

PARKER HANNIFIN CORP  
Form PRE 14A  
August 25, 2016  
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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  x

Filed by a Party other than the Registrant  ..

Check the appropriate box:

x 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):

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

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

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

(4) Proposed maximum aggregate value of the transaction:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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In accordance with Rule 14a-6(d) under Regulation 14A of the Securities Exchange Act of 1934, please be advised that Parker-Hannifin Corporation intends to release definitive copies of the proxy statement to security holders on or about September 26, 2016.

**PRELIMINARY COPY**

**PARKER-HANNIFIN CORPORATION**

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**OCTOBER 26, 2016**

**TO OUR SHAREHOLDERS:**

You are cordially invited to attend the Annual Meeting of 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, 2016, at 9:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect Lee C. Banks, Robert G. Bohn, Linda S. Harty, Robert J. Kohlhepp, Kevin A. Lobo, Klaus-Peter Müller, Candy M. Obourn, Joseph Scaminace, Wolfgang R. Schmitt, Åke Svensson, James R. Verrier, James L. Wainscott and Thomas L. Williams as Directors for a term expiring at the Annual Meeting of Shareholders in 2017;
2. To consider and vote upon a management proposal to adopt an amendment to our Code of Regulations to establish procedures for advance notice of Director nominations and other business at shareholder meetings;
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017;
4. To approve, on a non-binding, advisory basis, the compensation of our named executive officers;
5. To approve the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan; 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, 2016 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 refer to the back page

of this Proxy Statement for directions to attend the annual meeting.

Thank you for your support of Parker-Hannifin Corporation.

By Order of the Board of Directors  
Joseph R. Leonti  
Secretary

September , 2016

***Important Notice Regarding the Availability of Proxy Materials for  
the Annual Meeting of Shareholders to be held on October 26, 2016.***

**This Proxy Statement, along with our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, is available free of charge on our investor relations website ([www.phstock.com](http://www.phstock.com)).**

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**PRELIMINARY COPY**

**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, 2016, and at all adjournments thereof. Only shareholders of record at the close of business on August 31, 2016 will be entitled to vote at the meeting. On August 31, 2016, \_\_\_\_\_ 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 \_\_, 2016.

**GOVERNANCE DOCUMENTS**

Our Global Code of Business 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](http://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. The information contained on or accessible through our website is not a part of this Proxy Statement.

**PROXY STATEMENT SUMMARY**

This summary highlights information relating to items to be voted on at this Annual Meeting of Shareholders and compensation and corporate governance matters. Additional details are found in the discussions contained in this Proxy Statement.

**General Information for 2016 Annual Meeting of Shareholders**

Time and Date	October 26, 2016 at 9:00 A.M. EDT
Place	Parker-Hannifin Corporation  6035 Parkland Boulevard  Cleveland, Ohio 44124-4141
Record Date	August 31, 2016

**Voting Matters and Recommendations**

<i>Voting Matter</i>	<i>Board Recommendations</i>
Election of Directors	FOR ALL NOMINEES
Management proposal to adopt an amendment to our Code of Regulations to establish procedures for advance notice of Director nominations and other business at shareholder meetings	FOR
Ratification of Deloitte & Touche LLP as Independent Registered Public Accounting Firm for fiscal year ending June 30, 2017	FOR
Approve, on a non-binding, advisory basis, the compensation of our named executive officers	FOR
Approval of the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan	FOR

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We are pleased to provide the following key governance and compensation highlights, which include important changes made during fiscal year 2016. We believe that these measures will better position us to continue to drive profitable growth and financial performance and otherwise compete and win as a leading worldwide diversified manufacturer of motion and control technologies and systems, utilizing key insights drawn from engagement with our shareholders and our shareholders' votes.

Our Board of Directors is committed to sound corporate governance, promoting the long-term interests of our shareholders and holding itself and management accountable for performance. The following table summarizes some of the key elements of our corporate governance framework.

**Governance Highlights**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>ü Annual election of <u>all</u> Directors</li> <li>ü Majority voting and resignation policy for uncontested Director elections</li> <li>ü Two women serve as members of our Board of Directors</li> <li>ü Our Shareholder Protection Rights Agreement, as amended, is due to expire in February 2017 and there is no current plan for renewal</li> <li>ü Published Governance Guidelines</li> <li>ü Published Global Code of Business Conduct applicable to our Board of Directors</li> <li>ü Each Committee of our Board of Directors has a published charter that is reviewed and discussed at least annually</li> <li>ü None of our Director nominees are overboarded – five of our Directors do not sit on any other public company board of directors, seven of our Directors sit on just one other public company board of directors and one Director sits on two other public company boards of directors</li> </ul> | <ul style="list-style-type: none"> <li>ü Separate Chairman of the Board and Lead Director roles</li> <li>ü Board Committees are 100% comprised of independent Directors</li> <li>ü Independent Directors meet regularly and frequently (at least four times per year) without management present</li> <li>ü Our focus on Director refreshment recently led to the addition of two new independent Directors</li> <li>ü Annual Board and Committee evaluations</li> <li>ü Annual review of Chief Executive Officer by all independent Directors</li> <li>ü Robust stock ownership guidelines for Directors and executive officers</li> <li>ü 62% of our Director nominees have a tenure of under 10 years.</li> </ul> |
|--|--|
- Director tenure of this year's Director nominees:
- 0-5 years: 31%
- 6-10 years: 31%
- 310 years: 38%
- ü Our Sustainability Report is published annually, addressing our commitment to, and actions and oversight around, sustainability; governance, ethics and compliance; our people; the planet; and

product stewardship.

The table below highlights key aspects of our executive compensation program for fiscal year 2016. The table is not a substitute for, nor does it reflect, all of the information provided in our Compensation Discussion and Analysis and in the Compensation Tables presented later in this Proxy Statement.

#### Compensation Highlights

- ü Tax gross-ups have been eliminated from our executive compensation plans and programs on a prospective basis
- ü Annual advisory vote on executive compensation with consistent high degree of approval
- ü Clawback policy to recover or withhold incentive-based compensation paid to executive officers
- ü Chief Executive Officer's compensation package is a mix of 10% fixed and 90% at risk
- ü All future change in control severance agreements provide for double trigger vesting acceleration (a change from the practice of a modified single trigger vesting acceleration)
- ü Anti-hedging and anti-pledging policy for Directors and executive officers
- ü Executive compensation program with pay-for-performance structure aligned with The Win Strategy™
- ü Average compensation mix for Named Executive Officers other than our Chief Executive Officer is a mix of 15% fixed and 85% at risk

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**ITEM 1 ELECTION OF DIRECTORS**

Shareholder approval is sought to elect Lee C. Banks, Robert G. Bohn, Linda S. Harty, Robert J. Kohlhepp, Kevin A. Lobo, Klaus-Peter Müller, Candy M. Obourn, Joseph Scaminace, Wolfgang R. Schmitt, Åke Svensson, James R. Verrier, James L. Wainscott and Thomas L. Williams for a term that will expire at the Annual Meeting of Shareholders in 2017. Each candidate for Director is elected only if the votes for the candidate exceed the votes against the candidate. Abstentions and broker non-votes shall not be counted as votes for or against a candidate. If the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

Our Board of Directors has concluded that the nominees presented in this Item 1 Election of Directors 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 this Item 1 Election of Directors section.

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

**NOMINEES FOR ELECTION AS DIRECTORS FOR TERMS EXPIRING IN 2017**

Director since 2015

**LEE C. BANKS**

**Age:** 53

**Committees:** None

Mr. Banks has been our President and Chief Operating Officer since February 2015. He was our Executive Vice President from August 2008 to February 2015 and our Operating Officer from November 2006 to February 2015. Mr. Banks is also a Director of Nordson Corporation.

Our Board of Directors believes that Mr. Banks 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 and Chief Operating Officer and Executive Vice President and Operating Officer and in various operational leadership positions during his 24-year career with us;

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

present service on another public company board;

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, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

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Director since 2010

**ROBERT G. BOHN**

**Age:** 63

**Committees:** Audit Committee

Human Resources and Compensation 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 The Manitowoc Company, 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:** 56

**Committees:** Audit Committee (Chair)

Finance Committee

Ms. Harty has been Treasurer of Medtronic plc. (medical technology) since February 2010. Ms. Harty is also a Director of Wabtec Corporation.

