         | 1,440,000        |                  |                |                |   |                                 |                      |                           |
| Officer Life Insurance<br>Premiums         |                  | 188,643          |                |                |   |                                 |                      | 126,147                   |
| Excise and Related<br>Income Tax Gross-up  |                  |                  |                |                |   |                                 | 1,440,077            | 4,210,676                 |
| Vacation Pay                               | 12,188           | 12,188           | 12,188         | 12,188         | 12,188  | 12,188                          | 12,188               | 12,188                    |
| <b>Total</b>                               | <b>4,550,707</b> | <b>4,032,409</b> | <b>293,240</b> | <b>293,240</b> | <b>293,240</b>                                | <b>367,086</b>                  | <b>10,487,668</b>    | <b>15,638,793</b>         |

**DIRECTOR COMPENSATION FOR FISCAL YEAR 2007**

The following table sets forth compensation information for our non-employee directors for fiscal year 2007.

| <b>Name(1)</b>       | <b>Fees<br/>Earned or<br/>Paid in<br/>Cash<br/>\$(2)</b> | <b>Stock<br/>Awards<br/>\$(3)<br/>(c)</b> | <b>Option<br/>Awards<br/>\$(4)<br/>(d)</b> | <b>All Other<br/>Compensation<br/>\$(5)<br/>(e)</b> | <b>Total<br/>\$(f)</b> |
|----------------------|--|---|--|---|------------------------|
| Linda S. Harty       | 6,667  | 26,670                                    |  | 170   | 33,507                 |
| William E. Kassling  | 83,375   | 21,894                                    | 34,591                                     | 878   | 140,737                |
| Robert J. Kohlhepp   | 79,875   | 35,524                                    | 34,591                                     | 878   | 150,868                |
| Giulio Mazzalupi     | 25,875   | 74,513                                    | 2,663                                      | 2,407   | 105,459                |
| Klaus-Peter Müller   | 26,875   | 77,018                                    | 115,649                                    | 2,503   | 222,045                |
| Candy M. Obourn      | 44,625   | 55,627                                    | 34,591                                     | 878   | 135,721                |
| Joseph M. Scaminace  | 78,735   | 21,894                                    | 31,928                                     | 878   | 133,074                |
| Wolfgang R. Schmitt  | 9,375  | 94,386                                    | 34,591                                     | 878   | 139,229                |
| Markos I. Tambakeras | 20,000   | 78,771                                    | 31,928                                     | 2,407   | 133,106                |
| Duane E. Collins (6) | (7)  |   |  | 1,763,532(8)  | 1,763,532              |
| Peter W. Likins (6)  | 23,542   |   |  | 258,594(9)  | 282,136                |

- (1) Donald E. Washkewicz, our Chairman of the Board, Chief Executive Officer and President, and Nickolas W. Vande Steeg, our former President, Chief Operating Officer and a Director who retired during fiscal year 2007, are not included in this table because they are Named Executive Officers and received no additional compensation in their capacities as Directors. The compensation paid by us to Messrs. Washkewicz and Vande Steeg in fiscal year 2007 is reflected in the Summary Compensation Table for Fiscal Year 2007 on page 29.
- (2) During fiscal year 2007, Ms. Harty elected to convert a portion of her annual retainer for her one-year term into our common stock under our Non-Employee Directors Stock Plan. Messrs. Kohlhepp, Mazzalupi, Müller, Schmitt and Tambakeras and Ms. Obourn elected to convert a portion of their annual retainers for their three-year terms into our common stock under our Non-Employee Directors Stock Plan. These amounts are reported in the Stock Awards column of this table. During fiscal year 2007, Mr. Kassling elected to defer \$39,375 of his annual retainer under our Deferred Compensation Plan for Directors.
- (3) This column represents the dollar amount recognized for financial statement reporting purposes for fiscal year 2007 in accordance with FAS 123R of restricted stock awards under our 2004 Non-Employee Directors Stock Incentive Plan and our Non-Employee Directors Stock Plan and may include amounts from restricted stock awards granted in and prior to fiscal year 2007. The dollar amount recognized in accordance with FAS 123R for awards made in fiscal year 2007 for each of the plans is as follows:  
*2004 Non-Employee Directors Stock Incentive Plan:* Each of Messrs. Kassling, Kohlhepp, Mazzalupi, Müller, Scaminace, Schmitt and Tambakeras and Ms. Obourn, \$21,894.  
*Non-Employee Directors Stock Plan.* Ms. Harty elected to convert \$26,670 into 326 shares; Mr. Kohlhepp elected to convert \$13,630 into 277 shares; Mr. Mazzalupi elected to convert \$52,620 into 775 shares; Mr. Müller elected to convert \$55,124 into 808 shares; Ms. Obourn elected to convert \$33,733 into 488 shares; Mr. Schmitt elected to convert \$72,492 into 1,175 shares; and Mr. Tambakeras elected to convert \$56,877 into 797 shares.  
The grant date fair value computed in accordance with FAS 123R for each of the restricted stock awards granted in fiscal year 2007 for each of the plans is as follows:  
*2004 Non-Employee Directors Stock Incentive Plan:* \$87,919 (1,125 shares).

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

*Non-Employee Directors Stock Plan:* Ms. Harty, \$53,340 (653 shares); Mr. Mazzalupi, \$226,725 (2,942 shares); Mr. Müller, \$240,905 (3,126 shares); and Mr. Tambakeras, \$226,725 (2,942 shares).

