

PARKER HANNIFIN CORP
Form DEF 14A
September 26, 2011
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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:

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PARKER-HANNIFIN CORPORATION

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

OCTOBER 26, 2011

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 26, 2011, at 9:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect Robert G. Bohn, Linda S. Harty, William E. Kassling, Robert J. Kohlhepp, Klaus-Peter Müller, Candy M. Obourn, Joseph M. Scaminace, Wolfgang R. Schmitt, Åke Svensson, James L. Wainscott, and Donald E. Washkewicz as Directors for a term expiring at the Annual Meeting of Shareholders in 2012;
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2012;
3. To consider and vote upon a proposal to approve, on a non-binding, advisory basis, the compensation of our named executive officers;
4. To consider and vote upon a proposal to determine, on a non-binding, advisory basis, whether an advisory shareholder vote on the compensation of our named executive officers will occur every 1, 2, or 3 years;
5. To consider and vote upon a shareholder proposal to amend the Code of Regulations to separate the roles of Chairman of the Board and Chief Executive Officer; and
6. To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on August 31, 2011 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. Please turn to the back page of this Proxy Statement for directions to attend the annual meeting.

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Thank you for your support of Parker-Hannifin Corporation.

By Order of the Board of Directors

Thomas A. Piraino, Jr.
Secretary

September 26, 2011

*Important Notice Regarding the Availability of Proxy Materials for
the Annual Meeting of Shareholders to be held on October 26, 2011.*

This Proxy Statement, along with our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 and our 2011 Annual Report, are available free of charge on our investor relations website (www.phstock.com).

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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 26, 2011, and at all adjournments thereof. Only shareholders of record at the close of business on August 31, 2011 will be entitled to vote at the meeting. On August 31, 2011, 151,236,557 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 26, 2011.

GOVERNANCE DOCUMENTS

Our Code of Conduct, Board of Directors Guidelines on Significant Corporate Governance Issues and Independence Standards for Directors are posted and available on the Corporate Governance page of our investor relations website at www.phstock.com. Shareholders may request copies of these 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.

BOARD OF DIRECTORS

ANNUAL ELECTIONS; CUMULATIVE VOTING.

Our Code of Regulations provides for the annual election of our entire Board of Directors. Accordingly, each Director elected at this Annual Meeting of Shareholders will hold office until the next Annual Meeting of Shareholders and until his or her successor is elected.

Our shareholders have cumulative voting rights in the election of Directors if any shareholder gives notice in writing to our President, any of our Vice Presidents or our 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 our Chairman of the Board, our 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 determines. If voting at the election held during this Annual Meeting of Shareholders is cumulative, the persons named on the enclosed proxy card will vote common shares represented by valid proxies on a cumulative basis for the election of the nominees set forth in the Election of Directors section beginning on page 10 of this Proxy Statement, allocating the votes of such common shares in accordance with their judgment.

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ELECTIONS AND RETIREMENTS.

Markos I. Tambakeras, a Director since 2005, has decided not to stand for re-election at this Annual Meeting of Shareholders.

MEETINGS AND ATTENDANCE; EXECUTIVE SESSIONS.

During fiscal year 2011, there were four meetings of our Board of Directors. Each Director attended at least 75% of the meetings held by our Board of Directors and the Committees of our Board of Directors on which he or she served.

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 our Board of Directors at the time of our 2010 Annual Meeting of Shareholders attended that meeting, except for Candy M. Obourn, who had an unavoidable conflict.

In accordance with the listing standards of the New York Stock Exchange, our non-management Directors are scheduled to meet regularly in executive sessions without management and, if required, our independent Directors will meet at least once annually. Additional meetings of our non-management Directors may be scheduled from time to time when our non-management Directors determine that such meetings are desirable. Our non-management Directors met four times during fiscal year 2011.

NUMBER; CURRENT TERM; RELATIONSHIPS.

Our Board of Directors presently consists of 12 members. The current term of each member of our Board of Directors expires in October 2011. None of our Directors are related to each other and no arrangements or understandings exist pursuant to which any Director was selected as a Director or Director nominee.

DIRECTOR INDEPENDENCE.

Our Board of Directors Guidelines on Significant Corporate Governance Issues require at least a majority of our Directors to be independent as defined in the listing standards established by the New York Stock Exchange. Our Board of Directors has also adopted standards for director independence, which are set forth in our Independence Standards for Directors.

We strongly favor a governance structure that includes an independent Board of Directors. Of the 12 current members of our Board of Directors, 11 are independent based on our Board of Directors consideration of the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. In addition, each of the Audit Committee, the Corporate Governance and Nominating Committee, the Finance Committee and the Human Resources and Compensation Committee of our Board of Directors is composed entirely of independent directors. As a result, our independent directors directly oversee critical matters such as our remuneration policy for executive officers, our

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corporate governance guidelines, policies and practices, our corporate finance strategies and initiatives, the integrity of our financial statements and our internal controls over financial reporting.

Our Board of Directors has affirmatively determined that the following 12 individuals who currently serve as Directors or who served as Directors during any part of fiscal year 2011 are or were independent: Robert G. Bohn, Linda S. Harty, William E. Kassling, Robert J. Kohlhepp, Giulio Mazzalupi, Klaus-Peter Müller, Candy M. Obourn, Joseph M. Scaminace, Wolfgang R. Schmitt, Åke Svensson, Markos I. Tambakeras and James L. Wainscott.

Among other things, our Board of Directors does not consider a Director to be independent unless it affirmatively determines that the Director has no material relationship with us either directly or as a partner, shareholder or officer of an organization that has a relationship with us. Our Board of Directors annually reviews and determines which of its members are independent based on the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. During the course of such review, our Board of Directors broadly considers all facts and circumstances which it deems relevant, including any commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships between us

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and any of our Directors. In fiscal year 2011, after considering the facts and circumstances applicable to each Director, our Board of Directors determined that the following relationships required further analysis to confirm that the following Directors are independent:

1. Each of Ms. Harty and Messrs. Bohn and Kohlhepp serves or served during the fiscal year as an officer of a company that has an existing customer or supplier relationship with us. Our Board of Directors nevertheless concluded that each of these Directors is independent because, among other things, none of them receive or received direct or indirect personal benefits as a result of these relationships and our payments to or from each of these companies fell below the thresholds set forth in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors.
2. Mr. Müller serves as Chairman of the Supervisory Board of Commerzbank AG, with which we have a commercial banking relationship. Our Board of Directors nevertheless concluded that Mr. Müller is independent because, among other things, he receives no direct or indirect personal benefits as a result of the relationship, we do not have an exclusive banking relationship with Commerzbank AG in Germany, and the amount of our indebtedness to Commerzbank AG is insignificant when compared to the purchase and sale thresholds set forth in the independence standards of the New York Stock Exchange and our Independence Standards for Directors.

CURRENT LEADERSHIP STRUCTURE.

Our Board of Directors currently employs a dual leadership structure in which our Chief Executive Officer serves as Chairman of the Board and, pursuant to our Board of Directors Guidelines on Significant Corporate Governance Issues, the Chair of the Corporate Governance and Nominating Committee of our Board of Directors, an independent Director, serves as Lead Director. Our Lead Director is elected solely by the independent members of our Board of Directors and holds a position separate and independent from our Chairman of the Board. The Charter of the Corporate Governance and Nominating Committee and our Board of Directors Guidelines on Significant Corporate Governance Issues provide that the Chair of the Corporate Governance and Nominating Committee is elected or re-elected every three years.

The specific authorities, duties and responsibilities of our Lead Director are described in our Board of Directors Guidelines on Significant Corporate Governance Issues. Among other things, our Lead Director presides over and supervises the conduct of all meetings of our independent Directors, calls meetings of our non-management, independent Directors, and prepares and approves all agendas and schedules for meetings of our Board of Directors.