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;

present service on another public company board;

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 2002

**ROBERT J. KOHLHEPP**

**Age:** 72

**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.

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.

**KEVIN A. LOBO**

Director since 2013

**Age:** 51

**Committees:** Audit Committee

Finance Committee

Mr. Lobo has been Chairman of the Board of Stryker Corporation (medical technology) since July 2014 and has been Chief Executive Officer, President and a Director since October 2012. He was President of Orthopaedics Group of Stryker from June 2011 to October 2012; and President of Neurotechnology and Spine Group of Stryker from April 2011 to June 2011.

Our Board of Directors believes that Mr. Lobo 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 at both Stryker Corporation and Johnson & Johnson, successful global medical technology and home and health care products 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 1998

**KLAUS-PETER MÜLLER**

**Age:** 71

**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.

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.

Director since 2002

**CANDY M. OBOURN**

**Age:** 66

**Committees:** Human Resources and Compensation Committee (Chair)

Corporate Governance and Nominating Committee

Ms. Obourn has been Chairman of Isoflux Incorporated (coating technologies) since April 2012. She was previously Chief Executive Officer and President of Isoflux Incorporated from August 2010 to April 2012; and Chief Executive Officer and President of ActivEase Healthcare, Inc. (women's health care products) from February 2006 to August 2010.

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 Chief Executive Officer and President of a coating technologies company, Chief Executive Officer and President of a health care products company and in senior leadership positions at other global companies 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 2004

**JOSEPH SCAMINACE**

**Age:** 63

**Committees:** Corporate Governance and Nominating Committee

Human Resources and Compensation Committee

Mr. Scaminace was a Director and Chief Executive Officer of OM Group, Inc. (metal-based specialty chemicals) from June 2005 to October 2015; Chairman of the Board of OM Group from August 2005 to October 2015; and President of OM Group from June 2005 to April 2013. Mr. Scaminace is also a Director of The Cleveland Clinic Foundation and Cintas Corporation.

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 prior leadership positions at other 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:** 72

**Committees:** Audit Committee

Corporate Governance and Nominating Committee

Now retired, Mr. Schmitt was the Chief Executive Officer of Trends 2 Innovation (strategic growth consultants) from May 2000 to April 2015.

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 prior leadership positions at other global industrial companies 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:** 64

**Committees:** Audit Committee

Finance Committee

Mr. Svensson has been a member of the Advisory Board for the Swedish Government's Public Procurement Authority since January 2016; and Chairman of Swedavia AB (transport infrastructure) since April 2016. He was previously Director General of the Association of Swedish Engineering Industries from September 2010 to August 2016; and the Chief Executive Officer and President of Saab AB (aerospace, defense and security industry) from July 2003 to September 2010. Mr. Svensson was formerly a Director of Saab AB.

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.

**JAMES R. VERRIER**

Director since 2016

**Age:** 53

**Committees:** None

Mr. Verrier has been Chief Executive Officer and Director of BorgWarner, Inc. (powertrain solutions) since January 2013; and President of BorgWarner since March 2012. He was previously Chief Operating Officer of BorgWarner from March 2012 to January 2013; and Vice President of BorgWarner and President and General Manager of BorgWarner Morse TEC Inc. from January 2010 to March 2012.

Our Board of Directors believes that Mr. Verrier 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:

service as Chief Executive Officer and President of BorgWarner, Inc., a successful global automotive industry components and parts supplier of significant size;

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

ability to work efficiently and effectively with our other Directors; and

high level of commitment, integrity, honesty, judgment and professionalism.



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Director since 2009

**JAMES L. WAINSCOTT**

**Age:** 59

**Committees:** Finance Committee (Chair)

Human Resources and Compensation Committee

Now retired, Mr. Wainscott was Chairman of the Board of AK Steel Holding Corporation (steel producer) from January 2006 to May 2016; and President, Chief Executive Officer and a Director of AK Steel Holding from October 2003 to January 2016.

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.

Director since 2015

**THOMAS L. WILLIAMS**

**Age:** 57

**Committees:** None

Mr. Williams has been our Chairman of the Board since January 2016; and our Chief Executive Officer since February 2015. He was our Executive Vice President from August 2008 to February 2015 and our Operating Officer from November 2006 to February 2015. Mr. Williams is also a Director of Chart Industries, Inc.

Our Board of Directors believes that Mr. Williams 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 Executive Vice President and Operating Officer and in various operational leadership positions during his 13-year career with us;

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

present service on another public company board;

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, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

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***ANNUAL ELECTIONS; MAJORITY 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.

In 2016, we amended our Articles of Incorporation to implement a majority voting standard in the annual election of our Directors. Initially proposed by a shareholder, we engaged with our shareholders to develop a majority vote standard that dovetailed with our previously-adopted director resignation policy and which allows for a plurality standard in the case of a contested election. Our shareholders voted on the amendment to our Articles of Incorporation to adopt majority voting in October 2015. The amendment, along with a contingent proposal to eliminate cumulative voting, passed with the support of a supermajority of all our outstanding shares. Consequently, at each Annual Meeting of Shareholders, each candidate for Director is elected only if the votes for the candidate exceed the votes against the candidate, unless the number of candidates exceeds the number of Directors to be elected, and shareholders are not able to cumulate votes in the election of Directors. Abstentions and broker non-votes shall not be counted as votes for or against a candidate. If the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

***ELECTIONS AND RETIREMENTS.***

In December 2015, William E. Kassling retired from our Board of Directors. Immediately prior to his retirement, Mr. Kassling served on both the Human Resources and Compensation Committee and the Audit Committee.

James R. Verrier was identified as a potential Director candidate by a third-party search firm and was evaluated by management and our Corporate Governance and Nominating Committee. Upon our Corporate Governance and Nominating Committee's recommendation and as permitted under our Code of Regulations, our Board of Directors elected James R. Verrier to our Board of Directors in April 2016 for a term expiring at this Annual Meeting of Shareholders. Mr. Verrier filled the vacancy created by Mr. Kassling's retirement.

***RECOMMENDATION REGARDING PROPOSAL 1:***

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR***

***EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.***

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**CORPORATE GOVERNANCE**

**BOARD OF DIRECTORS**

***MEETINGS AND ATTENDANCE; EXECUTIVE SESSIONS.***

During fiscal year 2016, there were seven 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 2015 Annual Meeting of Shareholders attended that meeting.

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 2016.

***NUMBER; CURRENT TERM; RELATIONSHIPS.***

Our Board of Directors presently consists of 14 members. The current term of each member of our Board of Directors expires at our 2016 Annual Meeting of Shareholders. Assuming the election of all of the Director Nominees, we expect our Board of Directors to consist of 13 members after the 2016 Annual Meeting of Shareholders. 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 14 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 executive compensation program for executive officers, our 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 11 individuals who currently serve as Directors are independent: Robert G. Bohn, Linda S. Harty, Robert J. Kohlhepp, Kevin A. Lobo, Klaus-Peter Müller, Candy M. Obourn, Joseph Scaminace, Wolfgang R. Schmitt, Åke Svensson, James R. Verrier 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

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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 and any of our Directors. In fiscal year 2016, 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 were independent:

1. Each of Ms. Harty and Messrs. Kohlhepp, Lobo and Verrier serves as an employee, officer and/or director of a company that has an existing customer or supplier relationship with us. Our Board of Directors further analyzed these relationships and found that none of these Directors receive any direct or indirect personal benefits as a result of these relationships, and that the amounts paid to or by us under such relationships fell significantly below the thresholds for independence provided in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. Based on such further analyses, our Board of Directors affirmatively concluded that each of these Directors is independent.
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 further analyzed this relationship and found that Mr. Müller does not receive any direct or indirect personal benefits as a result of such relationship, and that the amount of our indebtedness to Commerzbank AG is insignificant when compared to the purchase and sale thresholds for independence provided in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. We also do not have an exclusive banking relationship with Commerzbank AG in Germany or elsewhere. Based on such further analysis, our Board of Directors affirmatively concluded that Mr. Müller is independent.

