

PARKER HANNIFIN CORP
Form 11-K
October 09, 2007
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

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

For the year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission file number 1-4982

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

GOSHEN RUBBER COMPANY, INC.

GRC EMPLOYEES 401(K)

SAVINGS PLAN AND TRUST

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

PARKER-HANNIFIN CORPORATION

6035 PARKLAND BOULEVARD

CLEVELAND, OHIO 44124-4141

Table of Contents

Goshen Rubber Company, Inc.

GRC Employees 401(k)

Savings Plan and Trust

INDEX OF FINANCIAL REPORT

| | PAGE |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 1 |
| Financial Statements: | |
| <u>Statements of Net Assets Available for Benefits at December 31, 2006 and 2005</u> | 2 |
| <u>Statements of Changes in Net Assets Available for Benefits for the years ended December 31, 2006 and 2005</u> | 2 |
| <u>Notes to Financial Statements</u> | 3 |
| Supplemental Schedule: | |
| <u>Schedule of Assets (Held at End of Year) at December 31, 2006</u> | 10 |

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Plan Administrator and Participants

of the Goshen Rubber Company, Inc.

GRC Employees 401(k) Savings Plan and Trust

Cleveland, Ohio

We have audited the accompanying statements of net assets available for benefits of the Goshen Rubber Company, Inc. GRC Employees 401(k) Saving Plan and Trust (the Plan) as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Goshen Rubber Company, Inc. GRC Employees 401(k) Savings Plan and Trust as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the accompanying index is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Hausser + Taylor LLC
Cleveland, Ohio
October 8, 2007

Table of Contents

**GOSHEN RUBBER COMPANY, INC.
GRC EMPLOYEES 401(K) SAVINGS PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AT DECEMBER 31, 2006 AND 2005**

| | 2006 | 2005 |
|--|---------------|---------------|
| <u>ASSETS</u> | | |
| Plan interest in Parker Master Savings Plan Trust at fair value (Notes 1, 2, & 3) | \$ 12,554,187 | \$ 12,718,237 |
| <u>LIABILITIES</u> | | |
| Net Assets Available For Benefits At Fair Value | 12,554,187 | 12,718,237 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 321,707 | 175,598 |
| Net Assets Available for Benefits | \$ 12,875,894 | \$ 12,893,835 |

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

| | 2006 | 2005 |
|---|---------------|---------------|
| <u>ADDITIONS</u> | | |
| Plan interest in Parker Master Savings Plan Trust: | | |
| Interest and dividend income | \$ 499,432 | \$ 273,120 |
| Net appreciation in the fair value of investments (Notes 2 & 3) | 797,539 | 591,651 |
| Total additions | 1,296,971 | 864,771 |
| <u>DEDUCTIONS</u> | | |
| Distributions to participants | 1,304,511 | 1,316,133 |
| Trustee fees and expenses | 10,401 | 11,110 |
| Total deductions | 1,314,912 | 1,327,243 |
| Net decrease | (17,941) | (462,472) |
| Net Assets Available - Beginning of year | 12,893,835 | 13,356,307 |
| Net Assets Available - End of year | \$ 12,875,894 | \$ 12,893,835 |

The accompanying notes are an integral part of these financial statements

Table of Contents

NOTES TO FINANCIAL STATEMENTS

1. Description of the Plan

The following brief description of the Goshen Rubber Company, Inc. GRC Employees 401(k) Savings Plan and Trust (the Plan) is provided for general information purposes only. Participants should refer to the Plan document for more complete information regarding the Plan's provisions.

General

The Plan was established July 1, 1984 (and completely restated effective July 1, 2001) for the purpose of providing retirement benefits through voluntary salary reductions and employer contributions to employees of the, then, Goshen Rubber Companies, Inc. and its subsidiaries and affiliates. The Plan is a defined contribution plan intended to comply with Sections 401(a) and 401(k) of the Internal Revenue Code. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

In December 1999, Goshen Rubber Companies, Inc. was acquired by and became a wholly owned subsidiary of Wynn's International, Inc. (Wynn's). In July 2000, Wynn's was acquired by Parker Hannifin Corporation (the Company). Subsequently, Goshen Rubber Companies, Inc. was merged into Parker Hannifin.