Our Board of Directors has had a Lead Director since April 2004. Our Board of Directors believes that having a Lead Director who is elected by our independent Directors ensures that our Board of Directors will at all times have an independent Director in a leadership position. At the same time, our Board of Directors believes that it is important to maintain flexibility in its leadership structure to allow for a member of management to serve in a leadership position alongside the Lead Director if our Board of Directors determines that such a leadership structure best meets the then current needs of our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors has determined that this leadership structure is currently more efficient and effective than a structure which employs a single, independent Chairman of the Board. Our Board of Directors views this structure as one that ensures both independence in leadership and a balance of knowledge, power and authority. For example, our leadership structure employs both a Chairman of the Board who possesses an intimate, working knowledge of our day-to-day business, plans, strategies and initiatives, and a Lead Director who has a strong working relationship with our non-management, independent Directors. These two individuals combine and utilize their unique knowledge bases and perspectives to ensure that management and our independent Directors work together as effectively as possible. Among other things, our Chairman of the Board ensures that our Board of Directors addresses strategic issues that management considers critical, while our Lead Director ensures that our Board of Directors addresses strategic issues that our independent Directors consider critical.

Our Board of Directors recognizes, however, that no single leadership model may always be appropriate. Accordingly, our Board of Directors regularly reviews its leadership structure to ensure that it continues to represent the most efficient and effective structure for our Board of Directors, our business, our employees and our shareholders.

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SELECTION AND NOMINATION OF DIRECTORS.

The Corporate Governance and Nominating Committee of our Board of Directors is responsible for identifying, evaluating and recommending potential Director candidates. The Corporate Governance and Nominating Committee utilizes a variety of methods for identifying and evaluating candidates. The Corporate Governance and Nominating Committee regularly reviews whether the size of our Board of Directors is appropriate and whether any vacancies on our Board of Directors are expected due to retirements or otherwise. In the event that any vacancies are anticipated or otherwise arise, the Corporate Governance and Nominating Committee will consider various potential candidates.

In evaluating Director nominees, the Corporate Governance and Nominating Committee will consider a variety of factors such as those described below under the caption *Director Qualifications; Board Diversity*. The Corporate Governance and Nominating Committee will consider the entirety of each proposed candidate's credentials and will consider all available information that may be relevant to the candidate's nomination. Following such consideration, the Corporate Governance and Nominating Committee may seek additional information regarding, and may request interviews with, any candidate it wishes to further pursue. Based upon all information reviewed and interviews conducted, the Corporate Governance and Nominating Committee will collectively determine whether to recommend the candidate to our entire Board of Directors.

During fiscal year 2011, the Corporate Governance and Nominating Committee retained Howard & O'Brien Associates, Inc., a third-party search firm, to assist in identifying, evaluating and recommending potential Director candidates. Candidates may also be recommended by other third-party search firms and current members of our Board of Directors. In addition, the Corporate Governance and Nominating Committee will give appropriate consideration to qualified persons recommended by shareholders for nomination as Directors, provided that such recommendations comply with the procedures set forth under the caption *Shareholder Recommendations for Director Nominees* beginning on page 76 of this Proxy Statement. The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders on the same basis as candidates from other sources. The Corporate Governance and Nominating Committee generally will not, however, consider recommendations for Director nominees submitted by individuals who are not affiliated with us.

DIRECTOR QUALIFICATIONS; BOARD DIVERSITY.

We believe that oversight from a highly-qualified and diverse Board of Directors is essential for the short-term and long-term success of our business. The size and scope of our global operations, markets, product offerings and employee base raise a wide range of issues. Consequently, we strive to attract and retain Directors who represent a broad range of backgrounds, educations, experiences, skills and viewpoints that will enable them to individually and collectively address the issues affecting our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors, through its Corporate Governance and Nominating Committee, diligently evaluates each Director and Director nominee and our Board of Directors as a whole to ensure that our Board of Directors has a complementary mix of qualified and diverse individuals designed to optimize the functioning and the decision-making and oversight roles of our Board of Directors and its Committees. Our Board of Directors does not have any formal policies with respect to Director qualifications or diversity. As a general matter, however, the Corporate Governance and Nominating Committee considers a broad range of 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 our Board of Directors and other new Director candidates, and the candidate's ability to effectively monitor and oversee the risks facing our business. More specifically, our Board of Directors seeks to identify nominees who have one or more of the following attributes:

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current or recent service as a Chief Executive Officer or in other senior executive positions;

current or recent service in senior leadership positions in successful global industrial companies of significant size;

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significant experience in companies headquartered in and/or serving the key regions in which our business operates;

significant experience in operations, finance, accounting and other key areas;

ability to effectively monitor and oversee the most critical current risks facing our business; and/or

other relevant skills and experiences, including leadership positions in growth-oriented companies or companies involved in certain technologies and industries.

Our Board of Directors Guidelines on Significant Corporate Governance Issues also require each of our Directors to comply with our Code of Conduct and otherwise act with the commitment, integrity, honesty, judgment and professionalism necessary to serve the long-term interests of our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors has concluded that the nominees presented in the Election of Directors section beginning on page 10 of this Proxy Statement collectively represent a highly-qualified and diverse group of individuals that will effectively serve our Board of Directors, our business, our employees and our shareholders. Our Board of Directors believes that each nominee should serve on our Board of Directors for the coming year based on his or her record of effective past service on our Board of Directors and the specific experiences, qualifications, attributes and skills described in his or her biographical information presented in that section.

RISK MANAGEMENT.

Management and our Board of Directors and its Committees are collectively engaged in identifying, overseeing, evaluating and managing the material risks facing our business and ensuring that our strategies and objectives work to minimize such risks. Our Board of Directors has the ultimate responsibility to monitor the risks facing our business.

Various members of our management are responsible for our day-to-day risk management activities, including members of our Enterprise Compliance, Human Resources, Internal Audit, Legal, Tax, Risk Management, Treasury and Finance departments. Those individuals are charged with identifying, overseeing, evaluating and managing risks in their functional areas and for ensuring that any significant risks are addressed with the appropriate Committee of our Board of Directors. The risk areas for which each Committee is responsible are specifically described in the Committees of the Board of Directors section beginning on page 6 of this Proxy Statement. Management and the Chair of the applicable Committee ensure that any significant risks are reported to and addressed with the entire Board of Directors. Our Lead Director and the other Committee Chairs ensure that risk management is a recurring agenda item for meetings of our Board of Directors and its Committees.

Management and our Board of Directors and its Committees also engage outside advisors where appropriate to assist in the identification, oversight, evaluation and management of the risks facing our business. These outside advisors include our independent registered public accounting firm, external legal counsel and insurance providers, and the independent executive compensation consultant retained by the Human Resources and Compensation Committee of our Board of Directors.

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Our Board of Directors believes that its current level of independence, leadership structure and qualifications and diversity of its members facilitate the effective identification, oversight, evaluation and management of risk. Our Lead Director meets regularly with our other independent Directors without management to discuss current and potential risks and the means of mitigating those risks, and has the authority to direct and evaluate management's risk management efforts.

Management and our Board of Directors and its Committees view the risk management role of our Board of Directors and its Committees, and their relationship with management in the identification, oversight, evaluation and management of risk, as paramount to the short-term and long-term viability of our business. The ability to effectively monitor and oversee the most critical current risks facing our business is a key consideration for our Board of Directors and its Committees in identifying potential Board nominees and evaluating current Directors and Committee assignments.

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COMMITTEES OF THE BOARD OF DIRECTORS

BOARD COMMITTEES; COMMITTEE CHARTERS.

Our Board of Directors has established, and has delegated certain authorities and responsibilities to, its Human Resources and Compensation Committee, Finance Committee, Corporate Governance and Nominating Committee and Audit Committee. Our Board of Directors has also adopted a written charter for each of these Committees, which are posted and available on the Corporate Governance page of our investor relations website at www.phstock.com. Shareholders may request copies of these charters, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

THE HUMAN RESOURCES AND COMPENSATION COMMITTEE.

The Human Resources and Compensation Committee of our Board of Directors is our standing compensation committee. The Human Resources and Compensation Committee met five times during fiscal year 2011. The Human Resources and Compensation Committee consists of five Directors, each of whom is independent as defined in our Independence Standards for Directors and in the listing standards of the New York Stock Exchange.

As described beginning on page 23 of this Proxy Statement, the Human Resources and Compensation Committee has various duties and responsibilities with respect to the administration, oversight and determination of executive compensation. In addition, the Human Resources and Compensation Committee works with its independent executive compensation consultant and our Human Resources, Legal and other management personnel to oversee and evaluate risks arising from:

our compensation policies and practices for all employees;

our succession planning and talent development strategies and initiatives; and

other human resources issues facing our business.