***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 five 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

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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.

### ***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 proposed 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 2016, the Corporate Governance and Nominating Committee retained 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* on page 93 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

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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:

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 companies of significant size;

significant experience in operations, finance, accounting, information technologies 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 international experience or leadership positions in 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 Global Code of Business 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.

***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 Human Resources, Internal Audit and Compliance, 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 Committees of our Board of Directors are each responsible for the various areas of risk oversight as described in the Committees of the Board of Directors 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.

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 our risk management efforts.

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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 Director nominees and evaluating current Directors and Committee assignments.

**COMMITTEES OF OUR BOARD OF DIRECTORS*****BOARD COMMITTEES; COMMITTEE CHARTERS.***

Our Board of Directors has established and delegated certain authorities and responsibilities to its four standing Committees: Human Resources and Compensation Committee, Finance Committee, Corporate Governance and Nominating Committee and Audit Committee. Our Board of Directors has adopted a written charter for each of these Committees, which charters are posted and available on the Corporate Governance page of our investor relations website at [www.phstock.com](http://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.

All members of each Committee are independent under the listing standards of the New York Stock Exchange as well as our Independence Standards for Directors. Each Committee 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.

Information about the respective Committee purposes, memberships and number of meetings are reflected in the following chart:

Standing Committee	Purpose	Members in FY2016	Meetings in FY2016
Human Resources & Compensation Committee	Oversight of our processes, plans and programs for executive compensation, employee benefit and incentive compensation plans, and succession planning and talent management.	C. Obourn* R. Bohn R. Kohlhepp J. Scaminace J. Wainscott	5

		J. Wainscott*	
		L. Harty	
Finance Committee	Oversight of our capital structure and financial strategies.	K. Lobo	2
		K.P. Müller	
		Å. Svensson	
		R. Kohlhepp*	
Corporate		K.P. Müller	
Governance & Nominating Committee	Oversight of our corporate governance matters, including identifying director candidates and establishing and maintaining corporate governance principles and practices.	C. Obourn	3
		J. Scaminace	
		W. Schmitt	
		L. Harty* (ACFE)	
Audit Committee	Oversight of our audit and compliance matters, including financial integrity and reporting, accounting practices, legal and regulatory compliance, internal audit functions and processes, and outside auditor independence, qualifications and performance.	R. Bohn	
		K. Lobo (ACFE)	6
		W. Schmitt	
		Å. Svensson	

\* Committee chair

Prior to his retirement, Mr. Kassling served on both the Human Resources and Compensation Committee and the Audit Committee.

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Our Board of Directors has determined that each of Linda S. Harty, the Chair of the Audit Committee, and Kevin A. Lobo, a member of the Audit Committee, is an audit committee financial expert (designated in the above chart as ACFE) as defined in the federal securities laws.

Each of our Committees works with the applicable members of our Human Resources, Internal Audit and Compliance, Legal, Tax, Risk Management, Treasury and Finance departments and other management personnel to oversee and evaluate risks of concerns to each committee.

***THE HUMAN RESOURCES AND COMPENSATION COMMITTEE.***

As described on page 26 of this Proxy Statement, the Human Resources and Compensation Committee has various duties and responsibilities with respect to the administration, oversight and determination of our executive compensation program. 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 and relating to; 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 the Human Resources and Compensation Committee's 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 2016, 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 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 our risk-reward structure, or otherwise present significant risks to our business.

During our fiscal year 2016 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;

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;

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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 the 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 Global Code of Business 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 2016 review.

***THE FINANCE COMMITTEE.***

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 the financial aspects of our qualified and non-qualified employee benefit plans. In addition, the Finance Committee works with our Legal, Tax, Risk Management, Treasury, 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).

***THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE.***

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

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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 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. Each Director who is a member of our Audit Committee is independent, as defined in our Independence Standards for Directors and in compliance with the independence standard applicable to audit committee members in the listing standards of the New York Stock Exchange and under 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 evaluating 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 Internal Audit and Compliance, 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 Global Code of Business Conduct and other policies; and

litigation and claims.

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 Internal Audit and Compliance supervises these programs and discusses issues related to these programs directly with 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 and Compliance.

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**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 Global Code of Business 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 Global Code of Business 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 2016, we reviewed the annual questionnaires and determined that no potential related-party transactions exist. This review included a detailed evaluation of the transactions reviewed and analyzed by our Board of Directors in determining Director independence as described in the Director Independence section beginning on page 11. Based on management's review and analysis, no potential related-party transactions were presented to the

Corporate Governance and Nominating Committee for analysis, consideration or approval.

***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 2016.

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**COMPANY PROPOSAL RELATING TO CORPORATE GOVERNANCE MATTERS**

**ITEM 2 ADOPTION OF AN AMENDMENT TO OUR CODE OF REGULATIONS TO ESTABLISH PROCEDURES FOR ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND OTHER BUSINESS AT SHAREHOLDER MEETINGS**

Under this Item 2, we are asking our shareholders to approve an amendment to our Code of Regulations to provide advance notice procedures for Director nominations and other business conducted at meetings of our shareholders. Currently, our Code of Regulations contains no provisions that set forth procedural requirements regarding a shareholder's ability to propose business at shareholder meetings or nominate candidates for election to our Board of Directors. While SEC rules require a shareholder to notify a public company within a specified period of time prior to a meeting of shareholders if the shareholder seeks to include a proposal in the company's proxy statement, SEC rules do not prohibit a shareholder from bringing unexpected business before the meeting in person.

Sensible rules of order for the conduct of shareholder meetings are prudent because they promote transparency and protect companies from special interest groups that may seek to leverage surprise tactics to the disadvantage of companies and their shareholders. Our Board of Directors believes that this amendment would provide for an orderly process without diminishing shareholder rights in any meaningful way. Our shareholders would enjoy rights to bring business and nominate Director candidates at our shareholder meetings as long as they simply notify us beforehand. Our Board of Directors further believes that this amendment would secure a reasonable amount of time for us and our shareholders to provide full and thoughtful responses to all proposed business and nominations, and that it would protect us and our shareholders from factions seeking to impose policies, strategies or limitations that they believe would be rejected if given full, fair and open consideration.

The proposed amendment provides that a shareholder that desires to propose business at an annual meeting of shareholders must deliver a notice to the Secretary of the Company not less than 30 days nor more than 60 days prior to the first anniversary of the previous year's annual meeting of shareholders. If, however, the date of the annual meeting of shareholders is more than 30 days before or more than 60 days after the first anniversary of the previous year's annual meeting of shareholders, shareholders would instead be required to deliver such notice not later than the later of the 30th day prior to the meeting and the tenth day following the day on which we first publicly disclose the date of the meeting. The proposed amendment would also require the notice to be in a certain form that includes information about the item of business to be brought by the shareholder before the meeting and specific information about the shareholder and its interests, which the shareholder must update as necessary. The proposed amendment would also prohibit shareholders from proposing business, other than, in some cases, the nomination of persons for election as Director, at special meetings of shareholders if they, themselves, did not call the special meeting pursuant to our Code of Regulations.

The proposed amendment also provides that shareholder nominations of persons for election as Director may be made only at annual meetings of shareholders or special meetings of shareholders called for the purpose of electing Directors. The proposed amendment further provides that a shareholder that desires to nominate a candidate for election as Director (a) at an annual meeting of shareholders must deliver a notice to the Secretary of the Company within the same time frames as required with respect to other business to be conducted at an annual meeting of shareholders, as described in the paragraph above, and (b) at a special meeting of shareholders must deliver notice to the Secretary of the Company promptly after the date such meeting is publicly disclosed, but in no event later than five business days after the date of such disclosure. The notice delivered to the Company must include specific information about the nominating shareholder, as well as about the proposed nominee, which the nominating shareholder must update as necessary.

The proposed amendment does not affect any rights of shareholders to request inclusion of proposals in our annual proxy statement pursuant to Rule 14a-8 under the Exchange Act.

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The actual text of the proposed amendment to our Code of Regulations is attached to this Proxy Statement as Annex A. The amendment will become effective upon shareholder approval of Item 2.

