Parker Hannifin Earnings Per Share Up 53 Percent on Strong Sales in Record Second Quarter

CLEVELAND, Jan. 17 /PRNewswire-FirstCall/ -- Parker Hannifin Corporation (NYSE: PH), the world leader in motion and control technologies, today reported second quarter fiscal year 2007 results. The company set new second quarter records for sales and income from continuing operations, both of which increased by double digit percentages from a year ago.

Sales for the second quarter of fiscal-year 2007 were $2.5 billion, up 16.4 percent, as compared to sales of $2.2 billion from the same period last year. Income from continuing operations in the second quarter of fiscal 2007, including the realization of a 9 cent per diluted share benefit from the December renewal of the Federal Tax Credit for Increasing Research Activities, was $1.64 per diluted share, an increase of 53.3 percent over the $1.07 per diluted share posted in the same period a year ago.

"Led by exceptional performance in our Industrial International and Aerospace segments, we were able to deliver another record second quarter, and we remain solidly on track for another outstanding year in fiscal 2007," said Chairman, CEO and President Don Washkewicz. "The record results we are delivering, quarter after quarter, are being driven by our employees' ongoing execution of our Win Strategy."

Second Quarter Segment Results

In the North American Industrial segment, second quarter operating income increased 2.8 percent over the prior year to $133.9 million, on sales of $959.7 million.

In the International Industrial segment, second quarter operating income increased 78.9 percent over the prior year to $121.8 million, on sales of $922.0 million.

In the Aerospace segment, second quarter operating income increased 43.2 percent over the prior year to $67.8 million, on sales of $402.0 million.

In the Climate & Industrial Controls segment, second quarter operating income decreased 29.8 percent over the prior year to $7.0 million, on sales of $227.4 million.

Total operating margin across all segments in the second quarter was 13.2 percent versus 11.8 percent in the same period a year ago.

Fiscal Year to Date Results
For the first six months of fiscal-year 2007, sales were $5.1 billion, up 18.5 percent, as compared to sales of $4.3 billion from the same period last year. Income from continuing operations for the first six months of fiscal 2007 was $3.39 per diluted share, up 49.3 percent from the $2.27 per diluted share reported in the same period in the prior year.

Cash flow from operations for the first six months of fiscal year 2007 reached $307.6 million. "The level of cash generation allows us to be flexible in terms of strategic acquisitions, share repurchases, capital investments and dividends," said Washkewicz. "In the second quarter, cash was used to repurchase $197 million of stock, bringing the fiscal 2007 year-to-date repurchase amount to $393 million. These expenditures are in addition to the discretionary contributions of $111 million made to the employees' pension funds in the first quarter of fiscal year 2007."

Highlights

"Our 16.4 percent sales growth in the quarter significantly exceeded our growth goal of 10 percent," said Washkewicz. "The growth was profitable and balanced, with 6.4 percent derived organically, 6.4 percent via acquisitions and 3.6 percent from the favorable impact of foreign currency."

"While we are very pleased with our overall results this quarter, special mention must be made of our International Industrial and Aerospace segments," continued Washkewicz. "In the International segment sales grew by 36 percent and operating income increased by nearly 80 percent. Our Aerospace business also delivered excellent results this quarter. Revenues grew by 16 percent and operating income by 43 percent. We expect continued strength in this segment of our business."

"This is especially good news as International Industrial and Aerospace now represent more than half of our total revenues," said Washkewicz. "Particularly diligent execution of the Win Strategy in Europe is enabling us to achieve margins comparable to our North American business."

Outlook

As a result of the continued strong results, the company increased its guidance for fiscal year 2007 income from continuing operations from $6.05 to $6.45 per diluted share to $6.35 to $6.75 per diluted share.

In addition to this information, Parker advises shareholders to note order trends, for which the company makes a disclosure several business days after the conclusion of each month. This information is available on the company's investor information web site, at www.phstock.com.