In particular, the Human Resources and Compensation Committee monitors any significant existing or potential risks arising from our compensation policies and practices for all employees through its oversight of an annual compensation risk review conducted by management and its independent executive compensation consultant. The results of this review are evaluated and discussed among management, the Human Resources and Compensation Committee and its independent executive compensation consultant and, if any significant risks are identified, the full Board of Directors. Based on the review conducted during fiscal year 2011, we do not believe that any risks arising from our compensation policies and practices are reasonably likely to have a material adverse effect on our business.

The annual compensation risk review begins with a global assessment of any plans or programs that could potentially encourage excessive risk-taking or otherwise present significant risks to our business. The review also surveys our individual business units to determine whether any of them carries a significant portion of our risk profile, structures compensation significantly different than others or is significantly more

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profitable than others. The review then evaluates whether the applicable plans and programs are likely to encourage excessive risk-taking or detrimental behavior, vary significantly from the company's risk-reward structure, or otherwise present significant risks to our business.

During our fiscal year 2011 compensation risk review, we also identified and evaluated various mechanisms that we currently have in place that may serve to mitigate any existing or potential risks arising from our compensation policies and practices, including the following:

our executive officers and other management-level employees are compensated with a mix of annual and long-term incentives, fixed and at-risk compensation, cash and equity compensation, and multiple forms of equity compensation;

compensation packages gradually become more focused on long-term, at-risk and equity compensation as our employees ascend to and through management-level positions;

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our global compensation plans and programs generally utilize the same or substantially similar performance measures;

we use multiple performance measures to determine payout levels under certain elements of incentive compensation and different performance measures for our annual incentives as compared to our long-term incentives;

the performance of our employees is not evaluated or measured based solely on changes in our stock price;

our incentive compensation programs generally limit payouts to a specified maximum, while those that do not are mitigated by other factors (e.g., stock appreciation rights are mitigated by long-term vesting periods and stock ownership guidelines);

we do not offer guaranteed bonuses and all of our incentive compensation elements carry downside risk for participants;

our executive officers are subject to specific stock ownership guidelines, a claw-back policy and provisions requiring forfeiture of certain elements of incentive compensation upon termination for cause;

our compensation packages, including severance packages and supplemental pensions, are within market ranges;

the Human Resources and Compensation Committee has both positive and negative discretion to assess the quality of our results in our various performance measures and the risks taken to attain those results in approving final incentive payouts;

our de-centralized organizational structure lessens the impact of any excessive risks taken by individual business units or operating groups; and

our employees are evaluated, measured, and assessed based on their compliance with our Code of Conduct and other internal policies and controls, and the extent to which they act in the best interests of our business and our shareholders.

During the annual compensation risk review, we also consider whether any changes to our compensation plans and programs may be necessary to further mitigate risk. The Human Resources and Compensation Committee did not make any such changes based on the results of our fiscal year 2011 review.

The Human Resources and Compensation Committee also provides regular reports of its activities to the full Board of Directors, as the full Board of Directors has the ultimate responsibility for monitoring the risks facing our business.

THE FINANCE COMMITTEE.

The Finance Committee of our Board of Directors met twice during fiscal year 2011. The Finance Committee consists of six Directors, each of whom is independent as defined in our Independence Standards for Directors and in the listing standards of the New York Stock Exchange.

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Among other things, the Finance Committee is responsible for reviewing our capital structure and tax and risk management strategies and for reviewing and approving our debt and equity offerings, share repurchase programs and funding and investment policies for our employee benefit plans and programs. In addition, the Finance Committee works with our Legal, Tax, Risk Management, Treasury and Finance and other management personnel to oversee and evaluate risks arising from:

balance sheet and other financial statement issues;

structure and amount of our debt and equity;

our retirement and other benefit plans (including funding and investment risks);

our insurance coverage and costs;

tax, credit and liquidity issues; and

other strategies for our financial risk management (including any use of hedges and derivative instruments).

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The Finance Committee also provides regular reports of its activities to the full Board of Directors, as the full Board of Directors has the ultimate responsibility for monitoring the risks facing our business.

THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE.

The Corporate Governance and Nominating Committee of our Board of Directors is our standing nominating committee. The Corporate Governance and Nominating Committee met twice during fiscal year 2011. The Corporate Governance and Nominating Committee consists of five Directors, each of whom is independent as defined in our Independence Standards for Directors and in the listing standards of the New York Stock Exchange.

Among other things, the Corporate Governance and Nominating Committee is responsible for evaluating and recommending to our 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 our Board of Directors, developing corporate governance principles, recommending those principles to our Board of Directors and considering other matters pertaining to the size and composition of our Board of Directors. In addition, the Corporate Governance and Nominating Committee works with our Legal and other management personnel to oversee and evaluate risks arising from:

Director independence, qualifications and diversity issues;

Board of Directors and Committee leadership, composition, function and effectiveness;

alignment of the interests of our shareholders with the performance of our Board of Directors;

compliance with applicable corporate governance rules and standards; and

other corporate governance issues and trends.

The Corporate Governance and Nominating Committee also provides regular reports of its activities to the full Board of Directors, as the full Board of Directors has the ultimate responsibility for monitoring the risks facing our business.

THE AUDIT COMMITTEE.

The Audit Committee of our Board of Directors is our standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee met eight times during fiscal year 2011. The Audit Committee consists of six Directors, each of whom is independent as defined in our Independence Standards for Directors and in compliance with the listing standards of the New York Stock Exchange and under the federal securities laws.

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Our Board of Directors has determined that Linda S. Harty, the Chair of the Audit Committee, is an audit committee financial expert as defined in the federal securities laws.

Among other things, the Audit Committee is responsible for appointing, determining the compensation of and overseeing the work of our independent registered public accounting firm and ensuring its independence, approving all non-audit engagements with our 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.

In addition, the Audit Committee works with our independent registered public accounting firm and our Enterprise Compliance, Internal Audit, Legal and other management personnel to oversee and evaluate risks arising from:

internal controls over financial reporting;

Form 10-K, Form 10-Q, earnings releases and other public filings and disclosures;

compliance with our Code of Conduct and other policies; and

litigation and claims.

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In this risk management role, the Audit Committee also oversees the operation of our global compliance and internal audit programs. These programs are designed to identify, oversee, evaluate and manage the primary risks associated with our business and our particular business units and functional areas. Our Vice President Enterprise Compliance and our Vice President Internal Audit supervise these programs and functionally report directly to the Audit Committee. The Audit Committee also meets privately at each of its meetings with representatives from our independent registered public accounting firm and our Vice President Internal Audit.

The Audit Committee also provides regular reports of its activities to the full Board of Directors, as the full Board of Directors has the ultimate responsibility for monitoring the risks facing our business.

OTHER GOVERNANCE MATTERS

REVIEW AND APPROVAL OF TRANSACTIONS WITH RELATED PERSONS.

The Charter of the Corporate Governance and Nominating Committee provides that the Corporate Governance and Nominating Committee is responsible for considering questions of possible conflicts of interest of Directors and management and for making recommendations to prevent, minimize or eliminate such conflicts of interest. Our Code of Conduct 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. Our Code of Conduct 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 that 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, or 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.

The Corporate Governance and Nominating Committee will consider the following in determining if any transaction presented should be approved, ratified or rejected:

the nature of the related person's interest in the transaction;

the material terms of the transaction;

the importance of the transaction to the related person and to us;

whether the transaction would impair the judgment or the exercise of the fiduciary obligations of any Director or executive officer;

the possible alternatives to entering into the transaction;

whether the transaction is on terms comparable to those available to third parties; and

the potential for an actual or apparent conflict of interest.

During fiscal year 2011, the only potential related-party transactions identified were those described in the Director Independence section beginning on page 2 and those described in the Certain Relationships and Related Transactions section below. Based on management's review and analysis, none of these potential related-party transactions were presented to the Corporate Governance and Nominating Committee for analysis, consideration or approval.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Russell G. Chester, our Vice President Enterprise Compliance, is the spouse of Pamela J. Huggins, our Vice President and Treasurer. Mr. Chester's salary and bonus for fiscal year 2011 was \$354,498. We have taken the appropriate steps to ensure the avoidance of any conflicting interests resulting from this relationship.