There were no forfeitures of stock awards by the Directors during fiscal year 2007. As of June 30, 2007, each Director had the following aggregate number of unvested stock awards: Ms. Harty, 653 shares; Mr. Kassling, 1,125 shares; Mr. Kohlhepp, 1,125 shares; Mr. Mazzalupi, 4,067 shares; Mr. Müller, 4,251 shares; Ms. Obourn, 1,613 shares; Mr. Scaminace, 1,125 shares; Mr. Schmitt, 3,182 shares; Mr. Tambakeras, 4,067 shares; and Mr. Collins and Dr. Likins 0 shares.

- (4) This column represents the dollar amount recognized for financial statement reporting purposes for fiscal year 2007 in accordance with FAS 123R of option grants under our 2004 Non-Employee Directors Stock Incentive Plan. The only options granted during fiscal year 2007 were reload option grants to Mr. Müller, which had a grant date fair value computed in accordance with FAS 123R of \$72,042. Other than Mr. Müller, this column only includes amounts from options granted prior to fiscal year 2007. Assumptions used in the calculation of this amount are included in Note 12 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K, as amended, filed with the SEC, except for the assumption relating to the expected life of an option grant for a Director for fiscal years 2006 and 2007. For Directors, we assumed the expected life of an option grant for each of fiscal years 2006 and 2007 was 5.8 years. During fiscal year 2007, Mr. Schmitt forfeited 475 options. As of June 30, 2007, each Director had the following aggregate number of outstanding stock options: Ms. Harty, 0 options; Mr. Kassling, 8,900 options; Mr. Kohlhepp, 8,200 options; Mr. Mazzalupi, 10,850 options; Mr. Müller, 5,378 options; Ms. Obourn, 8,200 options; Mr. Scaminace, 2,750 options; Mr. Schmitt, 9,901 options; Mr. Tambakeras, 2,750 options; Mr. Collins, 68,400 options; and Dr. Likins 12,600 options.
- (5) Unless otherwise noted, the amounts reported in this column are the dividends earned on the restricted stock awards granted in fiscal year 2007 reported in footnote 3 to this table.



- (6) Mr. Collins and Dr. Likins retired from our Board of Directors on October 25, 2006. Mr. Collins continues to work for us as a consultant.
- (7) Mr. Collins did not receive any compensation from us in his capacity as a Director. His compensation as reported in the All Other Compensation column to this table and as described in footnote 8 to this table arose from his consulting agreement with us and from his role as our former Chairman of the Board, Chief Executive Officer and President.
- (8) Amounts reported for Mr. Collins include the following amounts earned during fiscal year 2007 in connection with his consulting agreement described below and paid in connection with his retirement as an executive officer:  
*Consulting Agreement:* (i) \$175,000 for the retainer; (ii) \$59,526 for perquisites, including: private club dues of \$26,473, financial planning, tax preparation and estate planning services, home security system, leased vehicle, and spousal travel; and (iii) \$18,408 for tax gross-ups on private club dues; and  
*Retirement as an executive officer:* (iv) \$116,675 in life insurance premiums; (v) \$197,238 received annually in connection with a Cancellation Agreement to an Exchange Agreement and Executive Estate Protection Agreement between him and us entered into while he was an executive officer; (vi) \$961,203 distributed from his account under the Executive Deferral Plan; (vii) \$13,598 distributed from his account under the Savings Restoration Plan; (viii) \$60,814 received as dividend equivalents in connection with phantom stock he holds from a stock option deferral made while he was an executive officer; and (ix) payouts from his stock option deferral of 987 Common Shares in January 2007 with a value of \$75,881 and 987 Common Shares in April 2007 with a value of \$85,188 calculated using our closing stock price on each respective date.
- (9) Represents the amount distributed to Dr. Likins upon his retirement from his account under our Deferred Compensation Plan for Directors.

### Compensation of Directors

Directors who are also our employees do not receive any additional compensation for their services as Directors. During fiscal year 2007, non-employee Directors received an annual retainer, meeting fees (if applicable), and a restricted stock award. On August 17, 2006, the Board of Directors approved changes to the annual retainers of the non-employee Directors effective as of October 1, 2006, as set forth below:

|  | From<br>10/01/2005<br>through<br>9/30/2006 | Effective<br>beginning<br>10/01/2006 |
|--|--|--------------------------------------|
| Annual retainer for Audit Committee Chair:                                   | \$82,500                                   | \$95,000                             |
| Annual retainer for committee chairs (other than the Audit Committee Chair): | \$72,500                                   | \$85,000                             |
| Annual retainer for non-chair committee members:                             | \$67,500                                   | \$80,000                             |

On August 16, 2007, the Board of Directors approved an increase in the annual retainers of the non-employee Directors effective as of October 1, 2007, as set forth below:

|  |           |
|--|-----------|
| Annual retainer for Audit Committee Chair:   | \$102,500 |
| Annual retainer for Human Resources and Compensation Committee Chair:  | \$97,500  |
| Annual retainer for each of the chairs of the Corporate Governance and Nominating Committee and the Finance Committee: | \$92,500  |
| Annual retainer for non-chair committee members:   | \$87,500  |

In addition to the annual retainers described above, the fee for attending each Board of Directors or Committee meeting that exceeds the number of regularly scheduled Board of Directors or Committee meetings in a fiscal year by two is \$1,500. During fiscal year 2007, there were four regularly scheduled meetings of the Board of Directors and three additional meetings resulting in a payment of \$1,500 to those Directors who attended all seven meetings. During fiscal year 2007, none of the Committees met more than two times beyond their regularly scheduled meetings.