**Shareholder Approval**

The affirmative vote of the holders of shares of our common stock entitling them to exercise a majority of the voting power of such shares is necessary to amend the Company's Code of Regulations to include the proposed amendment, as described in this Item 2. Abstentions and broker non-votes will have the same effect as votes cast against this Item 2.

***RECOMMENDATION REGARDING PROPOSAL 2:***

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR  
THE PROPOSAL TO APPROVE AN AMENDMENT TO OUR CODE OF REGULATIONS  
TO ESTABLISH PROCEDURES FOR ADVANCE NOTICE OF DIRECTOR NOMINATIONS  
AND OTHER BUSINESS AT SHAREHOLDER MEETINGS.***



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**COMPENSATION DISCUSSION AND ANALYSIS**

***EXECUTIVE SUMMARY FISCAL YEAR 2016.***

***Objectives and Philosophies of the Executive Compensation Program.***

The Win Strategy™ has been the foundation of our business and has represented the unified vision of our employees worldwide since it was first introduced in fiscal year 2001. In September 2015 we introduced a refreshed Win Strategy to our employees and our shareholders. The Win Strategy defines the key goals, operational priorities and metrics used to profitably grow our business. 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, continuity of leadership, 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;

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

promote accountability by providing executive officers an optimal mix of cash and equity compensation, 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, among others, the Chief Executive Officer, Chief Financial Officer and the four other most highly compensated executive officers identified in the Summary Compensation Table for Fiscal Year 2016 on page 52, which we refer to as the Named Executive Officers.

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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.

<b>Category of Compensation</b>	<b>Element(s) of Compensation</b>	<b>Defined/Described Beginning on:</b>
Base Salaries	Base Salaries	Page 33
Annual Cash Incentive Compensation	Target Incentive Bonuses	Page 35
	General RONA Bonuses	Page 36
	Converted RONA Bonuses	Page 36
	PGI Plan	Page 39
Long-Term Incentive Compensation	LTIP Awards	Page 40
	Stock Incentives	Page 42
Employee Benefits	Various	Page 43
Executive Perquisites	Various	Page 49

***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. Our program is also structured to ensure that the compensation for our executive officers 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 30 describes our policies and practices for allocating executive compensation among the various categories and elements.

To illustrate, the chart 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 for the Named Executive Officers. The percentages of total compensation reflected in this chart were calculated using each Named Executive Officer's fiscal year 2016 base salary, target annual cash incentive compensation and target long-term incentive compensation.

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**Emphasis on Sustained Performance**

The **Elements of Executive Compensation** section beginning on page 33 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. Our compensation structure includes both fixed and at-risk compensation as noted above, the various cash and equity elements of which may be depicted generally as follows:

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We provide base salaries, 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 illustrated in the following table, we provide each element of annual cash incentive compensation and each element of long-term incentive compensation primarily to encourage and reward performance that implements and advances The Win Strategy, in particular our strategies and goals relating to financial performance and profitable growth, aligning such elements with our performance in certain key financial metrics that we use to measure the overall performance of our business. The following table shows the behaviors, key financial metrics and fiscal year 2016 results driven by each element of at-risk compensation provided to the Named Executive Officers.

Element of Compensation	Encourages executive officers to maximize...	By focusing on various key business strategies, such as...	Fiscal year 2016 results...
RONA Bonuses (General and Converted)	return on net assets	strategic pricing and procurement, innovative products, system solutions and strong distribution	Our return on consolidated net assets was above target
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 and product innovations	Our operating cash flows were \$1.2 billion or 10.5% of sales, resulting in a free cash flow margin of 10.74%*
Profitable Growth Incentive Plan**	sales growth (organic and through acquisitions)	profitable and sustainable sales growth	The Profitable Growth Incentive Plan multiplier was applied to Mr. Weeks' General RONA Bonus with the effect of

			lowering his General RONA Bonus payout by approximately 9%
LTIP Awards	long-term revenue growth, earnings per share growth, and growth in average return on invested capital	product innovation, on-time delivery of quality products, value-added services and systems, strategic procurement of goods and services, lean operations, strategic pricing and profitable growth	We achieved top quartile performance for average return on invested capital, but were below median on revenue growth and EPS, resulting in a payout at 85% of target
Stock Incentives	our stock price	sustained profitable growth and financial and operational performance that contribute to appreciation of our stock price	Our average daily closing per share stock price was \$105.68 in fiscal year 2016, as compared to \$120.64 in fiscal year 2015

\* Free cash flow margin is calculated as disclosed on page 36.

\*\* Our Profitable Growth Incentive Plan is applicable only to our operating group presidents; as such, Mr. Weeks (Vice President and President - Hydraulics Group) is the only Named Executive Officer who was subject to the Profitable Growth Incentive Plan in fiscal year 2016.

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***Highlights and Significant Changes to Executive Compensation Program during Fiscal Year 2016.***

We continue to maintain several long-standing compensation practices that we believe contribute to good corporate governance, including our claw-back policy described beginning on page 32, our stock ownership guidelines described on page 33, our hedging, pledging and other stock ownership restrictions described on page 33, and our annual compensation risk review described beginning on page 16. In fiscal year 2016 we also instituted the following compensation practices:

***Elimination of Tax Gross-Ups:*** After conducting internal reviews and external discussions with shareholders, we have eliminated tax gross-ups from our executive compensation plans and programs (i.e., our executive officer change in control severance agreements, executive deferral plan, and private club initiation fee policy) on a prospective basis.

***Elimination of Modified Single Trigger:*** In the process of reviewing and prospectively eliminating tax gross-ups from our executive officer change in control severance agreements, we also considered other market compensation practices and trends. As a result, we decided to further amend our executive officer change in control severance agreement on a prospective basis to provide for a double trigger vesting acceleration rather than continuing under a modified single trigger vesting acceleration.

***ADMINISTRATION, OVERSIGHT AND DETERMINATION OF EXECUTIVE COMPENSATION.***

***Human Resources and Compensation Committee.***

The Human Resources and Compensation Committee, which we refer to in this Compensation Discussion & Analysis as the Committee, consists solely of our independent directors and 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](http://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

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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 except for Messrs. Washkewicz and Weeks. Mr. Weeks is reviewed and evaluated by Mr. Banks. When Mr. Washkewicz was in an executive officer position during fiscal year 2016, his review and evaluation was conducted by our Board of Directors. 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.

Our Chief Executive Officer, our Chief Operating Officer, our Executive Vice President Human Resources & External Affairs and our Secretary attend all meetings of the Committee other than appropriate executive sessions, and neither our Chief Executive Officer nor our Chief Operating Officer attends any meetings relating to his performance or compensation. 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 is a wholly owned subsidiary of Marsh & McLennan Companies, Inc. The Committee first engaged Mercer in fiscal year 2009 following a robust procurement process involving multiple consulting firms. Mercer emerged from that process as the Committee's provider of choice based on its level of expertise and financial and strategic fit. Mercer reports directly to the Committee and attends all meetings of the Committee. The Committee has sole authority for the appointment, removal, replacement, compensation and oversight of Mercer and its affiliates for executive officer and director compensation matters.



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Mercer provides 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 considers this annual review when establishing compensation levels and otherwise to 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 diversified industrial companies 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, when necessary or advisable, 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. In evaluating the Peer Group companies, the Committee looks for companies in the Diversified Industrials industry/sector with similar characteristics and business strategies to ours. The Peer Group for fiscal year 2016, which was the same as the Peer Group for fiscal year 2015, consisted of the following companies:

Caterpillar Inc.	Emerson Electric Co.	Johnson Controls, Inc.
Cummins Inc.	Flowserve Corporation	Pall Corporation
Danaher Corporation	Honeywell International, Inc.	Rockwell Automation, Inc.
Deere & Company	Illinois Tool Works Inc.	SPX Corporation
Dover Corporation	Ingersoll-Rand plc	Textron, Inc.
Eaton Corporation plc	ITT Corporation	

Other executive officer and director compensation consulting services provided for the Committee by Mercer during fiscal year 2016 included:

preparing for and participating in the Committee's meetings and conference calls, including advance and subsequent meetings with the chair of the Committee and senior management;

gathering and analyzing market compensation data for our executive compensation program relative to our Peer Group and other applicable survey data;

conducting pay-for-performance review to evaluate the level of alignment between our executive compensation program and performance levels relative to our Peer Group;

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

assessing our free-cash flow performance versus peers over a one, three and five-year period;

working with management to conduct the annual compensation risk review described beginning on page 16 of this Proxy Statement; and

periodically assisting management in calculating incentive compensation payouts and addressing other appropriate executive and director compensation matters, including review and consultation relating to change-in-control and tax gross-up payment practices.