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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. SEC regulations require that we are furnished with copies of these reports. Based solely on a review of these reports and written representations from our executive officers and Directors, we believe that there was compliance with all such filing requirements for fiscal year 2011, except that Giulio Mazzalupi, retired Director, inadvertently filed one late Form 4 to report the forfeiture of his unvested restricted shares upon his retirement; Robert P. Barker, Executive Vice President, Operating Officer and President Aerospace Group, inadvertently filed one late Form 4 to report a sale of his common shares; Pamela J. Huggins, Vice President and Treasurer, inadvertently filed two late Form 4s to report two transfers out of common stock funds available in certain of our employee benefit plans; Peter Popoff, Vice President and President Filtration Group, inadvertently filed one late Form 4 to report a transfer out of a common stock fund available in one of our employee benefit plans; and Thomas L. Williams, Executive Vice President and Operating Officer, inadvertently filed one late Form 4 to report a purchase of common shares.

ITEM 1 ELECTION OF DIRECTORS

Shareholder approval is sought to elect Robert G. Bohn, Linda S. Harty, William E. Kassling, Robert J. Kohlhepp, Klaus-Peter Müller, Candy M. Obourn, Joseph M. Scaminace, Wolfgang R. Schmitt, Åke Svensson, James L. Wainscott and Donald E. Washkewicz for a term of office that will expire at the Annual Meeting of Shareholders in 2012. A plurality of the common shares voted in person or by proxy is required to elect a Director. Our Board of Directors Guidelines on Significant Corporate Governance Issues, however, require any current Director who receives a greater number of votes withheld than votes for in an uncontested election to submit a written offer of resignation to the Corporate Governance and Nominating Committee and requires our Corporate Governance and Nominating Committee and our Board of Directors to act on that written offer of resignation.

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

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NOMINEES FOR ELECTION AS DIRECTORS FOR TERMS EXPIRING IN 2012

ROBERT G. BOHN

Director since 2010

Age: 58

Committees: Audit Committee

Corporate Governance and Nominating Committee

Now retired, Mr. Bohn was Chairman of the Board of Oshkosh Corporation (specialty vehicles and vehicle bodies manufacturing) from January 2000 to February 2011 and Chief Executive Officer of Oshkosh from November 1997 to December 2010. Mr. Bohn is also a Director of Carlisle Companies, Inc. and was formerly a Director of Graco Inc.

Our Board of Directors believes that Mr. Bohn will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of Oshkosh Corporation, a successful global industrial company of significant size;

past and present service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

LINDA S. HARTY

Director since 2007

Age: 51

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Committees: Audit Committee (Chair)

Finance Committee

Ms. Harty has been Treasurer of Medtronic, Inc. (medical technology) since February 2010. She was previously Executive Vice President and Treasurer of Cardinal Health, Inc. (health-care products and services) from May 2008 to December 2009; Executive Vice President Finance and Chief Financial Officer Healthcare Supply Chain Services of Cardinal Health from March 2007 to May 2008; Executive Vice President and Treasurer of Cardinal Health from August 2006 to March 2007; and Senior Vice President of Cardinal Health from January 2005 to August 2006.

Our Board of Directors believes that Ms. Harty will effectively serve our Board of Directors, our business, our employees and our shareholders based on her significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service in senior finance and accounting leadership positions at both Cardinal Health, Inc. and Medtronic, Inc., successful global healthcare and medical technology companies of significant size;

qualification as an audit committee financial expert as defined in the federal securities laws;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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Director since 2001

WILLIAM E. KASSLING

Age: 67

Committees: Audit Committee

Finance Committee

Mr. Kassling has been Chairman of the Board of Wabtec Corporation (technology-based equipment for the rail industry) since 1990.

Our Board of Directors believes that Mr. Kassling will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of Wabtec Corporation, a successful global industrial company of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Director since 2002

ROBERT J. KOHLHEPP

Age: 67

Committees: Corporate Governance and Nominating Committee (Chair and Lead Director)

Human Resources and Compensation Committee

Mr. Kohlhepp has been Chairman of the Board of Cintas Corporation (uniform rental) since October 2009 and has been a Director of Cintas since 1979. He was previously Vice Chairman of Cintas from July 2003 to October 2009. Mr. Kohlhepp was formerly a Director of Eagle Hospitality Properties Trust, Inc.

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Our Board of Directors believes that Mr. Kohlhepp will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer, Chairman, Vice Chairman and a Director of Cintas Corporation, a successful global industrial company of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to effectively serve as our Lead Director and to otherwise work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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Director since 1998

KLAUS-PETER MÜLLER

Age: 66

Committees: Corporate Governance and Nominating Committee

Finance Committee

Mr. Müller has been Chairman of the Supervisory Board of Commerzbank AG (international banking) in Frankfurt, Germany since May 2008. He was previously Chairman of the Board of Managing Directors of Commerzbank from May 2001 to May 2008 and a member of the Board of Managing Directors of Commerzbank from 1990 to May 2008. He is also Chairman of the Executive Committee German Transport Forum, Berlin, Germany and Chairman of the German Corporate Governance Code Government Commission, Berlin, Germany.

Our Board of Directors believes that Mr. Müller will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service in senior leadership positions with Commerzbank AG, a significant financial institution in Europe;

strong finance background and extensive knowledge of European businesses and related issues and trends;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

CANDY M. OBOURN

Director since 2002

Age: 61

Committees: Human Resources and Compensation Committee (Chair)

Corporate Governance and Nominating Committee

Ms. Obourn has been President of Isoflux Incorporated (coating technologies) since August 2010. She was previously Chief Executive Officer and President of ActivEase Healthcare, Inc. (women's health care products) from February 2006 to August 2010. She is also Chair of the Board of Directors of ESL Federal Credit Union, a member of ESL Federal Credit Union's Human Resources and Compensation Committee, and a member of the Dean's Forum of Business Advisors at University of Rochester - Simon Graduate School of Business Administration.

Our Board of Directors believes that Ms. Obourn will effectively serve our Board of Directors, our business, our employees and our shareholders based on her significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

service as President of a coating technologies company, Chief Executive Officer and President of a health care products company and in senior leadership positions at Eastman Kodak Company, a successful global company of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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JOSEPH M. SCAMINACE

Director since 2004

Age: 58

Committees: Corporate Governance and Nominating Committee

Human Resources and Compensation Committee

Mr. Scaminace has been a Director and Chief Executive Officer of OM Group, Inc. (metal-based specialty chemicals) since June 2005 and Chairman of the Board of OM Group since August 2005. Mr. Scaminace is also a Director of The Cleveland Clinic Foundation and Cintas Corporation and was formerly a Director of The Boler Company.

Our Board of Directors believes that Mr. Scaminace will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of OM Group, Inc., and President and Chief Operating Officer of The Sherwin Williams Company, a successful global industrial companies of significant size;

past and present service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

WOLFGANG R. SCHMITT

Director since 1992

Age: 67

Committees: Audit Committee

Human Resources and Compensation Committee

Mr. Schmitt has been the Chief Executive Officer of Trends 2 Innovation (strategic growth consultants) since May 2000.

Our Board of Directors believes that Mr. Schmitt will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer of a strategic growth consulting company and in various senior leadership positions (including Chairman and Chief Executive officer) of Newell Rubbermaid Inc., a successful global industrial company of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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Director since 2010

ÅKE SVENSSON

Age: 59

Committees: Audit Committee

Finance Committee

Mr. Svensson has been Director General of the Association of Swedish Engineering Industries since September 2010. He was previously the Chief Executive Officer and President of Saab AB (aerospace, defense and security industry) from July 2003 to September 2010. Mr. Svensson is also a Director of Saab AB and the Swedish Export Credit Corporation and was formerly a Director of Micronic Mydata.

Our Board of Directors believes that Mr. Svensson will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and President of Saab AB, a successful European aerospace, defense and security company of significant size;

extensive knowledge of European aerospace, defense and security businesses and related issues and trends;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Director since 2009

JAMES L. WAINSCOTT

Age: 54

Committees: Finance Committee (Chair)

Human Resources and Compensation Committee

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Mr. Wainscott has been Chairman of the Board of AK Steel Holding Corporation (steel producer) since January 2006 and President and Chief Executive Officer of AK Steel Holding since October 2003.

Our Board of Directors believes that Mr. Wainscott will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as President, Chief Executive Officer and Chairman of the Board of AK Steel Holding Corporation, a successful global industrial company of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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Director since 2000

DONALD E. WASHKEWICZ

Age: 61

Committees: None

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.