Directors may elect to defer all or a portion of their annual retainers under our Deferred Compensation Plan for Directors or elect to convert all or a portion of their annual retainers into our common stock pursuant to our Non-Employee Directors' Stock Plan. If a Director elects to convert under our Non-Employee Directors' Stock Plan, the applicable portion of his or her retainer is converted into our common stock by using the average of the high and low stock price for our common stock on the beginning date of his or her election to convert under the plan. The Director receives restricted shares that vest ratably on each December 31 during his or her term.

with the remaining shares to vest on the date of our Annual Shareholders Meeting when the Director's term ends. Upon death or disability, a pro-rated portion of the Director's restricted shares will vest immediately and the remaining shares will be forfeited. In the event of a change in control, the vesting of the restricted shares will be accelerated.

Each Director who was serving as a Director on October 1, 2006 and who was not a current or retired employee was granted 1,125 shares of restricted stock as of October 1, 2006 under our 2004 Non-Employee Directors Stock Incentive Plan. The shares will vest 100% on September 30, 2009, except that if a Director ceases to be a Director for any reason prior to September 30, 2009, a pro-rated portion of his or her restricted shares will vest immediately on the date of termination and the remaining shares will be forfeited.

All shares of restricted stock earn dividends payable directly to each Director to whom they are issued.

Duane E. Collins, who retired as Chairman of the Board of Directors in October 2004 and as a Director in October 2006, has a consulting agreement with us. He receives an annual retainer of \$175,000, plus secretarial services, office space, a reserved parking spot, use of company apartments and entertainment venues, limousine service to and from the airport for business trips, travel and entertainment expenses for business trips, financial planning, tax preparation and estate planning services, a home security system, private club memberships (including, up to two country clubs, three airline clubs and one downtown club), use of a leased vehicle and, to the extent approved by the Chief Executive Officer, use of corporate aircraft for business purposes and spousal travel and meal expenses.

## MANAGEMENT PROPOSAL TO DECLASSIFY THE BOARD OF DIRECTORS

The Board of Directors recommends a vote FOR the proposal to amend Article II of our Code of Regulations to provide for the annual election of Directors. Currently, the Board of Directors is divided into three classes, with Directors elected to staggered three-year terms. Approximately one-third of the Directors stand for election each year. If the proposed amendments to the Code of Regulations are approved, Directors will be elected to one-year terms of office starting at the 2008 Annual Meeting of Shareholders. To ensure a smooth transition to the new board structure, Directors currently serving terms that expire at the 2009 and 2010 Annual Meetings of Shareholders will serve the remainder of their respective terms, and thereafter their successors will be elected to one-year terms. From and after the 2010 Annual Meeting of Shareholders, all Directors would stand for election annually.

The Corporate Governance and Nominating Committee and the Board of Directors, with the assistance of outside advisors, carefully considered the advantages and disadvantages of maintaining the classified board structure in light of our current circumstances. The Committee and the Board considered that the overlapping three-year terms of Directors are designed to provide stability, enhance long-term planning and ensure that, at any given time, there are Directors serving on the Board who are familiar with us and our business and strategic goals. Staggered terms also give new Directors an opportunity to gain knowledge about our business and strategies from experienced Directors and may assist us in attracting Director candidates interested in making a long-term commitment to us and our shareholders. A classified board structure arguably also enhances the independence of the non-management members of the Board and may increase the Board's leverage to negotiate the terms of a proposed takeover or restructuring in a way that maximizes value for our shareholders.

The Corporate Governance and Nominating Committee and the Board of Directors also considered the views of our shareholders regarding the classified Board structure, including the support of the holders of a majority of our outstanding Common Shares for the shareholder proposals to declassify the Board presented at the 2005 and 2006 Annual Meetings of Shareholders. The Committee and Board also considered that some shareholders believe that a classified board structure reduces director accountability to shareholders and diminishes shareholder influence over a company's policies. Finally, the Committee and Board considered that many U.S. public companies have eliminated their classified board structures in recent years in favor of annual director elections.

After weighing all of these considerations, the Corporate Governance and Nominating Committee recommended to the Board of Directors the elimination of our classified Board. The Board of Directors has approved the proposed amendments to our Code of Regulations, a copy of which are attached to this proxy statement as *Appendix A*, and recommends that the shareholders adopt the amendments by voting in favor of this proposal.

Under the Code of Regulations, this proposal must be approved by the holders of shares entitling them to exercise a majority of Parker-Hannifin's voting power on the proposal. Accordingly, this proposal will be approved, and the proposed amendments to the Code of Regulations adopted, upon the affirmative vote of the holders of a majority of our outstanding Common Shares.

**The Board of Directors unanimously recommends a vote FOR the management proposal to declassify the Board of Directors by amending our Code of Regulations.**

---

## RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors recommends ratification of its appointment of Deloitte & Touche LLP ( *D&T* ) as the independent registered public accounting firm to audit our financial statements as of and for the fiscal year ending June 30, 2008. PricewaterhouseCoopers LLP ( *PwC* ) served as the independent registered public accounting firm to audit our financial statements as of and for the fiscal year ended June 30, 2007.