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For fiscal year 2016, we paid \$272,405 in fees, administrative charges, out-of-pocket expenses and other costs to Mercer for executive officer and director compensation consulting services provided for the Committee.

Management directly engages Marsh & McLennan Companies, Inc. and its affiliates (including Mercer) 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; and

providing services as an insurance broker.

For fiscal year 2016, we paid \$2,098,806 in fees, administrative charges, commissions, out-of-pocket expenses and other costs to Marsh & McLennan Companies, Inc. and its affiliates (including Mercer) for these additional services. The majority of these fees were not paid pursuant to engagements of Marsh & McLennan Companies, Inc. by management, but were rather either paid by our third-party administrators to Marsh & McLennan Companies, Inc. relating to risk insurance and for our insurance and prescription drug services provided under our employee health and welfare plans, or were direct engagements with Marsh & McLennan Companies, Inc. made by various divisions all over the world for market surveys related to those particular divisions. The consolidated revenues of Marsh & McLennan Companies, Inc. were \$12.893 billion as reported in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The Committee has considered and assessed all relevant factors, including but not limited to those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Securities Exchange Act of 1934, that could give rise to a potential conflict of interest with respect to Mercer. Based on this review, we are not aware of any conflict of interest that has been raised by the work performed by Mercer. 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;

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

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 that are not directly related to executive officer or director compensation services for the Committee; and

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the amounts paid to the Mercer consultants by the Committee are not directly impacted by any growth in the fees we pay to Marsh & McLennan Companies, Inc. and its affiliates (including Mercer).

***GENERAL POLICIES AND PRACTICES RELATING TO EXECUTIVE COMPENSATION.***

***Allocation of Executive Compensation.***

The Committee seeks to provide a package of compensation, employee benefits and executive perquisites which is adequate to keep us competitive in attracting, retaining and motivating present and future executive officers. Annually, base salaries, target annual cash incentive compensation and long-term incentive compensation for each executive officer is compared to the median of companies included in Mercer's annual review with the objective that, in the aggregate, our compensation generally remains at the median of the Peer Group.

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 objectives 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 and is in consideration of the best interest of our shareholders. 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 considers Mercer's annual review as it sets the total of each executive officer's base salary and annual cash incentive compensation to ensure that it is reasonable in the context of the midpoint value of his or her comparable position within the companies included in the annual review. The Committee also considers Mercer's annual review as 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 does not offer any element to an executive officer that is not available to other executive officers. As described on page 39, however, the PG RONA Multiplier is applied only to operating group presidents, and, therefore, not to any of our Named Executive Officers other than Mr. Weeks.

### ***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).

The 2015 Performance Bonus Plan, approved by our shareholders at the 2015 Annual Meeting of Shareholders, is designed to allow annual cash incentive compensation and long-term incentive compensation awarded under the plan to potentially qualify as performance-based compensation exempt from the \$1,000,000 deduction limit under Section 162(m). The Committee 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. The Committee grants LTIP Awards under the Performance Bonus Plan due to the unpredictability over a long-term period of 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).

In fiscal year 2016, the Committee awarded Target Incentive Bonuses and General RONA Bonuses under the Performance Bonus Plan to each of the Named Executive Officers other than Messrs. Leonti and Weeks. Because the Committee did not award any Converted RONA Bonuses under the Performance Bonus Plan in fiscal year 2016, or

under any other Section 162(m) qualified plan, these elements of compensation do not qualify as performance-based compensation under Section 162(m).

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***Committee Discretion.***

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 (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), except that, as previously disclosed, such discretion was also exercised with respect to Target Incentive Bonuses in 2015.

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 downward 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 downward discretion 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 annual cash incentive compensation outside the Performance Bonus Plan and after taking into account individual performance and contributions to the success of our business. In addition, as described beginning on page 40, our calculation methodology for LTIP Award payouts will also allow the Committee to exercise this discretion with respect to LTIP Award payouts.

***CLAW-BACK POLICY.***

Our Board of Directors adopted a claw-back policy which allows us to recover or withhold any Target Incentive Bonuses, General RONA Bonuses, Converted RONA Bonuses or LTIP Awards 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

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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.***

The Committee recommended, and in 2015 our Board of Directors approved, amended 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. These current guidelines for our directors and executive officers are as follows:

<b>Participants</b>	<b>Guidelines</b>
Chairman of the Board and Chief Executive Officer	Five times annual base salary
President and Chief Operating Officer	Four 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	Five times annual retainer

The recommended time period for achieving compliance with the guidelines is five years from election or appointment to the position that is subject to the guidelines. The Committee reviews share ownership information with the Chief Executive Officer in August of each year to ensure compliance with the guidelines. As of June 30, 2016, 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 or pledging 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, continuity of leadership, 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.

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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 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. However, at the August 12, 2015 meeting of the Committee, in combination with other ongoing cost reduction and restructuring actions taken by the Company to adjust for weak macro-economic and end-market conditions, the Committee decided not to make any increase in the base salaries for any of the Named Executive Officers in fiscal year 2016 other than for Mr. Weeks. Mr. Weeks received an increase in his base salary due to his promotion to Vice President and President Hydraulics Group effective September 1, 2015. During fiscal year 2016, the Named Executive Officers received the base salaries included in the Salary column of the Summary Compensation Table for Fiscal Year 2015 on page 52.

***Annual Cash Incentive Compensation.***

Our executive officers are eligible to receive annual cash incentive compensation based on pre-determined financial and growth objectives that are dependent on free cash flow margin, return on net assets and revenue growth. This category of compensation consists of three specific elements, which we refer to as Target Incentive Bonuses, General RONA Bonuses, and Converted RONA 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 39, Mr. Weeks is the only Named Executive Officer whose General RONA Bonus is subject to the application of our Profitable Growth Incentive Plan, which we refer to as the PGI Plan.

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 2016, for example, target values of Target Incentive Bonuses and General and Converted RONA Bonuses represented 146% of base salary for our former Chairman of the Board, 132% of base salary for our Chief Executive Officer, 88% of base salary for our Chief Financial Officer, 101% of base salary for our President and Chief Operating Officer and 62%-77% of base salary for all other executive officers. Except as otherwise noted, the following table reflects the target percentage of base salary represented by Target Incentive Bonuses and General and Converted RONA Bonuses for each Named Executive Officer at the beginning of fiscal year 2016:

Named Executive Officer	Target Percentage of Base Salary Target Incentive Bonuses and General and Converted RONA Bonuses
Thomas L. Williams	132%
Jon P. Marten	88%
Lee C. Banks	101%
Joseph R. Leonti	77%
Andrew M. Weeks*	72%
Donald E. Washkewicz**	146%



- \* For Mr. Weeks, the target percentage of base salary represented by his Target Incentive Bonus and General and Converted RONA Bonuses are as of September 1, 2015 when he began participating in our executive compensation programs due to his promotion to Vice President and President Hydraulics Group.
  
- \*\* Mr. Washkewicz did not receive a Converted RONA Bonus. Accordingly, his amount reflects the target percentage of base salary represented by Target Incentive Bonuses and General RONA Bonuses only.

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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.***

During fiscal year 2016, 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 initiatives, controlling inventory, collecting receivables, controlling accounts payable and limiting capital expenditures. We have also identified a strong correlation between increases in free cash flow and increases in operating earnings.