Our Board of Directors believes that Mr. Washkewicz will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chairman of the Board, President, and Chief Executive Officer and in various operational leadership positions during his 39-year career with us;

intimate, working knowledge of our day-to-day business, plans, strategies and initiatives;

proven ability to work efficiently and effectively with our Lead Director and our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee of our Board of Directors consists of six Directors, each of whom is independent as defined in our Independence Standards for Directors and in compliance with the independence standards applicable to audit committee members in the listing standards of the New York Stock Exchange and under the federal securities laws. The responsibilities of the Audit Committee are set forth in a written Audit Committee Charter, a copy of which is available on the Corporate Governance page of our investor relations website at www.phstock.com.

In fulfilling its responsibilities, the Audit Committee has reviewed and discussed our audited consolidated financial statements for the fiscal year ended June 30, 2011 with management and with Deloitte & Touche LLP, or D&T, our independent registered public accounting firm for the fiscal year ended June 30, 2011.

The Audit Committee has discussed with D&T 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 letter from D&T required by applicable requirements of the Public Company Accounting Oversight Board regarding D&T's communications with the Audit Committee concerning independence, and has discussed with D&T their independence.

Based on the reviews and discussions described above, the Audit Committee recommended to our Board of Directors that our audited consolidated financial statements for the fiscal year ended June 30, 2011 be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 filed with the SEC.

Audit Committee:

Linda S. Harty, Chair

Robert G. Bohn

William E. Kassling

Wolfgang R. Schmitt

Åke Svensson

Markos I. Tambakeras

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COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY FISCAL YEAR 2011.

Objectives and Philosophies of the Executive Compensation Program.

In fiscal year 2011, 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 can be illustrated as follows:

The Win Strategy centers on three fundamental goals: premier customer service; financial performance; and profitable growth. The Win Strategy outlines various individual initiatives intended to advance those goals in all aspects of our business, including 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. Our employees all over the world, who are empowered to implement these strategies and are ultimately responsible for achieving these goals, represent the foundation of the Win Strategy. We are confident that a worldwide focus on the Win Strategy will maximize the long-term value of our shareholders' investments by helping us to realize top-quartile performance among our competitors and peers and steady appreciation of our stock price.

The Win Strategy also provides the means by which we can measure and reward success. In fact, the objective of our executive compensation program is to encourage and reward performance that implements the strategies and advances the 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 our executive officers for performance that achieves or exceeds significant financial and operational performance goals and by holding them accountable for results;

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

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;

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

promote accountability 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

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

Categories and Elements of Executive Compensation.

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 2011 on page 46, which we refer to as the Named Executive Officers.

Our executive compensation program offers the categories and elements of compensation identified in the following table. Each element of compensation is more specifically defined and described in the Elements of Executive Compensation section of this Compensation Discussion and Analysis beginning on the page indicated in the table.

Category of Compensation	Element(s) of Compensation	Defined/Described Beginning on:
Base Salaries	Base Salaries	Page 29
Annual Cash Incentive Compensation	Target Incentive Bonuses	Page 30
	General RONA Bonuses	Page 32
	Converted RONA Bonuses	Page 32
	Volume Incentive Bonuses	Page 34
Long-Term Incentive Compensation	LTIP Awards	Page 34
	Stock Incentives	Page 34
Employee Benefits	Various	Page 38
Executive Perquisites	Various	Page 43

Table of Contents***Pay-for-Performance Structure, Key Financial Metrics and Impact on Compensation Payouts.***

Our executive compensation program is structured to ensure that a significant portion of the compensation for executive officers is dependent upon the performance of our business. This pay-for-performance structure drives the program to achieve its objective to encourage and reward performance that implements the strategies and advances the goals of the Win Strategy. The program is also structured to ensure that it is not overly weighted toward annual cash incentive compensation and does not otherwise have the potential to threaten long-term shareholder value by promoting unnecessary or excessive risk-taking by our executive officers. The Allocation of Executive Compensation section beginning on page 26 describes our policies and practices for allocating executive compensation among the various categories and elements.

To illustrate, the first table below shows the mix of fixed and at-risk, annual and long-term and cash and equity compensation represented by base salaries and the elements of annual cash incentive compensation and long-term incentive compensation. The second table below shows the percentage of each Named Executive Officer's total fiscal year 2011 base salary, target annual cash incentive compensation and target long-term incentive compensation which represented fixed and at-risk, annual and long-term, and cash and equity compensation.

Element of Compensation	Annual / Long-Term / Cash / Equity		
	Fixed / At-Risk	Annual	Cash / Equity
Base Salaries	Fixed	Annual	Cash
Target Incentive Bonuses	At-Risk	Annual	Cash
General RONA Bonuses	At-Risk	Annual	Cash
Converted RONA Bonuses	At-Risk	Annual	Cash
Volume Incentive Bonuses	At-Risk	Annual	Cash
LTIP Awards	At-Risk	Long-Term	Equity
Stock Incentives	At-Risk	Long-Term	Equity

Named Executive Officer	Fixed / At-Risk		Annual / Long-Term		Cash / Equity	
Donald E. Washkewicz	12%	88%	30%	70%	30%	70%
Jon P. Marten	22%	78%	39%	61%	39%	61%
Lee C. Banks	21%	79%	36%	64%	36%	64%
Robert P. Barker	24%	76%	41%	59%	41%	59%
Thomas L. Williams	21%	79%	36%	64%	36%	64%
Timothy K. Pistell	19%	81%	33%	67%	33%	67%

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The Elements of Executive Compensation section beginning on page 29 provides detailed discussion and analysis as to how each element of compensation encourages and rewards performance that implements the strategies and advances the goals of the Win Strategy. To summarize, we provide base salaries, Converted RONA Bonuses, employee benefits and executive perquisites primarily to ensure that our executive compensation program remains competitive to attract, retain and motivate the individuals needed to implement and advance our strategies and goals. In addition, as described in the following table, we provide each other element of annual cash incentive compensation and each element of long-term incentive compensation primarily to encourage and reward performance that implements and advances our strategies and goals relating to financial performance and profitable growth.

Element of Compensation	Encourage executive officers to maximize . . .	Impact financial performance and profitable growth goals by encouraging and rewarding . . .
Target Incentive Bonuses	free cash flow.	continuous improvement in net income, lean initiatives, inventory controls, collection of receivables, control of payables and capital expenditures, and the ability to finance dividends, acquisitions, share repurchases and product innovations.
General RONA Bonuses	return on net assets.	continuous improvement in segment revenues, average net asset levels, sales levels and control of materials handling and other costs.
Volume Incentive Bonuses	sales growth (organic and through acquisitions).	performance at our operating groups which approaches or exceeds our annual sales growth goals and drives continuous improvement in market share, return on invested capital and our stock price.
LTIP Awards	long-term revenue growth, earnings per share growth and return on invested capital.	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.
Stock Incentives	our stock price.	financial and operational performance that contributes to appreciation of our stock price.

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In fiscal year 2011, our executive compensation program and its pay-for-performance structure ensured that annual cash incentive compensation and long-term incentive compensation payouts to our executive officers aligned with our performance in certain key financial metrics that we use to measure the overall performance of our business. The following table summarizes our fiscal year 2011 performance in each of those metrics and the impact of that performance on each of our at-risk elements of executive compensation.

Element of At-Risk Compensation	Applicable Key Financial Metrics	Impact on Fiscal Year 2011 Compensation
Target Incentive Bonuses	Our operating cash flows were \$1.2 billion, or 9.5% of sales. This performance helped us to achieve a strong free cash flow margin of 11.01%.	Target Incentive Bonuses paid out at 200% of target.
General RONA Bonuses	Our return on consolidated net assets and return on average net assets for all divisions were well in excess of target; our return on average division net assets was well in excess of target for most of our operating groups.	General RONA Bonuses payouts ranged from approximately 60% to 200% of target, with an average payout of approximately 130% of target.
Converted RONA Bonuses	Our return on average net assets for all divisions was well in excess of target.	Converted RONA Bonuses paid out at approximately 130% of target.
Volume Incentive Bonuses	Our aggregate sales were \$12.3 billion, an increase of 23.5% from our fiscal year 2010 sales of \$10.0 billion.	Only our eligible operating group presidents whose groups exceeded their fiscal year 2010 sales by at least 7.5% received Volume Incentive Bonuses; no other executive officers received Volume Incentive Bonuses.
LTIP Awards	Our percentile rankings among the Peer Group with respect to revenue growth, growth in fully diluted earnings per share and average return on invested capital for the three-year performance period ended June 30, 2011 were 55th, 77th and 48th, respectively.	LTIP Awards for the three-year performance period ended June 30, 2011 paid out at 140.96% of target.
Stock Incentives	Our average per share stock price was \$80.27 in fiscal year 2011, as compared to \$56.69 in fiscal year 2010.	The value of outstanding Stock Incentives showed corresponding improvements during fiscal year 2011.