On April 17, 2007, the Audit Committee approved the appointment of D&T as our independent registered public accounting firm for the fiscal year ending June 30, 2008. D&T formally accepted its engagement on June 28, 2007. During the fiscal years ended June 30, 2006 and June 30, 2005 and the interim period from July 1, 2006 through June 28, 2007, neither we nor anyone on our behalf consulted with D&T regarding: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that D&T concluded was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

On April 17, 2007, the Audit Committee dismissed PwC as our independent registered public accounting firm effective upon completion of its services related to the audit of our consolidated financial statements for the fiscal year ended June 30, 2007. The audit of our consolidated financial statements for the fiscal year ended June 30, 2007 has been completed and we filed our Annual Report on Form 10-K, as amended, for the fiscal year ended June 30, 2007 on September 7, 2007, which contained PwC's report on the audit. As a result, our audit relationship with PwC terminated September 7, 2007.

The reports of PwC on our consolidated financial statements for the fiscal years ended June 30, 2007 and June 30, 2006 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended June 30, 2007 and June 30, 2006 and the interim period from July 1, 2006 through September 7, 2007, there were no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of the disagreements in connection with its reports on the consolidated financial statements for such years. In addition, during the fiscal years ended June 30, 2007 and June 30, 2006 and the interim period from July 1, 2006 through September 7, 2007, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K). We have provided each of PwC and D&T with a copy of the foregoing disclosures and have given each of them the opportunity to provide a statement to be included in this Proxy Statement if either firm believes the foregoing disclosures are incorrect or incomplete. Neither PwC nor D&T has expressed any disagreement with the foregoing disclosures.

Representatives of D&T and PwC are expected to be present at the Annual Meeting of Shareholders and available to respond to appropriate questions, and will have an opportunity to make a statement if they desire to do so. Ratification of the appointment of D&T as the independent registered public accounting firm for the fiscal year ending June 30, 2008 requires the affirmative vote of the holders of at least a majority of the votes present or represented, and entitled to vote on the proposal, at the Annual Meeting of Shareholders.

**Audit Fees.** The aggregate fees billed by PwC for the fiscal years ended June 30, 2007 and June 30, 2006 for auditing our annual consolidated financial statements, reviewing our interim financial statements included in our Forms 10-Q filed with the SEC and services normally provided in connection with statutory and regulatory filings or engagements were \$6.53 million and \$7.07 million, respectively.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

***Audit-Related Fees.*** The aggregate fees billed by PwC for assurance and related services provided to us for the fiscal years ended June 30, 2007 and June 30, 2006 that are reasonably related to the performance of the audit or review of our financial statements and are not included in Audit Fees above were \$221,434 and \$423,127, respectively. The fees billed related primarily to audit procedures required to respond to or comply with financial, accounting or regulatory reporting matters and internal control reviews and reporting requirements.

**Tax Fees.** The aggregate fees billed by PwC for professional services rendered for tax compliance, tax advice and tax planning services provided to us for the fiscal years ended June 30, 2007 and June 30, 2006 were \$2.46 million and \$2.39 million, respectively. The fees billed related primarily to federal, state, local and international tax planning, advice and compliance, and tax due diligence related to acquisitions and divestitures.

**All Other Fees.** PwC did not bill any fees for products and services provided to us that are not included in the above categories for the fiscal years ended June 30, 2007 and June 30, 2006.

**Audit Committee Pre-Approval Policies and Procedures.** In accordance with the SEC's rules issued pursuant to the Sarbanes Oxley Act of 2002, which require, among other things, that the Audit Committee pre-approve all audit and non-audit services provided by our independent registered public accounting firm, the Audit Committee has adopted a formal policy on Auditor Independence requiring the approval by the Audit Committee of all professional services rendered by our independent registered public accounting firm. The policy specifically pre-approves certain services up to a budgeted amount to be determined annually by the Audit Committee. All other services require Audit Committee approval on a case-by-case basis.

All of the services described in **Audit-Related Fees** and **Tax Fees** were approved by the Audit Committee in accordance with our formal policy on Auditor Independence.

**The Board of Directors unanimously recommends a vote FOR the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2008.**

## PRINCIPAL SHAREHOLDERS

The following table sets forth, as of August 31, 2007 except as otherwise indicated, the name and address of each person believed to be a beneficial owner of more than 5% of our Common Shares, the number of shares and the percentage so owned, as well as the beneficial ownership of our Common Shares by the Directors, the Named Executive Officers and all Directors and executive officers as a group. The information set forth in this table does not take into account the 3-shares-for-2 stock split authorized by the Board of Directors on August 16, 2007. The stock split will be effected on October 1, 2007.

| Name of<br>Beneficial Owner   | Amount and<br>Nature<br>of<br>Beneficial<br>Ownership(a) | Percentage<br>of<br>Class(b) |
|---|--|------------------------------|
| Wellington Management Company, LLP<br><br>75 State Street<br><br>Boston, MA 02109                 | 6,828,463(c)   | 5.88%                        |
| Capital Research and Management Company<br><br>333 South Hope Street<br><br>Los Angeles, CA 90071 | 6,930,400(d)   | 5.96%                        |
| D. E. Collins   | 179,490(e)   |                              |
| L. S. Harty   | 5,653(f)   |                              |
| W. E. Kassling  | 18,071(g)  |                              |
| R. J. Kohlhepp  | 14,533(h)  |                              |
| P. W. Likins  | 22,661(i)  |                              |
| G. Mazzalupi  | 19,048(j)  |                              |
| K. P. Müller  | 18,528(k)  |                              |
| C. M. Obourn  | 12,536(h)  |                              |
| J. M. Scaminace   | 4,305(l)   |                              |
| W. R. Schmitt   | 24,789(m)  |                              |
| M. I. Tambakeras  | 8,483(l)   |                              |
| D. E. Washkewicz  | 746,245(n)   |                              |
| N. W. Vande Steeg   | 304,574(o)   |                              |
| J. D. Myslenski   | 229,918(p)   |                              |
| T. K. Pistell   | 109,014(q)   |                              |
| R. P. Barker  | 76,053(r)  |                              |
| L. C. Banks   | 73,669(s)  |                              |
| All Directors and executive<br>officers as a group<br><br>(36 persons)                            | 2,640,225(t)   | 2.32%                        |



Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

- (a) Unless otherwise indicated, the beneficial owner has sole voting and investment power.
- (b) No Director or executive officer beneficially owned more than 1% of our Common Shares as of August 31, 2007.
- (c) Pursuant to a statement filed by Wellington Management Company, LLP with the SEC in accordance with Rule 13d-1(b) of the Securities Exchange Act of 1934, Wellington Management Company, LLP has reported that, as of December 30, 2006, it had shared voting power over 2,314,610 Common Shares and shared investment power over 6,820,663 Common Shares.
- (d) Pursuant to a statement filed by Capital Research and Management Company with the SEC in accordance with Rule 13d-1(b) of the Securities Exchange Act of 1934, Capital Research and Management Company has reported that, as of December 30, 2006, it had sole voting power over 840,000 Common Shares and sole investment power over 6,930,400 Common Shares.
- (e) This amount is as of October 25, 2006, Mr. Collins' retirement date as a Director, and includes 41,850 Common Shares owned solely by Mr. Collins' spouse and 68,400 Common Shares subject to options exercisable on or prior to October 30, 2007 granted under our 1993 Stock Incentive Program.
- (f) This amount includes 5,000 Common Shares owned solely by Ms. Harty's spouse.
- (g) This amount includes 4,500 Common Shares owned jointly by Mr. Kassling and his spouse and 8,900 Common Shares subject to options exercisable on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.

- (h) These amounts include 8,200 Common Shares subject to options exercisable by each of Mr. Kohlhepp and Ms. Obourn on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.
- (i) This amount is as of October 25, 2006, Dr. Likins' retirement date as a Director, and includes 2,417 Common Shares owned jointly by Dr. Likins and his spouse as co-trustees of a revocable family trust and 11,850 Common Shares subject to options exercisable on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.
- (j) This amount includes 10,850 Common Shares subject to options exercisable by Mr. Mazzalupi on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.
- (k) This amount includes 5,378 Common Shares subject to options exercisable by Mr. Müller on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.
- (l) These amounts include 2,750 Common Shares subject to options exercisable by each of Messrs. Scaminace and Tambakeras on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.
- (m) This amount includes 222 Common Shares owned by Mr. Schmitt's son and 9,487 Common Shares subject to options exercisable on or prior to October 30, 2007 granted under our Non-Employee Directors stock option plans.
- (n) This amount includes 989 Common Shares which represents Mr. Washkewicz's proportionate interest in his mother's revocable trust, 12,253 Common Shares owned indirectly by Mr. Washkewicz through the Pamela Washkewicz Revocable Trust, 24,276 Common Shares as to which Mr. Washkewicz holds voting power pursuant to the Retirement Savings Plan as of June 30, 2007, and 478,399 Common Shares subject to options or Stock Incentives exercisable on or prior to October 30, 2007 granted under our stock option plans. Mr. Washkewicz has disclaimed beneficial ownership of 3,780 shares owned by his children.
- (o) This amount is as of March 31, 2007, Mr. Vande Steeg's retirement date as an executive officer, and includes 3,731 Common Shares as to which Mr. Vande Steeg holds voting power pursuant to the Retirement Savings Plan as of March 31, 2007 and 230,351 Common Shares subject to options or Stock Incentives exercisable on or prior to October 30, 2007 granted to Mr. Vande Steeg under our stock option plans.
- (p) This amount includes 107 Common Shares as to which Mr. Myslenski holds voting power pursuant to the Retirement Savings Plan as of June 30, 2007 and 146,748 Common Shares subject to options or Stock Incentives exercisable on or prior to October 30, 2007 granted under our stock option plans.
- (q) This amount includes 161 Common Shares as to which Mr. Pistell holds voting power pursuant to the Retirement Savings Plan as of June 30, 2007 and 57,624 Common Shares subject to options or Stock Incentives exercisable on or prior to October 30, 2007 granted under our stock option plans.
- (r) This amount includes 12,968 Common Shares owned jointly by Mr. Barker and his spouse as co-trustees of a family trust, 4,379 Common Shares as to which Mr. Barker holds voting power pursuant to the Retirement Savings Plan as of June 30, 2007 and 55,114 Common Shares subject to options or Stock Incentives exercisable on or prior to October 30, 2007 granted under our stock option plans.
- (s) This amount includes 4,447 Common Shares as to which Mr. Banks holds voting power pursuant to the Retirement Savings Plan as of June 30, 2007 and 57,689 Common Shares subject to options or Stock Incentives exercisable on or prior to October 30, 2007 granted under our stock option plans.