Target Incentive Bonuses are designed to directly reward executive officers for free cash flow margin performance against our annual plan and the performance of the Peer Group. Specifically, the Committee determines the target awards for each of the executive officers and establishes the levels of performance for threshold target and maximum payouts after evaluating our annual plan for free cash flow margin and the one-year, three-year and five-year average free cash flow margin within the Peer Group. Based on this data, the Committee estimated that 6%, 8% and 10% 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 2016, and developed the following table to illustrate how final fiscal year 2016 Target Incentive Bonus amounts would be calculated:

	Less than			Greater than or equal
<b>FY16 Free Cash Flow Margin:</b>	6%	8%	10%	to 10%
<b>Payout %</b>	0%	50%	100%	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 2016 was 8% 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%, representing top quartile free cash flow margin. This table also illustrates that no Target Incentive Bonuses would be paid if our free cash flow margin for fiscal year 2016 was less than 6%. The payout percentage that is applied is interpolated on a linear basis between the points in the above table.

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In addition, the Committee approved the following target awards for each of the Named Executive Officers:

Named Executive Officer	Target Awards Target Incentive Bonuses
Thomas L. Williams	\$500,000
Jon P. Marten	\$230,000
Lee C. Banks	\$320,000
Joseph R. Leonti	\$125,000
Andrew M. Weeks*	\$ 82,000
Donald E. Washkewicz	\$520,000

\* Mr. Weeks received his target award effective September 1, 2015 due to his promotion to Vice President and President Hydraulics Group. This target amount was pro-rated at payout based on the 10 months during fiscal year 2016 he served as an executive officer.

Our actual free cash flow margin for fiscal year 2016 was 10.74% (calculated by taking the difference of cash flow from operating activities for fiscal year 2016 of \$1,169,843,000 less capital expenditures for fiscal year 2016 of \$149,407,000 plus \$200,000,000 of discretionary pension contributions for fiscal year 2016 and dividing it by net sales for fiscal year 2016 of \$11,360,753,000). As a result, each of the Named Executive Officers received 200% of his target award. These amounts are included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal Year 2016 on page 52.

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 45.

***General RONA Bonuses and Converted RONA Bonuses.***

During fiscal year 2016, 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. The Committee awards Converted RONA Bonuses to our executive officers in place of certain executive perquisites. 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 Operating 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.

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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 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 operating 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 44 or the Savings Restoration Plan described beginning on page 44. Converted RONA Bonuses are also not considered in calculating benefits under the Pension Plan described beginning on page 43, the Pension Restoration Plan described on page 46, the Supplemental Retirement Program described beginning on page 46, the Defined Contribution Supplemental Retirement Program described on page 47, the Executive Long-Term Disability Plan described on page 48 and the Change in Control Agreements described on page 48. 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.

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.

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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 2016, the Committee reviewed Mercer's annual review to ensure the target General RONA Bonuses and Converted RONA Bonuses are reasonable in relation to the median of similar compensation offered within the companies included in Mercer's annual review. The Committee then established for each of the Named Executive Officers the following General RONA Bonus target payout amounts:

<b>Named Executive Officer</b>	<b>General RONA Bonus Target Payout Amount</b>
Thomas L. Williams	\$750,000
Jon P. Marten	\$295,875
Lee C. Banks	\$467,500
Joseph R. Leonti	\$143,640
Andrew M. Weeks*	\$160,382
Donald E. Washkewicz	\$722,500

\* Mr. Weeks received a General RONA Bonus target payout amount of \$142,294 at the beginning of fiscal year 2016, with an adjusted target payout amount of \$164,000 effective September 1, 2015 due to his promotion to Vice President and President Hydraulics Group. This amount reflects the applicable pro-rated target payout amount.

During fiscal year 2016, the Committee also established for each of the Named Executive Officers the following Converted RONA Bonus target payout amounts:

<b>Named Executive Officer</b>	<b>Converted RONA Bonus Target Payout Amount</b>
Thomas L. Williams	\$72,000
Jon P. Marten	\$49,543
Lee C. Banks	\$71,825
Joseph R. Leonti	\$49,383
Andrew M. Weeks*	\$49,383
Donald E. Washkewicz	\$ 0

\* Mr. Weeks received his Converted RONA Bonus target payout amount effective September 1, 2015 due to his promotion to Vice President and President Hydraulics Group. This target payout amount was pro-rated at payout based on the 10 months during fiscal year 2016 he served as an executive officer.

Each of the Named Executive Officers received the General RONA Bonuses and Converted RONA Bonuses included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal Year 2016 on page 52. In arriving at these amounts, the Committee compared the original target award opportunities for executive officers receiving General RONA Bonuses under the Performance Bonus Plan (including the Named Executive Officers other than Messrs. Leonti and Weeks) with the final payout amounts of annual cash incentive compensation for the other executive officers including Messrs. Leonti and Weeks, and



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evaluated the individual performance and contributions to the success of our business of the executive officers receiving General RONA Bonuses under the Performance Bonus Plan (including the Named Executive Officers other than Mr. Leonti and Weeks). Based on that comparison and evaluation, the Committee determined that it would be appropriate to exercise downward discretion and reduce the final General RONA Bonus payout amounts for General RONA Bonuses awarded to the Named Executive Officers under the Performance Bonus Plan between 47% and 51%, with an average reduction of approximately 50%. The amounts reported in the table represent the final amounts paid to the Named Executive Officers (other than Messrs. Leonti and Weeks) following that exercise of discretion. Messrs. Leonti and Weeks' General RONA Bonus were awarded outside of the Performance Bonus Plan and, therefore, they received a payout calculated in the manner described beginning on page 37.

**Profitable Growth Incentive Plan:** Our PGI Plan is designed to implement the strategies and advance the goals of the Win Strategy by encouraging and rewarding participants for sales growth, organically and through acquisitions. The Committee identified sales growth, organically and through acquisitions, as a performance measure critical to advance the financial performance and profitable growth goals of the Win Strategy. Under the PGI Plan, the General RONA Bonuses for participants may be adjusted after each fiscal year on the basis of a multiplier, which we refer to as the PG RONA Multiplier, that is determined by the three-year compound annual growth rate of external customer sales for the applicable operating group or division, which we refer to as 3-year CAGR. The following table sets forth examples of the PG RONA Multiplier that may be applied to, and which may adjust, the General RONA Bonuses under the PGI Plan after each fiscal year:

	Less than or equal			Greater than or equal	
<b>3-year CAGR:</b>	to -5%	3%-5%	8%	to 15%	
<b>PG RONA Multiplier:</b>	90%	100%	105%	130%	

The PG RONA Multipliers that may be applied are interpolated on a linear basis between the points in the above table. Only our operating group presidents are subject to the PGI Plan, and, therefore, the PGI Plan applies to Mr. Weeks but not to any of our other Named Executive Officers. During fiscal year 2016, a PG RONA Multiplier was applied to Mr. Weeks' final RONA Bonus, resulting in a reduced payout equal to 91.04% of the General RONA Bonus he would have otherwise received.

**Long-Term Incentive Compensation.**

The Named Executive Officers receive long-term incentive compensation consisting of long-term incentive performance awards, which we refer to as LTIP Awards, and stock appreciation rights, which we refer to as Stock Incentives. Stock Incentives granted from fiscal years 2005 to 2010 which are currently outstanding consisted of stock options with tandem stock appreciation rights. The target amounts of LTIP Awards and the number of Stock Incentives awarded to the Named Executive Officers are based on similar compensation awarded to persons holding comparable positions within the companies included in Mercer's annual review.

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

LTIP Awards are granted to eligible employees on an annual basis at the January meeting of the Committee. This meeting is typically scheduled at least one year in advance. The only exceptions to this practice are that pro-rated LTIP Awards are granted to individuals who become executive officers, are promoted to new executive officer positions or are given increased responsibilities during a performance period.

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Stock Incentives are granted to eligible employees on an annual basis at the August meeting of the Committee. This meeting is typically scheduled at least one year in advance. During fiscal year 2015, however, the Committee granted additional Stock Incentives to Messrs. Williams and Banks effective February 1, 2015, in connection with their promotions to Chief Executive Officer and President and Chief Operating Officer, respectively.