Highlights and Significant Changes to Executive Compensation Program.

We continue to maintain several long-standing compensation practices that we believe contribute to good corporate governance, including our claw-back policy described on page 28, our stock ownership guidelines described beginning on page 28, our hedging and other stock ownership restrictions described on page 29 and our annual compensation risk review described beginning on page 6. We did not make any significant changes to our executive compensation program in fiscal year 2011 other than the changes to our calculation methodology for LTIP Award payouts described beginning on page 36.

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ADMINISTRATION, OVERSIGHT AND DETERMINATION OF EXECUTIVE COMPENSATION.

Human Resources and Compensation Committee.

The Human Resources and Compensation Committee of our Board of Directors, which we refer to in this Compensation Discussion and Analysis as the Committee, has various duties and responsibilities with respect to the administration, oversight and determination of executive compensation. As described in the Committee's Charter, which is posted and available on the Corporate Governance page of our investor relations website at www.phstock.com, these duties and responsibilities include:

establishing our executive compensation program and overseeing its development and implementation;

reviewing and approving the relevant performance goals of our Chief Executive Officer and determining whether or not they have been achieved;

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

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

performing other duties and responsibilities assigned by our 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 various sources, including our Board of Directors, our executive officers and the Committee's independent executive compensation consultant. 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.

Our Board of Directors approves all incentive compensation plans and equity-based plans reviewed and recommended by the Committee and all other plans and programs which, by their terms, require approval of our Board of Directors. Our Board of Directors does not authorize or approve any other specific executive compensation matters. Our Board of Directors oversees the Committee's activities and performance, including the identification, evaluation and monitoring of risks arising from our compensation policies and practices, and reviews all material information relating to 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.

Our 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 consistent with the strategies and 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, our executive officers, other than our Chief Executive Officer, recommend any annual compensation adjustments and awards for their executive officer direct reports to our Chief Executive Officer.

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

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Our Chief Executive Officer, our Executive Vice President Human Resources and our Secretary attend all meetings of the Committee other than those relating to the performance or compensation of our Chief Executive Officer and other appropriate executive sessions. Our executive officers prepare and provide to the Committee tally sheets for certain executive officers, which are used by the Committee to understand and measure the performance and effectiveness of our annual cash incentive compensation and long-term incentive compensation. Our executive officers also periodically consult with and assist the Committee in calculating incentive compensation payouts, establishing and monitoring performance goals and addressing other appropriate executive compensation matters.

COMPENSATION CONSULTANTS AND BENCHMARKING.

The Committee regularly monitors, reviews and evaluates our executive compensation program to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective. The Committee engages Mercer Human Resource Consulting, an independent human resources and compensation consulting firm which we refer to as Mercer, to assist the Committee in its monitoring, review and evaluation and to otherwise provide assistance and guidance to the Committee on executive officer and director compensation matters. Mercer reports directly to the Committee and attends all meetings of the Committee. The Committee has sole authority for the appointment, compensation and oversight of Mercer and its affiliates for executive officer and director compensation matters.

Mercer and its affiliates provide a wide range of executive officer and director compensation consulting services for the Committee. Mercer prepares and provides to the Committee a comprehensive annual review of base salaries, target annual cash incentive compensation, target long-term incentive compensation and target total cash and direct compensation for all of our executive officers. Mercer uses this annual review to advise the Committee with respect to the effectiveness and competitiveness of our executive compensation program. The Committee uses this annual review to establish compensation levels and to otherwise ensure that our executive compensation program remains competitive and effective.

Mercer prepares the annual review by using proxy statement data and surveys published by leading human resources and compensation consultants to conduct market analyses of base salaries, target annual bonuses, target long-term incentive compensation and target total cash and direct compensation offered to executives of other companies operating in the industrial machinery industry with revenues and market values comparable to ours, which we refer to as the Peer Group. Mercer also uses broader market data on companies outside of the Peer Group to the extent that it is available and appropriate. 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 and that it otherwise represents a meaningful group of peers. The Peer Group for fiscal year 2011, which was the same as the Peer Group for fiscal year 2010, consisted of the following companies:

Caterpillar Inc.	Emerson Electric Co.	Johnson Controls, Inc.
Cooper Industries, Ltd.	Flowsolve Corporation	Pall Corporation
Cummins Inc.	Goodrich Corporation	Rockwell Automation, Inc.
Danaher Corporation	Honeywell International, Inc.	SPX Corporation
Deere & Company	Illinois Tool Works Inc.	Textron, Inc.
Dover Corporation	Ingersoll-Rand Company Limited	
Eaton Corporation	ITT Corporation	

Other executive officer and director compensation consulting services provided for the Committee by Mercer and its affiliates during fiscal year 2011 included:

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preparing for and participating in all Committee meetings and all necessary prior or subsequent meetings and debriefings with the Chair of the Committee and/or management;

preparing and providing to the Committee a comprehensive review of compensation provided to our non-management Directors;

reviewing, analyzing and reporting on market trends and perspectives in executive and director compensation;

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working with management to conduct the annual compensation risk review described beginning on page 6 of this Proxy Statement;

periodically working with management to gather information on proposals that management may make to the Committee and to better understand our executive compensation program and its objectives; and

periodically assisting management in calculating incentive compensation payouts and addressing other appropriate executive and director compensation matters.

For fiscal year 2011, we paid \$155,591 in fees, administrative charges, out-of-pocket expenses and other costs to Mercer and its affiliates for executive and director compensation consulting services.

Management directly engages Mercer and its affiliates in the ordinary course, without the approval of our Board of Directors or the Committee, to provide services in areas other than executive officer and director compensation. These additional services include:

consulting services regarding life insurance, prescription drug and other benefits programs for our employees generally;

consulting services regarding investment options available under our benefit plans for our employees generally;

providing benchmarking surveys for information on compensation and benefits for our employees generally;

providing benchmarking and job leveling systems and applications; and

providing services as an insurance broker.

For fiscal year 2011, we paid \$1,169,164 in fees, administrative charges, out-of-pocket expenses and other costs to Mercer and its affiliates for these additional services.

The Committee also periodically reviews the relationship with Mercer to determine whether there are sufficient internal safeguards in place to ensure that Mercer provides services to the Committee independent of any influence from management. The Committee identified the following safeguards:

Mercer reports directly to the Committee and not to management on executive officer and director compensation matters;

at each meeting of the Committee, Mercer and the Committee meet in executive session without members of management present;

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all non-executive compensation services are provided by Mercer consultants who are not involved in providing executive officer and director compensation consulting services;

the Committee has exclusive authority to retain and set the compensation for Mercer's executive officer and director compensation consulting services;

the Mercer consultants to the Committee do not provide any services to us other than those provided for the Committee;

the Mercer consultants to the Committee do not participate in any client development activities related to non-executive officer or director compensation services; and

the amounts paid to the Mercer consultants by the Committee are not directly impacted by any growth in the fees we pay to Mercer.

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GENERAL POLICIES AND PRACTICES RELATING TO EXECUTIVE COMPENSATION.

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 companies included in Mercer's annual review. The Committee does not take into account Converted RONA Bonuses in measuring whether or not it meets this objective. The Committee seeks to provide a package of Converted RONA Bonuses, employee benefits and executive perquisites which is adequate to keep us competitive in attracting, retaining and motivating present and future executive officers.

When deciding whether to materially increase or decrease the amount of any element of compensation, the Committee considers Mercer's annual review, the annual performance reviews of the executive officers and the performance of our business as a whole. The Committee does not consider amounts realized from prior compensation in determining the levels of compensation paid to executive officers.