- (t) This amount includes 91,298 Common Shares for which voting and investment power are shared, 88,981 Common Shares as to which all executive officers as a group hold voting power pursuant to the Retirement Savings Plan as of June 30, 2007, and 1,681,943 Common Shares subject to options, stock appreciation rights or Stock Incentives exercisable on or prior to October 30, 2007 granted under our stock option plans held by all Directors and executive officers as a group.

## **SHAREHOLDERS PROPOSALS**

We must receive at our principal executive offices by May 27, 2008 any proposal of a shareholder intended to be presented at our 2008 Annual Meeting of Shareholders (the 2008 Meeting ) and to be included in our proxy, notice of meeting and proxy statement related to the 2008 Meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934. Such proposals should be submitted to us by certified mail, return receipt requested. Proposals of shareholders submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 ( Non-Rule 14a-8 Proposals ) in connection with the 2008 Meeting must be received by us by August 10, 2008 or such proposals will be considered untimely under Rule 14a-4(c) of the Securities

Exchange Act of 1934. Our proxy related to the 2008 Meeting will give discretionary authority to the proxy holders to vote with respect to all Non-Rule 14a-8 Proposals received by us after August 10, 2008. Our proxy related to the 2007 Annual Meeting of Shareholders gives discretionary authority to the proxy holders to vote with respect to all Non-Rule 14a-8 Proposals received by us after August 11, 2007.

**Procedures for Submission and Consideration of Director Candidates.** The Corporate Governance and Nominating Committee will consider shareholder recommendations for nominees for election to our Board of Directors if such recommendations are in writing and set forth the information listed below. Such recommendations must be submitted to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, and must be received at our executive offices on or before June 30 of each year in anticipation of the following year's Annual Meeting of Shareholders. All shareholder recommendations for Director nominees must set forth the following information:

1. The name and address of the shareholder recommending the candidate for consideration as such information appears on our records, the telephone number where such shareholder can be reached during normal business hours, the number of Common Shares owned by such shareholder and the length of time such shares have been owned by the shareholder; if such person is not a shareholder of record or if such shares are owned by an entity, reasonable evidence of such person's beneficial ownership of such shares or such person's authority to act on behalf of such entity;
2. Complete information as to the identity and qualifications of the proposed nominee, including the full legal name, age, business and residence addresses and telephone numbers and other contact information, and the principal occupation and employment of the candidate recommended for consideration, including his or her occupation for at least the past five years, with a reasonably detailed description of the background, education, professional affiliations and business and other relevant experience (including directorships, employment and civic activities) and qualifications of the candidate;
3. The reasons why, in the opinion of the recommending shareholder, the proposed nominee is qualified and suited to be a Director;
4. The disclosure of any relationship of the candidate being recommended with us or any of our subsidiaries or affiliates, whether direct or indirect;
5. A description of all relationships, arrangements and understandings between the proposing shareholder and the candidate and any other person(s) (naming such person(s)) pursuant to which the candidate is being proposed or would serve as a Director, if elected; and
6. A written acknowledgement by the candidate being recommended that he or she has consented to being considered as a candidate, has consented to our undertaking of an investigation into that individual's background, education, experience and other qualifications in the event that the Corporate Governance and Nominating Committee desires to do so, has consented to be named in our proxy statement and has consented to serve as a Director, if elected.

There are no specific qualifications or specific qualities or skills that are necessary for our Directors to possess. In evaluating Director nominees, the Corporate Governance and Nominating Committee (or a successor committee) will consider such factors as it deems appropriate, and other factors identified from time to time by the Board of Directors. The Corporate Governance and Nominating Committee will consider the entirety of each proposed Director nominee's credentials. As a general matter, the Committee will consider factors such as judgment, skill, integrity, independence, possible conflicts of interest, experience with businesses and other organizations of comparable size or character, the interplay of the candidate's experience and approach to addressing business issues with the experience and approach of incumbent members of the Board of Directors and other new Director candidates. The Corporate Governance and Nominating Committee's goal in selecting Directors for nomination to the Board of Directors is generally to seek a well-balanced membership that combines a variety of experience, skill and intellect in order to enable us to pursue our strategic objectives.

## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

The Corporate Governance and Nominating Committee will consider all information provided to it that is relevant to a candidate's nomination as a Director. Following such consideration, the Committee may seek additional information regarding, and may request an interview with, any candidate who it wishes to continue to consider. Based upon all information available to it and any interviews it may have conducted, the Committee will meet to determine whether to recommend the candidate to the Board of Directors. The Committee will consider candidates recommended by shareholders on the same basis as candidates from other sources.

The Corporate Governance and Nominating Committee utilizes a variety of methods for identifying and evaluating nominees for Directors. The Committee regularly reviews the appropriate size of the Board of Directors and whether any vacancies on the Board of Directors are expected due to retirement or otherwise. In the event vacancies are anticipated, or otherwise arise, the Committee will consider various potential candidates. Candidates may be recommended by current members of the Board of Directors, third-party search firms or shareholders. During the past fiscal year, the Corporate Governance and Nominating Committee retained Howard & O'Brien Associates, Inc. as a search firm to assist in locating, interviewing, and evaluating potential Board candidates. The Corporate Governance and Nominating Committee generally does not consider recommendations for Director nominees submitted by individuals who are not affiliated with us. In order to preserve its impartiality, the Corporate Governance and Nominating Committee may not consider a recommendation that is not submitted in accordance with the procedures set forth above.