The Committee does not grant LTIP Awards or Stock Incentives to executive officers in anticipation of the release of significant positive earnings announcements or other material non-public information likely to result in changes to the price of our common stock. Similarly, the Committee does not time the release of material non-public information based on Stock Incentive grant dates.

***LTIP Awards.***

During the third quarter of fiscal year 2011, the Committee adopted a Long-Term Incentive Performance Plan Under the Performance Bonus Plan, which we refer to as the Officer LTIP Plan. The Officer LTIP Plan establishes the terms and conditions for LTIP Awards granted to our executive officers during and after fiscal year 2011.

During the third quarter of fiscal year 2016, the Committee granted to each of the Named Executive Officers, under our Officer LTIP Plan and our 2009 Omnibus Stock Incentive Plan, the following target LTIP Awards based on the following target LTIP Award values:

<b>Named Executive Officer</b>	<b>Target LTIP Award Shares</b>	<b>Target LTIP Award Values</b>
Thomas L. Williams*	31,010	\$3,500,000
Jon P. Marten	7,750	\$ 875,000
Lee C. Banks	17,720	\$2,000,000
Joseph R. Leonti	4,870	\$ 550,000
Andrew M. Weeks**	4,870	\$ 550,000
Donald E. Washkewicz	0	\$ 0

\* Mr. Williams received additional LTIP Awards for the calendar year 2014-15-16 and calendar year 2015-16-17 performance periods in the amounts of 1,640 and 2,747 target shares, respectively, effective January 1, 2016 due to his election as Chairman of the Board.

\*\* Mr. Weeks received additional LTIP Awards for the calendar year 2013-14-15, calendar year 2014-15-16 and calendar year 2015-16-17 performance periods in the amounts of 499, 1,637 and 2,468 target shares, respectively, effective September 1, 2015 due to his promotion to Vice President and President Hydraulics Group.

The target LTIP Award shares shown in this table are also included in the Estimated Future Payouts Under Equity Incentive Plan Awards Target column of the Grants of Plan-Based Awards for Fiscal Year 2016 table beginning on page 55. The Stock Awards column of the Summary Compensation Table for Fiscal Year 2016 on page 52 includes the aggregate grant date fair value of these awards in fiscal year 2016.

Under the Officer LTIP Plan, the actual payouts for these LTIP Awards will be calculated following the three-year performance period ending December 31, 2018 as follows:

The Committee will first determine if, during the performance period, we achieved an average return on average equity of 4% or an average free cash flow margin of 4%.

If at least one of these threshold performance measures are not achieved, participants will not receive a payout.

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If at least one of these threshold performance measures are achieved, participants will become eligible to receive the maximum payout of 200% of the applicable target LTIP Award value. The Committee will then, if appropriate, apply its discretion to reduce the final payouts based on any performance measures that the Committee determines to be appropriate. The Committee determined that this calculation methodology would provide the Committee with more flexibility to ensure that payout levels are as accurately reflective of the Company's performance against the Peer Group as possible and are otherwise in the best interests of our business and our shareholders.

To provide the Committee with guidelines for exercising its discretion, the Officer LTIP Plan provides that the Committee may, among other things, following the calendar year 2016-17-18 performance period compare our revenue growth, growth in fully diluted earnings per share from continuing operations and average return on invested capital from continuing operations against the corresponding results for all members of the Peer Group during their three most recent fiscal years. The Committee has identified long-term revenue growth, earnings per share growth and return on invested capital as performance measures critical to the financial performance and profitable growth goals of the Win Strategy because, among other things, they encourage our executive officers to provide 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.

Specifically, the Officer LTIP Plan provides for using weights of 20% for revenue growth, 40% for growth in fully diluted earnings per share from continuing operations, and 40% for average return on invested capital from continuing operations for the applicable performance periods, and the following table to calculate final LTIP Award payouts:

<b>Peer Group Percentile Rank:</b>	Less than 35th	35th	50th	75th or higher
<b>Payout %</b>	0%	50%	100%	200%

At the end of calendar year 2018, if we achieve an average return on average equity or an average free cash flow margin of 4% or greater, the Committee may exercise discretion in determining the appropriate payout by determining our percentile rank as compared to the Peer Group for each of the three performance measures. Using this table, the Committee will calculate the portion of the target LTIP Award value earned with respect to each performance measure. The Committee will multiply each portion by its applicable weight and add up the total to determine the total LTIP Award payout for the calendar year 2016-17-18 performance period. This table illustrates that recipients of LTIP Awards granted during calendar year 2016 will receive the maximum payout of 200% of the applicable target LTIP Award value if we rank at or above the 75th percentile among the Peer Group in the aggregate based on all three performance measures, and will receive no payout if we rank at or below the 35th percentile in the aggregate based on all three performance measures. The payout percentage that is applied is interpolated on a linear basis between the points in the above table.

LTIP Award payouts for the calendar year 2016-17-18 performance period may only be paid after the end of the applicable three-year performance period in unrestricted shares of our common stock.

The Committee designed these LTIP Awards to reward executive officers directly in relation to our long-term performance against the Peer Group. The Committee determined that requiring performance in excess of the 50th percentile for a payout in excess of 100% would encourage executive officers to achieve performance above median Peer Group performance. The Committee also determined that requiring performance at the 75th percentile for a maximum payout, and awarding no payout for performance at or below the 35th percentile, would further encourage executive officers to achieve top-quartile performance within the Peer Group.

In addition, each of the Named Executive Officers received a payout under LTIP Awards granted during the third quarter of fiscal year 2013 for the three-year performance period ending December 31, 2015. We exceeded our threshold performance measures with an average return on average equity for the three-year performance period of 18.5% and average free cash flow margin for the three-year performance period of 10%. The

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Committee decided to exercise discretion to determine the appropriate payout and determined that we achieved the following percentile rankings among the Peer Group with respect to the LTIP Award performance measures for the calendar year 2013-14-15 performance period:

Performance Measure	Result	Percentile Rank	Weighted
			Payout Percentage
Revenue growth	(9.20%)	38th	11.67%
Growth in fully diluted EPS	(10.22%)	38th	23.33%
Average return on invested capital	17.77%	56th	50.00%

As a result, each of the Named Executive Officers received the LTIP Award payout during fiscal year 2016 included in the Number of Shares Acquired on Vesting column of the Option Exercises and Stock Vested for Fiscal Year 2016 table on page 60. Each payment represents a total payout of 85% of the target LTIP Award values for the three-year performance period ended December 31, 2015.

**Stock Incentives.**

Each of the Named Executive Officers received Stock Incentives under our 2009 Omnibus Stock Incentive Plan during the first quarter of fiscal year 2016. The Committee grants Stock Incentives to executive officers to encourage and reward efforts and accomplishments that advance the goals of the Win Strategy and make other contributions to maximize our stock price.

The number of Stock Incentives granted by the Committee is determined by utilizing the Black-Scholes valuation model to convert a target dollar value into the number of Stock Incentives to be granted. The Committee uses Mercer's annual review to ensure the target dollar values are reasonable in relation to the median of similar compensation offered within the companies included in Mercer's annual review. The following table shows the Target Value and the number of Stock Incentives granted to each of the Named Executive Officers in the first quarter of fiscal year 2016:

Named Executive Officer	Stock Incentive Grants	
	Target Value	(# of Underlying Shares)
Thomas L. Williams	\$3,000,000	67,200
Jon P. Marten	\$ 875,000	19,600
Lee C. Banks	\$2,000,000	44,800
Joseph R. Leonti	\$ 550,000	12,320
Andrew M. Weeks	\$ 550,000	12,320
Donald E. Washkewicz	\$1,500,000	33,600

The fiscal year 2016 Stock Incentive grants shown above are also included in the All Other Option Awards: Number of Securities Underlying Options column of the Grants of Plan-Based Awards for Fiscal Year 2016 table beginning on page 55 and the Option Awards Number of Securities Underlying Unexercised Options Unexercisable column of the

Outstanding Equity Awards at June 30, 2016 table beginning on page 57. The Option Awards column of the Summary Compensation Table for Fiscal Year 2016 on page 52 includes the aggregate grant date fair value of these awards in fiscal year 2016.