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 at-risk elements of compensation within those categories is 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. In addition, the Committee makes sure that executive officers, as compared to other employees, have a greater proportion of their total compensation allocated to these at-risk elements. The Committee structures the program in this manner to better align the financial interests of our executive officers with the financial interests of our shareholders, to better ensure a pay-for-performance result and to promote internal equity by recognizing that our executive officers, as compared to other employees, have greater responsibility and influence over the performance of our business.

Our executive compensation program is also structured to offer a reasonable balance of annual and long-term as well as cash and equity elements of compensation. The program provides a mix of those elements specifically designed to encourage and reward performance that contributes to the advancement of the Win Strategy. The Committee does not have any formal policies or guidelines with respect to the allocation of executive compensation between annual and long-term elements, cash and equity elements or different forms of equity elements. In practice, however, the Committee has taken the following approaches.

Allocation between annual and long-term elements. The Committee uses Mercer's annual review to ensure that it sets the total of each executive officer's base salary and annual cash incentive compensation, other than Converted RONA Bonuses, at approximately the midpoint value of his or her comparable position within the companies included in the annual review. The Committee also uses Mercer's annual review to ensure that it sets 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 companies included in the annual review.

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

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Allocation between different forms of equity elements. The Committee generally allocates 50% of the total target value of each executive officer's long-term incentive compensation to LTIP Awards and 50% to Stock Incentives. 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 also uses a balanced approach to avoid any appearance that the executive compensation program is a positive or negative indicator of current stock value or anticipated stock price 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

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does not offer any element to an executive officer that is not available to other executive officers. As described on page 34, however, the Committee provides Volume Incentive Bonuses only to certain operating group presidents.

Accounting and Tax Considerations.

Our executive compensation program is structured to achieve flexibility, maximize benefits and minimize detriments to our business and our executive officers from a tax and accounting perspective. As a result, we continuously review and evaluate the impact of changes in tax laws and accounting practices and interpretations and similar factors affecting our executive compensation program. For example, Financial Accounting Standards Board ASC Topic 718, which results in recognition of compensation expense for Stock Incentives, and Section 409A of the Internal Revenue Code, which impacts deferred compensation arrangements, are considered as we evaluate, structure and implement changes to the program.

In addition, we try to structure the program and each element of compensation in a way that allows us 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. Compensation that qualifies as performance-based compensation under Section 162(m) does not count toward the \$1,000,000 limit.

Base salary does not qualify as performance-based compensation under Section 162(m). The Committee, therefore, generally tries to make sure that annual cash incentive compensation and long-term incentive compensation qualify as fully deductible performance-based compensation under Section 162(m).

At the 2010 Annual Meeting of Shareholders, our 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 are performance-based compensation exempt from the \$1,000,000 deduction limit under Section 162(m). The Committee grants all LTIP 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 annual compensation to those executive officers in future years will exceed \$1,000,000. The Committee also grants Target Incentive Bonuses and General RONA Bonuses under the Performance Bonus Plan to executive officers who may potentially be subject to Section 162(m), and then only to the extent that the Committee deems necessary to ensure their deductibility under Section 162(m). The Committee, however, reserves the right to award compensation outside of the Performance Bonus Plan, even if the awards cannot be deducted by the Company, if the Committee determines that the awards are reasonable and appropriate.

In fiscal year 2011, the Committee awarded Target Incentive Bonuses and General RONA Bonuses under the Performance Bonus Plan to each of the Named Executive Officers other than Mr. Marten. Because the Committee did not award any Converted RONA Bonuses or Volume Incentive Bonuses under the Performance Bonus Plan in fiscal year 2011, these elements of compensation do not qualify as performance-based compensation under Section 162(m).

Committee Discretion.

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The Committee does not change the pre-determined performance goals or increase the amount of any at-risk compensation following the grant date except as permitted by applicable laws and regulations. The Committee may 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, executive compensation program changes and major corporate programs, and to account for 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 General RONA Bonuses. 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 General RONA Bonuses, such as significant restructuring initiatives.

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The Committee may reduce the amount of any award of annual cash incentive compensation or long-term incentive compensation made outside of the Performance Bonus Plan other than Stock Incentives. The Committee also may reduce the amount of any award made 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 the quality of our results in our various performance measures, the risks taken to attain those results and our overall financial performance;

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

to avoid inappropriately rewarding 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 General RONA Bonuses awarded under the Performance Bonus Plan to the Chief Executive Officer, the Chief Financial Officer and certain other executive officers. At the beginning of the year, the Committee determines for each of these executive officers a General RONA Bonus award opportunity that is large enough to ensure that we meet our objectives for annual cash incentive compensation and, at the same time, preserve the ability of the Committee to exercise its discretion to reduce the amount of the award payout to an appropriate level as compared to the final payouts made to executive officers who receive General RONA Bonuses outside the Performance Bonus Plan and after taking into account individual performance and contributions to the success of our business. As described beginning on page 36, the changes to our calculation methodology for LTIP Award payouts will require the Committee to also exercise this discretion with respect to future LTIP Award payouts.

CLAW-BACK POLICY.

On August 13, 2009, our Board of Directors adopted a claw-back policy. This policy allows us to recover or withhold any Target Incentive Bonuses, General RONA Bonuses, Converted RONA Bonuses or LTIP Awards granted on or after July 1, 2009 which are paid or payable to an executive officer if:

payment, grant or vesting was based on the achievement of financial results that were subsequently the subject of a restatement of any of our financial statements filed with the SEC;

our Board of Directors determines in its sole discretion that the fraud or misconduct of the executive officer caused or contributed to the need for the restatement;

the amount that would have been paid or payable to the executive officer would have been less if the financial results had been properly reported; and

our Board of Directors determines in its sole discretion that it is in our best interests and in the best interests of our shareholders to require the executive officer to repay or forfeit all or any portion of the amount paid or payable.

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 our directors and executive officers. On August 15, 2007, the Committee increased the guidelines for our executive officers. The current guidelines for our directors and executive officers are as follows:

Participants	Guidelines
Chief Executive Officer	Five times annual base salary
Executive or Senior Vice Presidents	Three times annual base salary
Other executive officers	Two times annual base salary
Non-management directors	Four times annual retainer

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To accommodate for the increases, the Committee also extended the recommended time period for achieving compliance with the guidelines to June 30, 2012 for all individuals who were serving as executive officers on August 15, 2007. For all other executive officers and all non-management directors, 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, 2011, all executive officers and directors in their positions for at least five years were in compliance with the guidelines.

STOCK OWNERSHIP RESTRICTIONS.

We maintain an insider trading policy which, among other things, restricts our executive officers from hedging their stock ownership positions or engaging in other speculative transactions that could lead to inadvertent violations of insider trading laws.

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 pursuing the strategies and 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. We provide base salaries to:

encourage and reward attainment of individual performance goals established during the annual performance review process;

recognize experience, expertise, level of responsibility, tenure, leadership qualities, advancement, individual accomplishment and other significant contributions to the enhancement of shareholder value and the success of our business; and

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 Mercer's annual review to analyze base salaries of persons holding comparable positions within the companies included in the annual review. 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 companies included in Mercer's annual review.

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During fiscal year 2011, the Named Executive Officers received the base salaries included in the Salary column of the Summary Compensation Table for Fiscal Year 2011 on page 46. Those amounts reflect the following percentage changes in base salaries of the Named Executive Officers paid during fiscal year 2011 as compared to their base salaries paid during fiscal year 2010:

Named Executive Officer	Percentage Change in Base Salary
Donald E. Washkewicz	5.0%
Jon P. Marten*	50.0%
Lee C. Banks	15.4%
Robert P. Barker	13.7%
Thomas L. Williams	15.4%
Timothy K. Pistell**	(23.0%)

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* Mr. Marten received a percentage increase of 11.56% at the beginning of fiscal year 2011, with the remainder of his increase effective November 29, 2010 due to his promotion from Vice President and Controller to Executive Vice President Finance & Administration and Chief Financial Officer.

** The reduction in Mr. Pistell's base salary is reflective of his retirement on March 31, 2011.

Annual Cash Incentive Compensation.

Our 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 four specific elements, which we refer to as Target Incentive Bonuses, General RONA Bonuses, Converted RONA Bonuses and Volume Incentive Bonuses. All of the Named Executive Officers are eligible to receive Target Incentive Bonuses, General RONA Bonuses and Converted RONA Bonuses. As described on page 34, however, none of the Named Executive Officers is eligible to receive a Volume Incentive Bonus.