Effective March 1, 2001, all Plan participants became eligible to participate in the Parker Retirement Savings Plan (the Parker Plan) and, as such, the Plan was amended to cease all contributions to the Plan and to close the Plan to new participants as of February 28, 2001.

Investment Elections

Participants may designate one or more of several available funds within the Parker Master Savings Plan Trust (the Master Trust) to allocate their investments. Investment elections may be changed at any time. Available funds are:

- (a) **Parker Hannifin Common Stock Fund** (Company Stock Fund) - Invested primarily in common shares of the Company purchased on the open market. A participant's contribution is limited to 50% of the total amount invested. (Fund available to participants effective March 1, 2006).
- (b) **Fidelity U.S. Bond Index Fund** - Invested primarily in bonds included in the Lehman Brothers Aggregate Bond Index.
- (c) **Vanguard Institutional Index Fund** - Invested in stocks which comprise the S&P 500 Index.
- (d) **Vanguard Extended Market Index Fund** - Invested primarily in a large sampling of stocks that match certain characteristics of the Wilshire 4500 Corporation index.
- (e) **Vanguard Developed Markets Index Fund** - Invested in two Vanguard Funds - the European Stock Index Fund and the Pacific Stock Index Fund - which seek to track the performance of the MSCI EAFE Index.
- (f) **Contract Income Fund** - Invested primarily in high-quality fixed income investments such as contracts issued by insurance companies and banks which provide a return guaranteed by the issuer, and debt securities such as notes and bonds issued by Federal agencies or mortgage backed securities, with each of these investments typically providing a stable rate of return for a specific period of time. Refer to Note 4 for a further description of this fund.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, continued

1. Description of the Plan (cont d)

- (g) PIMCO Total Return Fund Invested primarily in securities which have a fixed rate of return such as U.S. government and corporate debt securities, mortgage and other asset-backed securities, U.S. dollar and foreign currency-denominated securities of foreign issuers, and money market instruments.
- (h) Victory EB Diversified Stock Fund Invested primarily in a portfolio of common stocks of large publicly held companies and securities convertible into common stock.
- (i) AIM Mid Cap Core Equity Fund Invested primarily in equity securities, including convertible securities, of mid-capitalization companies.
- (j) Sentinel Small Company Fund Invested primarily in common stocks issued by small and medium-sized companies.
- (k) Dodge and Cox International Stock Fund Invested primarily in equity securities issued by non-U.S. companies from at least three different foreign countries, including emerging markets.
- (l) Fidelity Freedom Funds Ten mutual funds designed to help participants diversify their assets based on their life cycle. The Freedom Funds are invested in equities, fixed income and money markets based on the participant's targeted retirement date.
- (m) Equity Fund Invested primarily in common stock of high-quality medium and large capitalization companies other than the Company (The fund was closed effective March 31, 2006; all investments were transferred to the Victory EB Diversified Stock Fund).
- (n) Balanced Fund Invested primarily in securities which have a fixed rate of return such as government and high-quality corporate bills, notes, bonds, and/or invested in bonds, convertible securities, money market investments, and common stocks of high-quality medium and large capitalization companies other than the Company (The fund was closed effective March 31, 2006; all investments were transferred to the Fidelity Freedom Funds).
- (o) Capital Guardian International Equity Fund Invested primarily in common stocks, preferred stocks, warrants and rights to subscribe to common stocks of non-U.S. issuers (The fund was closed effective March 31, 2006; all investments were transferred to the Dodge and Cox International Stock Fund).
- (p) Washington Mutual Investors Fund Invested primarily in common stocks of U.S. companies (The fund was closed effective March 31, 2006; all investments were transferred to the Victory EB Diversified Stock Fund).
- (q) Janus Fund Invested primarily in common stocks of larger, more established companies that are expected to have greater than average earnings growth (The fund was closed effective March 31, 2006; all investments were transferred to the Victory EB Diversified Stock Fund).