NOTICE OF CONFERENCE CALL: Parker Hannifin's conference call and slide presentation to discuss its fiscal second-quarter results is available to all interested parties via live webcast today at 10:00 a.m. ET, on the company's investor information web site, www.phstock.com. To access the call, click on the "Live Webcast" link. From this link, users also may complete a pre-call system test and register for e-mail notification of future events and information available from Parker.
With annual sales exceeding $9 billion, Parker Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems, providing precision-engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets. The company employs more than 57,000 people in 43 countries around the world. Parker has increased its annual dividends paid to shareholders for 50 consecutive years, among the top five longest-running dividend-increase records in the S&P 500 index. For more information, visit the company's web site at www.parker.com, or its investor information site at www.phstock.com.

Forward-Looking Statements: Forward-looking statements contained in this document and other written reports and oral statements are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward- looking statements. It is possible that the Company's future performance and earnings projections of the Company may differ materially from current expectations, depending on economic conditions within both its industrial and aerospace markets, and the Company's ability to achieve and maintain anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins and growth and innovation initiatives. A change in economic conditions in individual markets may have a particularly volatile effect on segment performance. Among other factors which may affect future performance are: changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments, or significant changes in financial condition, uncertainties surrounding timing, successful completion or integration of acquisitions, threats associated with and efforts to combat terrorism, competitive market conditions and resulting effects on sales and pricing, increases in raw material costs that cannot be recovered in product pricing, the Company's ability to manage costs related to insurance and employee retirement and health care benefits, and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as interest rates. The Company undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this Report.

PARKER HANNIFIN CORPORATION - DECEMBER 31, 2006
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)                Three Months Ended       Six Months Ended
(Dollars in thousands      December 31,              December 31,
except per share amounts)  2006         2005         2006         2005
Net sales               $2,511,152   $2,157,537   $5,062,725   $4,271,088
Cost of sales            1,938,007    1,705,683    3,885,365    3,361,436
Gross profit               573,145      451,854    1,177,360      909,652
Selling, general and     292,855      245,845      584,865      482,859
administrative expenses
Interest expense          22,304        19,587       39,476       36,058
Other (income) expense,   (6,777)        10,898     (13,403)       11,171
net
Income from continuing
operations before
income taxes             264,763       175,524     566,422       379,564
<table>
<thead>
<tr>
<th>Income taxes</th>
<th>71,796</th>
<th>46,500</th>
<th>162,871</th>
<th>106,692</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from continuing</td>
<td>192,967</td>
<td>129,024</td>
<td>403,551</td>
<td>272,872</td>
</tr>
<tr>
<td>operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinued operations</td>
<td></td>
<td></td>
<td></td>
<td>28,884</td>
</tr>
<tr>
<td>Net income</td>
<td>$192,967</td>
<td>$129,024</td>
<td>$403,551</td>
<td>$301,756</td>
</tr>
</tbody>
</table>

Earnings per share:

- Basic earnings per share from continuing operations: $1.66, $1.09, $3.44, $2.30
- Discontinued operations: .24
- Basic earnings per share: $1.66, $1.09, $3.44, $2.30
- Diluted earnings per share from continuing operations: $1.64, $1.07, $3.39, $2.27
- Discontinued operations: .24
- Diluted earnings per share: $1.64, $1.07, $3.39, $2.51

Average shares outstanding during period - Basic: 115,938,153, 118,821,006, 117,305,843, 118,851,843

Average shares outstanding during period - Diluted: 117,926,398, 120,324,168, 119,139,690, 120,385,768

Cash dividends per common share: $.26, $.23, $.52, $.46

**BUSINESS SEGMENT INFORMATION BY INDUSTRY**

<table>
<thead>
<tr>
<th>(Unaudited)</th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31,</td>
<td>December 31,</td>
</tr>
<tr>
<td>(Dollars in thousands)</td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>Net sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$959,663</td>
<td>$929,734</td>
</tr>
<tr>
<td>International</td>
<td>922,011</td>
<td>676,526</td>
</tr>
<tr>
<td>Aerospace</td>
<td>402,039</td>
<td>345,274</td>
</tr>
<tr>
<td>Climate &amp; Industrial Controls</td>
<td>227,439</td>
<td>206,003</td>
</tr>
<tr>
<td>Total</td>
<td>$2,511,152</td>
<td>$2,157,537</td>
</tr>
</tbody>
</table>