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. At the beginning of fiscal year 2011, for example, target values of Target Incentive Bonuses and General RONA Bonuses represented 146% of base salary for the Chief Executive Officer, 55%-80% of base salary for the Chief Financial Officer, the Executive Vice Presidents and other executive officers with operational profit and loss responsibility, and 45%-63% of base salary for all other executive officers. The following table reflects the target percentage of base salary represented by Target Incentive Bonuses and General RONA Bonuses for each Named Executive Officer at the beginning of fiscal year 2011:

Named Executive Officer	Target Percentage of Base Salary Target Incentive Bonuses and General RONA Bonuses
Donald E. Washkewicz	146%
Jon P. Marten*	80%
Lee C. Banks	71%
Robert P. Barker	69%
Thomas L. Williams	71%
Timothy K. Pistell	80%

* For Mr. Marten, the target percentage of base salary represented by his Target Incentive Bonus and General RONA Bonus was 45% at the beginning of fiscal year 2011. This target percentage increased to 80% effective November 29, 2010 due to his promotion from Vice President and Controller to Executive Vice President Finance & Administration and Chief Financial Officer.

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, Mercer's annual review. The Committee directly and materially links annual cash incentive compensation to performance that drives and supports the Win Strategy.

Target Incentive Bonuses.

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During fiscal year 2011, 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, strategically acquire our outstanding shares, 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 ini-

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tatives, 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 2011, the Committee approved the following target awards for each of the Named Executive Officers and established the levels of performance for threshold target and maximum payouts 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	\$708,650
Jon P. Marten*	\$117,292
Lee C. Banks	\$152,000
Robert P. Barker	\$127,000
Thomas L. Williams	\$152,000
Timothy K. Pistell	\$243,000

* Mr. Marten received a target award of \$61,000 at the beginning of fiscal year 2011, with the remainder of his award being granted effective November 29, 2010 due to his promotion from Vice President and Controller to Executive Vice President Finance & Administration and Chief Financial Officer. This amount reflects the applicable pro-rata portion of these grants.

At the beginning of fiscal year 2011, the Committee developed the following table to illustrate how final Target Incentive Bonus amounts would be calculated at the end of fiscal year 2011:

	Less than							Greater than or equal	
FY11 Free Cash Flow Margin:	6.00%	6.00%	6.67%	7.33%	8.00%	8.50%	9.00%	9.50%	to 10.00%
Payout %	0%	25%	50%	75%	100%	125%	150%	175%	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 2011 was 8.00%, and a maximum payout of 200% of his or her target award if our free cash flow margin was greater than or equal to 10.00%. This table also illustrates that no Target Incentive Bonuses would be paid if our free cash flow margin for fiscal year 2011 was less than 6.00%. The payouts are calculated on a sliding-scale basis using this table. For example, a free cash flow margin of 8.40% would result in a payout of 120% of the applicable target award.

The Committee designed Target Incentive Bonuses to reward executive officers directly for performance in relation to our annual plan and against the historical performance of the Peer Group. The Committee determined that a free cash flow margin of 8.00% would meet our fiscal year 2011 annual plan. The Committee also estimated that 6.00%, 8.00% and 10.00% free cash flow margins would represent bottom-quartile, median and top-quartile free cash flow margin results, respectively, within the Peer Group during fiscal year 2011.

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Our actual free cash flow margin for fiscal year 2011 was 11.01%. As a result, each of the Named Executive Officers received 200% of his target award, which is included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal Year 2011 on page 46.

Target Incentive Bonuses are paid in one lump sum in August for each executive officer whose Target Incentive Bonus is awarded under the Performance Bonus Plan, 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. We generally hold back 25% of the year-to-date estimate from each March and June payment to ensure that we have the flexibility to reconcile the August payments to final year-end results. 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 41.

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General RONA Bonuses and Converted RONA Bonuses.

During fiscal year 2011, each of the Named Executive Officers received annual cash incentive compensation, which we refer to as General RONA Bonuses and Converted RONA Bonuses. The Committee awards General RONA Bonuses to our executive officers to encourage and reward performance which maximizes our returns on net assets. As discussed in our Compensation Discussion and Analysis for fiscal year 2008, the Committee awards Converted RONA Bonuses to our executive officers in place of certain executive perquisites that were eliminated by the Committee effective January 1, 2008. The performance measure used to determine the amount of the payouts on Converted RONA Bonuses is the return on average net assets for all of our divisions. The performance measures used to determine the amount of the payouts on General RONA Bonuses are as follows:

for the Chief Executive Officer, the Chief Financial Officer, the Executive Vice Presidents, and other executive officers who receive General RONA Bonuses under the Performance Bonus Plan, return on consolidated net assets;

for each operating group president who does not receive his or her General RONA Bonus under the Performance Bonus Plan or who is not an Executive Vice President, the return on average division net assets for the divisions in his or her operating group; and

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

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).

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 General RONA Bonuses and Converted RONA Bonuses to encourage executive officers and other employees to increase segment income and control net average assets by reducing investments in assets and increasing efficiency in managing those investments. In addition, General RONA Bonuses and Converted 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. The Committee also believes that offering Converted RONA Bonuses in lieu of certain eliminated executive perquisites is appropriate to keep us competitive in attracting, retaining and motivating present and future executive officers and to hold our executive officers accountable for results.

General RONA Bonuses awarded under the Performance Bonus Plan are paid in one lump sum in August. General RONA Bonuses awarded outside the Performance Bonus Plan and Converted RONA Bonuses, which are not awarded under the Performance Bonus Plan, are paid in four installments in October, January, April and August. Each installment is based on actual year-to-date results. We generally hold back 25% of the year-end estimate from each October, January and April installment to ensure that we have the flexibility to reconcile the August payments to final year-end results. All payments are made in cash, except that General RONA Bonus payments made in August may, at the election of the recipient, be deferred as a credit to the recipient's Executive Deferral Plan account.

Converted RONA Bonus payments are not eligible for deferral under the Executive Deferral Plan, the Retirement Savings Plan described on page 39 or the Savings Restoration Plan described on page 40. Converted RONA Bonuses are also not considered in calculating benefits under the Pension Plan described on page 39, the Pension Restoration Plan described on page 41, the Supplemental Retirement Program described on page 41, the Executive Long-Term Disability Plan described on page 42 and the Change in Control Agreements described on page 42. The Committee determined that it would not be appropriate to allow Converted RONA Bonuses to be deferred under those plans or considered in

those calculations because they are awarded in place of executive perquisites which, historically, were not used or taken into account for those purposes.

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The Committee calculates General RONA Bonuses and Converted RONA Bonuses at each payment date as follows:

The applicable target payout amount awarded to the recipient at the beginning of the fiscal year is converted into a number of RONA shares based on our annual goals for return on net assets.

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:

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.

For General RONA Bonuses, the amount of the payout is calculated by multiplying the number of General RONA Bonus shares determined for the recipient by the multiple, and multiplying that total by the recipient's base salary for the fiscal year.

For Converted RONA Bonuses, the amount of the payout is calculated by multiplying the number of Converted RONA Bonus shares determined for the recipient by the multiple, and multiplying that total by the midpoint of the base salary range applicable to the recipient's position.

During the first quarter of fiscal year 2011, the Committee established for each of the Named Executive Officers the following General RONA Bonus target payout amounts:

	Target Payout Amount
	General RONA Bonus
Named Executive Officer	Target Payout Amount
Donald E. Washkewicz	\$981,750
Jon P. Marten*	\$150,031
Lee C. Banks	\$262,305
Robert P. Barker	\$242,865
Thomas L. Williams	\$262,305
Timothy K. Pistell	\$315,225

* Mr. Marten received a General RONA Bonus target payout amount of \$76,575 at the beginning of fiscal year 2011, with the remainder of his award being granted effective November 29, 2010 due to his promotion from Vice President and Controller to Executive Vice President Finance & Administration and Chief Financial Officer. This amount reflects the applicable pro-rata portion of these grants.

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During the first quarter of fiscal year 2011, the Committee also awarded to each of the Named Executive Officers the following Converted RONA Bonus target payout amounts:

Named Executive Officer	Converted RONA Bonus
	Target Payout Amount