Participant Accounts

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, continued

1. Description of the Plan (cont d)

Vesting / Payment of Benefits

Participants are fully vested at all times, accordingly, there are no forfeitures. In general, a participant's account is only paid out after termination of employment, but under certain circumstances, a participant may withdraw in cash a portion of his/her before- and/or after-tax contributions, subject to certain limitations and restrictions.

After a participant terminates employment for any reason, all amounts are distributable to the participant or if the participant is deceased, to the participant's designated beneficiary. The distribution may be deferred until the age of 70½ if the participant's interest exceeds \$5,000. Distribution is in cash either in a single payment, quarterly installments, or by purchase of an annuity. If the participant's account balance is less than \$5,000, the participant is required to take a lump sum distribution. Plan was amended effective March 28, 2005 to provide that mandatory or involuntary lump-sum distributions in an amount in excess of \$1,000, but less than \$5,000, shall only be made in the form of an automatic rollover IRA, as provided by the Plan.

Participant Loans

The Plan has a loan provision which allows an active participant to borrow a minimum of \$500 and up to the lesser of a) 50% of their account balance or b) \$50,000 less the largest outstanding loan balance he/she had in the last 12 months. The loan must be repaid, with interest equal to the prime rate at the time the loan is entered into plus 1%, over a period from 1 year to 4 1/2 years for a general purpose loan and up to ten years for a residential loan. Participant loans are valued at their outstanding balances, which approximates fair value.

Administration of the Plan

The Company serves as the administrator of the Plan. Administrative fees are paid by the Company for active participants and by the participant if retired or terminated.

Plan Termination

The Company has the right under the Plan to terminate the Plan subject to the provisions of ERISA. If the Plan were to terminate, participants would receive their account balances.

2. Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of the Plan's financial statements.

Investment Valuation

The fair value of the Plan's interest in the Master Trust is based on the beginning of year value of the Plan's interest in the trust plus allocated investment income less actual distributions and administrative expenses. Quoted market prices or net asset values of shares are used to value the underlying investments in the Master Trust. The Plan presents in the statements of changes in net assets available for benefits the net appreciation in the fair value of its investments which consists of the realized gains (losses) from the sale of investments and the unrealized appreciation (depreciation) on investments held by the Plan.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, continued

2. Significant Accounting Policies (cont d)

Risks and Uncertainties

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

Basis of Accounting

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

Use of Estimates in the Preparation of Financial Statements

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

Reclassification

Certain reclassifications have been made to the December 31, 2005 financial statements to conform with the December 31, 2006 presentation.

Payment of Benefits

Benefits are recorded when paid.

Other

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

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, continued

3. Investments

The assets of the Master Trust are held by Fidelity Management Trust Company. The Master Trust was established for the investment of assets of the Plan and other Parker Hannifin sponsored retirement plans. At December 31, 2006 and 2005, the Plan's interest in the net assets of the Master Trust was approximately 0.5% and 0.6%. The Plan's interest in the Master Trust's investment income is not proportionate to its interest in the net assets due to the ability of participants to select investments options within the Master Trust. Administrative expenses are specifically allocated to the Plan.

The following represents the value of investments at December 31, 2006 and 2005 and the related investment income for the years December 31, 2006 and 2005, respectively for the Master Trust (amounts in thousands):

| | 2006 | 2005 |
|---------------------------|--------------|--------------|
| Investments: | | |
| Money market funds | \$ 22 | \$ 80 |
| Mutual funds | 833,571 | 530,585 |
| Common / collective funds | 322,661 | 398,165 |
| Company stock fund | 849,631 | 820,645 |
| Contract income fund | 365,152 | 335,229 |
| Participant loans | 62,790 | 58,510 |
| Total Investments | \$ 2,433,827 | \$ 2,143,214 |
| Investment Income: | | |
| Interest and dividends | \$ 67,993 | \$ 42,357 |