**Communications with Directors.** Our security holders and other interested parties may communicate with the Board of Directors as a group, with the non-management Directors as a group, or with any individual Director by sending written communications to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary. Complaints regarding accounting, internal accounting controls or auditing matters will be forwarded directly to the Chairman of the Audit Committee. All other communications will be provided to the individual Director(s) or group of Directors to whom they are addressed. Copies of all communications will be provided to all other Directors; provided, however, that any such communications that are considered to be improper for submission to the intended recipients will not be provided to the Directors. Examples of communications that would be considered improper for submission include, without limitation, customer complaints, solicitations, communications that do not relate, directly or indirectly, to our business and/or our subsidiaries, or communications that relate to improper or irrelevant topics.

## GENERAL

The Board of Directors knows of no other matters which will be presented at the meeting. However, if any other matters properly come before the meeting or any adjournment, the person or persons voting the proxies will vote in accordance with their best judgment on such matters.

We will bear the expense of preparing, printing and mailing this Proxy Statement. In addition to solicitation by mail, our officers and employees may solicit the return of proxies. We will request banks, brokers and other custodians, nominees and fiduciaries to send proxy material to beneficial owners of Common Shares. We will, upon request, reimburse them for their expenses in so doing. We have retained Georgeson Inc., 17 State Street, New York, New York, to assist in the solicitation of proxies at an anticipated cost of \$14,000, plus disbursements.

You are urged to vote your proxy promptly by internet, telephone or mail by following the instructions on the enclosed proxy card in order to make certain your shares will be voted at the meeting. Common Shares represented by properly voted proxies will be voted in accordance with any specification made thereon and, if no specification is made, will be voted in favor of the election of the three nominees for Directors in the class whose three-year term of office will expire in 2010; in favor of the management proposal to declassify our Board of Directors; and in favor of the ratification of the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the fiscal year ending June 30, 2008. Abstentions and broker non-votes are counted in determining the votes present at a meeting. Consequently, an abstention or a broker non-vote has the same effect as a vote against a proposal which requires the affirmative vote of a certain number of Common Shares, as each abstention or broker non-vote would be one less vote in favor of a proposal. You may revoke your proxy at any time prior to the close of voting at the Annual Meeting of Shareholders by giving us notice in writing, in open meeting, or by internet or telephone as set forth on the proxy card, without affecting any vote previously taken. However, your mere presence at the meeting will not operate to revoke your proxy.

Our Annual Report, including financial statements for the fiscal year ended June 30, 2007, is being mailed to shareholders with this Proxy Statement. If a single copy of the Annual Report and Proxy Statement was delivered to an address that you share with another shareholder, you may request a separate copy by notifying us in writing or by telephone at: Parker-Hannifin Corporation, Corporate Communications, 6035 Parkland Boulevard, Cleveland, Ohio 44124, (216) 896-3000.

You can elect to view future Parker-Hannifin Corporation Annual Reports and Proxy Statements over the internet, instead of receiving paper copies in the mail. Providing these documents over the internet will save us the cost of producing and mailing them. If you give your consent, in the future, when, and if, material is available over the internet, you will receive notification which will contain the internet location where the material is available. There is no cost to you for this service other than any charges you may incur from your internet provider, telephone and/or cable company. To give your consent, follow the prompts when you vote by telephone or over the internet or check the appropriate box located at the bottom of the enclosed proxy card when you vote by mail. Once you give your consent, it will remain in effect until you inform us otherwise. If at any time you would like to receive a paper copy of the Annual Report or Proxy Statement, please contact Corporate Communications at the address or telephone number provided above.

By Order of the Board of Directors

Thomas A. Piraino, Jr.

Secretary

September 24, 2007

**PROPOSED CHANGES TO ARTICLE II OF  
CODE OF REGULATIONS, AS AMENDED**

**Article II. Board of Directors**

**Section 1. Number of Directors; Election; Term of Office.**

The members of the Board of Directors shall be elected at each annual meeting of shareholders, and each Director shall hold office until the next annual meeting of shareholders and until his or her successor is elected, or until his or her earlier resignation, removal from office or death, provided that each Director elected prior to the Corporation's 2008 annual meeting of shareholders for a term that is to expire after the 2008 annual meeting of shareholders shall serve the entire term for which he or she was elected and until his or her successor is elected, or until his or her earlier resignation, removal from office or death. The number of Directors, which shall not be less than three, may be fixed or changed (a) at any meeting of shareholders called to elect Directors at which a quorum is present, by the affirmative vote of the holders of a majority of the shares represented at the meeting and entitled to vote on the proposal, or (b) by the Directors at any meeting of the Board of Directors by the vote of a majority of the Directors then in office.

**Section 2. Directors Elected by Holders of Serial Preferred Stock.**

The provisions of Section 1 shall not apply to any Directors elected by the holders of Serial Preferred Stock of all series voting separately as a class in the event of default in the payment of the equivalent of six quarterly dividends (whether or not consecutive) on any outstanding series of Serial Preferred Stock. Any such Directors shall be elected to serve until the next annual meeting of shareholders and until their respective successors are elected, or until such default is cured, whichever occurs first.

**Section 3. Vacancies.**

In the event of the occurrence of any vacancy or vacancies in the Board of Directors, however caused, the Directors then in office, though less than a majority of the whole authorized number of Directors, may, by vote of a majority of their number, fill any such vacancy for the unexpired term.