Segment operating income:

| Industrial: |                    |                  |
| North America | $133,890 | $130,230 | $287,028 | $267,360 |
| International| 121,769   | 68,068   | 249,300  | 148,509   |
| Aerospace    | 67,778    | 47,322   | 136,403  | 102,105   |
| Climate & Industrial Controls | 6,963 | 9,914 | 37,787 | 28,530 |
| Total segment operating income | $330,400 | $255,534 | $710,518 | $546,504 |

Corporate general and administrative expenses: 43,960, 28,489, 80,630, 57,316

Income from continuing operations:
operations before
interest expense and other 286,440  227,045  629,888  489,188
Interest expense 22,304  19,587  39,476  36,058
Other (income) expense (627)  31,934  23,990  73,566
Income from continuing
operations before income taxes $264,763 $175,524 $566,422 $379,564

CONSOLIDATED BALANCE SHEET
(Unaudited)
(Dollars in thousands) December 31, 2006  2005
Assets
Current assets:
Cash and cash equivalents $157,098  313,338
Accounts receivable, net 1,524,240  1,250,448
Inventories 1,314,400  1,153,521
Prepaid expenses 49,281  51,953
Deferred income taxes 131,228  133,508
Total current assets 3,176,247  2,902,768
Plant and equipment, net 1,706,795  1,643,941
Goodwill 2,170,715  2,012,596
Intangible assets, net 469,222  428,632
Other assets 933,316  807,860
Total assets 8,456,295  7,795,797

Liabilities and shareholders' equity
Current liabilities:
Notes payable $439,180  534,423
Accounts payable 700,973  584,347
Accrued liabilities 658,536  563,619
Accrued domestic and foreign taxes 120,094  64,496
Total current liabilities 1,918,783  1,746,885
Long-term debt 1,066,330  1,082,584
Pensions and other postretirement benefits 834,413  1,059,314
Deferred income taxes 108,669  96,894
Other liabilities 211,035  202,748
Shareholders' equity 4,317,065  3,607,372
Total liabilities and shareholders' equity 8,456,295  7,795,797

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited) Six Months Ended December 31,
(Dollars in thousands)  2006  2005
Cash flows from operating activities:
Net income $403,551  301,756
Net (income) from discontinued operations (28,884)
Depreciation and amortization 148,198  136,678
Stock-based compensation 24,218  22,802
Net change in receivables, inventories, and trade payables (77,596)  5,259
Net change in other assets and liabilities (134,060)  4,778
Other, net (56,664)  (12,936)
Discontinued operations (9,266)
Net cash provided by operating activities 307,647  420,187
Cash flows from investing activities:
<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisitions (net of cash of $1,050 in 2006 and $17,013 in 2005)</td>
<td>(160,429)</td>
<td>(818,036)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(115,441)</td>
<td>(105,859)</td>
</tr>
<tr>
<td>Proceeds from sale of businesses</td>
<td></td>
<td>92,715</td>
</tr>
<tr>
<td>Other, net</td>
<td>21,923</td>
<td>6,784</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td></td>
<td>(100)</td>
</tr>
<tr>
<td>Net cash (used in) investing activities</td>
<td>(253,947)</td>
<td>(824,496)</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (payments for) proceeds from common share activity</td>
<td>(360,616)</td>
<td>1,813</td>
</tr>
<tr>
<td>Net proceeds from debt</td>
<td>354,182</td>
<td>434,796</td>
</tr>
<tr>
<td>Dividends</td>
<td>(61,192)</td>
<td>(54,669)</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(67,626)</td>
<td>381,940</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash</td>
<td>(529)</td>
<td>(373)</td>
</tr>
<tr>
<td>Net (decrease) in cash and cash equivalents</td>
<td>(14,455)</td>
<td>(22,742)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>171,553</td>
<td>336,080</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>$157,098</td>
<td>$313,338</td>
</tr>
</tbody>
</table>

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

SOURCE Parker Hannifin Corporation