The value of investments in the Master Trust appreciated (depreciated) in value during calendar 2006 and 2005 as follows (amounts in thousands):

| | 2006 | 2005 |
|---------------------------|------------|--------------|
| Company stock fund | \$ 111,064 | \$ (121,728) |
| Common / collective funds | 52,281 | 43,179 |
| Mutual funds | 72,760 | 4,496 |
| | \$ 236,105 | \$ (74,053) |

The Plan's interest in the Parker Master Savings Plan Trust at December 31, 2006 and 2005 of \$12,554,187 and \$12,718,237, respectively, exceeded five percent of the Plan's net assets.

Table of Contents

NOTES TO FINANCIAL STATEMENTS, continued

4. Contract Income Fund

The Contract Income Fund holds guaranteed investment contracts (GICs). Financial Accounting Standards Board Staff Position s FSP AAG INV-1 and 94-4-1 (FSP) requires that fair value be based upon the standard discounted cash flow methodology as referred to in Statement of Financial Accounting Standards No. 107 for traditional and separate account GICs and be upon market value for fixed maturity and constant duration synthetic GICs. All contracts are fully benefit-responsive.

As required by the FSP, the Statements of Net Assets Available for Benefits presents the Plan s investments at fair value within the Master Trust as well as the adjustment of the Contract Income Fund investments from fair value to contract value. The Statements of Changes in Net Assets Available for Benefits are prepared on a contract value basis.

| | 2006 | 2005 |
|---|-------|-------|
| Average yield based on actual earnings | 4.72% | 4.54% |
| Average yield based on interest rate credited to participants | 4.70% | 4.58% |

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

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

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

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

Table of Contents

NOTES TO FINANCIAL STATEMENTS, continued

5. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated December 10, 2004, that the Plan and related trust comply with applicable sections of the Internal Revenue Code (IRC). Since receiving the determination letter the Plan has been amended to provide for various administrative changes including adding additional investment options. The Plan Administrator and the Plan's tax counsel believe that the Plan continues to be designed and operated in compliance with the applicable provisions of the IRC.

6. Party-in-Interest

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

7. Form 5500 Reconciliations**Plan Investments**

| | 2006 | 2005 |
|--|---------------|---------------|
| Net assets available for benefits per the financial statements | \$ 12,875,894 | \$ 12,893,835 |
| Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (321,707) | -0- |
| Net assets available for benefits per Form 5500, Schedule H | \$ 12,554,187 | \$ 12,893,835 |

Investment Income

| | 2006 |
|--|--------------|
| Total investment income per the financial statements | \$ 1,296,971 |
| Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (321,707) |
| Total investment income per Form 5500 | \$ 975,264 |

Table of Contents

GOSHEN RUBBER COMPANY, INC. GRC EMPLOYEES 401(K) SAVINGS PLAN AND TRUST

SCHEDULE H, LINE 4(i) SCHEDULE OF ASSETS (HELD AT END OF YEAR)

AT DECEMBER 31, 2006

EIN 34-0451060

| (a) | (b) | (c) | (d) | (e) |
|--|--|------|------------------|-----|
| Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par, or maturity value | Cost | Current value | |
| * Participant Loans | Participant loans - 7.75% - 9.25% | | \$ 879,596 | |
| Total Assets (Held At End Of Year) | | | \$ 879,596 | |

* Denotes party-in-Interest

Table of Contents

SIGNATURE

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

GOSHEN RUBBER COMPANY, INC.

GRC EMPLOYEES 401(K)

SAVINGS PLAN AND TRUST

BY: Parker-Hannifin Corporation,

Plan Administrator

BY: /s/ Timothy K. Pistell

Timothy K. Pistell

Executive Vice President - Finance and
Administration and Chief Financial Officer
Parker-Hannifin Corporation,

Plan Administrator

October 9, 2007