**Section 4. Meetings of Directors.**

Meetings of Directors may be called by the Chairman of the Board, or the President, or twenty-five percent or more of the Directors then in office. Such meetings may be held at any place within or without the State of Ohio, and may be held through any communications equipment if all persons participating can hear each other. Participation in a meeting of Directors held through communications equipment pursuant to this



## Edgar Filing: PARKER HANNIFIN CORP - Form DEF 14A

Section 4 of Article II shall constitute presence at such meeting. Written notice of the time and place of each meeting of Directors shall be given to each Director by personal delivery, or by mail, telegram, or cablegram at least two days before the meeting, which notice need not specify the purposes of the meeting. Notice of adjournment of a meeting of Directors need not be given if the time and place to which it is adjourned are fixed and announced at such meeting.

### **Section 5. Quorum.**

A majority of the Directors in office shall constitute a quorum for any meeting of Directors; provided that a majority of the Directors present at a meeting duly held, whether or not a quorum is present, may adjourn such meeting from time to time. The act of a majority of the Directors present at a meeting at which a quorum is present is the act of the Board of Directors.

A-1



c/o National City Bank

**VOTE BY TELEPHONE**

Shareholder Services Operations

Locator 5352

P.O. Box 94509

Cleveland, OH 44193-4509

Have this Proxy Card available when you call the **Toll-Free number 1-888-693-8683** using a touch-tone telephone and follow the simple instructions presented to record your vote.

**VOTE BY INTERNET**

Have this Proxy Card available when you access the website **<http://www.cesvote.com>**, and follow the simple instructions presented to record your vote.

**VOTE BY MAIL**

Please mark, sign and date this Proxy Card and return it in the **postage-paid envelope** provided or return it to: National City Bank, P.O. Box 535600, Pittsburgh, PA 15253.

**Vote by Telephone**

**Vote by Internet**

**Vote by Mail**

Call **Toll-Free** using a

Access the **Website** and

Return this Proxy

Touch-Tone phone:

cast your vote:

in the **Postage-paid**

**1-888-693-8683**

**<http://www.cesvote.com>**

envelope provided

**Vote 24 hours a day, 7 days a week!**

**Your telephone or Internet vote must be received by 6:00 a.m. Eastern Daylight Time**

**on October 24, 2007 to be counted in the final tabulation.**

If voting by telephone or Internet, please do not mail this proxy card.

è

Proxy card must be signed and dated below.

ê Please fold and detach card at perforation before mailing. ê

**PARKER-HANNIFIN CORPORATION**

**PROXY**

**This proxy is solicited on behalf of the Board of Directors for the Annual Meeting of Shareholders on October 24, 2007.**

The undersigned hereby appoints DONALD E. WASHKEWICZ, TIMOTHY K. PISTELL and THOMAS A. PIRAINO, JR., and any of them, as proxies to represent and to vote all shares of stock of Parker-Hannifin Corporation which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Corporation to be held on October 24, 2007, and at any adjournment(s) thereof, on the proposals more fully described in the Proxy Statement for the Meeting in the manner specified herein and on any other business that may properly come before the Meeting.

Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing on behalf of a corporation or as a fiduciary, attorney, executor, administrator, trustee or guardian, please give full title as such.

\_\_\_\_\_

Signature(s)

\_\_\_\_\_

Signature(s)

Date: \_\_\_\_\_

\_\_, 2007

---

**ELECTRONIC ACCESS TO FUTURE DOCUMENTS NOW AVAILABLE**

You can elect to view future Parker-Hannifin Corporation Annual Reports and Proxy Statements over the Internet, instead of receiving paper copies in the mail. Providing these documents over the Internet can save the Corporation the cost of producing and mailing them. Participation is completely voluntary. If you give your consent, in the future, when, and if, material is available over the Internet, you will receive notification which will contain the Internet location where the material is available. There is no cost to you for this service other than any charges you may incur from your Internet provider, telephone and/or cable company. Once you give your consent, it will remain in effect until you inform us otherwise.

To give your consent, follow the prompts when you vote by telephone or over the Internet or check the appropriate box located at the bottom of the attached proxy card when you vote by mail.

**Proxy card must be signed and dated on the reverse side.**

ê **Please fold and detach card at perforation before mailing.** ê

**PARKER-HANNIFIN CORPORATION**

**PROXY**

IF NO DIRECTIONS ARE GIVEN, YOUR PROXY WILL BE VOTED IN ACCORDANCE WITH THE BOARD OF DIRECTORS RECOMMENDATIONS. THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** ITEMS 1, 2 AND 3.

**1. Election of Directors in the class whose three-year term of office will expire in 2010.**

Nominees: (1) **Linda S. Harty**                      (2) **Candy M. Obourn**                      (3) **Donald E. Washkewicz**

q **FOR** all nominees listed above

q **WITHHOLD AUTHORITY**

*(except as otherwise marked above)*

*to vote for all nominees listed above*

*(Instructions: To withhold authority to vote for any individual nominee, strike a line through that nominee's name.)*

**2. A management proposal to declassify the Board of Directors.**

q **FOR**

q **AGAINST**

q **ABSTAIN**

**3. Ratification of the appointment of Deloitte & Touche LLP as independent registered public accounting firm for FY08.**

q **FOR**

q **AGAINST**

q **ABSTAIN**

**IMPORTANT THIS PROXY MUST BE SIGNED AND DATED ON THE REVERSE SIDE.**

**q I consent to view future shareholder communications over the Internet as stated above and in the Proxy**