As required by the terms of our 2009 Omnibus Stock Incentive Plan, all fiscal year 2016 Stock Incentives have an exercise price equal to the closing price of our common stock on the date of grant. The plan does not permit the re-pricing of Stock Incentives. The Committee analyzed the terms of our 2009 Omnibus Stock



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Incentive Plan and Mercer's annual review to establish all other terms of these Stock Incentives. All fiscal year 2016 Stock Incentives have a ten-year term and vest in one-third increments over three years following the grant date. When vested, each Stock Incentive will entitle the holder to receive the increase in value of one common share from the grant date to the date of exercise.

Upon exercise of fiscal year 2016 Stock Incentives, common shares will be issued directly to the holder. The appreciation in these Stock Incentives will be calculated by subtracting the grant price from the fair market value of the common shares at exercise, and multiplying the result by the number of Stock Incentives exercised. The number of common shares to be issued is determined by dividing that appreciation by the market price of the common shares at exercise.

During fiscal year 2016, the Named Executive Officers exercised Stock Incentives previously granted under our 2009 Omnibus Stock Incentive Plan and 2003 Stock Incentive Plan, which are included in the Option Awards Number of Shares Acquired on Exercise column of the Option Exercises and Stock Vested for Fiscal Year 2016 table on page 60.

***Employee Benefits.***

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

***Qualified Benefit Plans.***

During fiscal year 2016, the Named Executive Officers participated in the following tax-qualified benefit plans and programs:

The Parker-Hannifin Consolidated Pension Plan, which we refer to as the Pension Plan, except for Messrs. Leonti and Weeks who are not eligible to participate in the Pension Plan; and

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

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

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

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

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

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The amount of the benefit is reduced by 6% per year for each year prior to age 65 if retirement occurs and payments commence before age 65 and after age 55. We elected to freeze new participation in the Pension Plan in 2004. All participants as of April 1, 2004 were given the option to either remain in the Pension Plan or terminate in favor of maintaining a retirement income account under the Retirement Savings Plan. Employees hired after April 1, 2004, such as Messrs. Leonti and Weeks, were not eligible to participate in the Pension Plan and instead maintain a retirement income account under the Retirement Savings Plan. Each of the Named Executive Officers who are in the Pension Plan elected to remain in and continue to accrue benefits under the Pension Plan. All benefits accrued by employees who elected to terminate participation in the Pension Plan were frozen as of June 30, 2004. Those employees initiated their retirement income accounts on July 1, 2004.

The Retirement Savings Plan is a qualified defined contribution pension plan under Section 401(k) of the Internal Revenue Code. Most full-time U.S. employees are eligible to participate in the Retirement Savings Plan. Participants may make pre-tax contributions to the Retirement Savings Plan up to the applicable statutory limit. Converted RONA Bonuses are not eligible for deferral under the Retirement Savings Plan. We provide to each participant a matching contribution of 100% on the first 3% of pay contributed and 50% on the 4th and 5th percent of pay contributed on a pre-tax basis or Roth basis. As described above, certain participants also maintain a retirement income account within the Retirement Savings Plan. We provide to each holder of a retirement income account an annual contribution equal to a percentage of the amount of the participant's annual compensation up to the Internal Revenue Service statutory limit (currently \$265,000 per year), based on age and length of service. These contributions range from 0.5% to 6% of the participant's compensation which does not exceed that limit. Participants accrue earnings on contributions based on the performance of various investment funds available within the Retirement Savings Plan. The contributions made by us under the Retirement Savings Plan for the Named Executive Officers during fiscal year 2016 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2016 on page 52.

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

During fiscal year 2016, the Named Executive Officers participated in the following non-qualified benefit plans and programs:

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

The Parker-Hannifin Corporation Executive Deferral Plan, which we refer to as the Executive Deferral Plan, except for Mr. Weeks who does not participate in the Executive Deferral Plan;

The Parker-Hannifin Corporation Pension Restoration Plan, which we refer to as the Pension Restoration Plan, except for Messrs. Leonti and Weeks who are not eligible to participate in the Pension Restoration Plan as they are not participants in the Pension Plan;

The Parker-Hannifin Corporation Supplemental Executive Retirement Benefits Program, which we refer to as the Supplemental Retirement Program, except for Messrs. Leonti and Weeks who are not eligible to participate in the Supplemental Retirement Program; and

The Parker-Hannifin Corporation Defined Contribution Supplemental Executive Retirement Program, which we refer to as the Defined Contribution Supplemental Retirement Program (only Messrs. Leonti and Weeks participated in the Defined Contribution Supplemental Retirement Program).

The Savings Restoration Plan is available to employees who earn base salaries equal to or in excess of \$150,000 per year and who are otherwise eligible to participate in the plan. The Savings Restoration Plan was established to restore deferral opportunities and matching contributions lost because of statutory limits in the Retirement Savings Plan. Specifically, the Savings Restoration Plan allows executive officers to defer a portion of their pre-tax compensation and receive matching contributions from us that would have been available under

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the Retirement Savings Plan if the Internal Revenue Service statutory limit did not exist. Converted RONA Bonuses are not eligible for deferral under the Savings Restoration Plan. Each Named Executive Officer may annually defer to his Savings Restoration Plan account any portion of the compensation that he cannot defer under the Retirement Savings Plan due to the statutory limit, other than Converted RONA Bonuses, up to the greater of 20% of base pay or \$25,000. We provide to each participant a matching contribution of common stock equal to 100% on the first 3% of pay contributed and 50% on the 4th and 5th percent of pay contributed, reduced by the maximum matching contribution available to the participant under the Retirement Savings Plan. We also take into account the matching contributions made under the Retirement Savings Plan to ensure that the maximum match under both plans does not exceed \$17,000. In addition, all participants who maintain a retirement income account within the Retirement Savings Plan also maintain a separate retirement income account within the Savings Restoration Plan. We provide to each holder of a retirement income account an annual contribution equal to a percentage of the amount of the participant's annual compensation in excess of the Internal Revenue Service statutory limit determined based on age and length of service. These contributions range from 0.5% to 6% of the amount of the participant's compensation in excess of that limit. All deferrals and contributions are made under the Savings Restoration Plan by accounting entry rather than any physical exchange of cash or common stock. Participants also accrue earnings, on an accounting-entry basis, on deferrals based on the performance of various investment fund choices and on contributions based on the performance of our common stock. Participants are our unsecured creditors for their respective account balances. Account balances in the Savings Restoration Plan are paid as indicated in the chart below.

Our matching contributions made under the Savings Restoration Plan for the Named Executive Officers during fiscal year 2016 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2016 on page 52. All contributions, earnings, withdrawals, distributions and aggregate balances for the Named Executive Officers participating in the Savings Restoration Plan during fiscal year 2016 are included in the Nonqualified Deferred Compensation for Fiscal Year 2016 table on page 62.

The Executive Deferral Plan is available to executive officers and certain other key employees. The Executive Deferral Plan provides executive officers with an opportunity to defer a portion of their compensation (in addition to that deferred under the Retirement Savings Plan and the Savings Restoration Plan) on a pre-tax basis, including Target Incentive Bonuses and General RONA Bonuses, and to accumulate tax-deferred earnings on the deferrals. LTIP Award payouts and Converted RONA Bonuses are not eligible for deferral under the Executive Deferral Plan. Each executive may defer to his or her account up to 80% of base salary and 80% of General RONA Bonuses paid in August and Target Incentive Bonuses paid in August. Similar to the Savings Restoration Plan, all deferrals are made under the Executive Deferral Plan by accounting entry rather than any physical exchange of cash. Participants also accrue earnings on an accounting-entry basis based on the performance of various investment fund choices. Participants are our unsecured creditors for their respective account balances. Account balances in the Executive Deferral Plan are paid as indicated in the chart below. For those who were participants in the Executive Deferral Plan prior to January 1, 2016, prior to distribution, the balances are increased to reflect any gross-up amount necessary to offset federal excise taxes and any after-tax value the participant would have received if the account had remained in place and been paid as elected by the participant. Any balances on distribution to a participant in the Executive Deferral Plan who becomes a participant on or after January 1, 2016, are no longer increased to reflect any gross-up amount to offset federal excise taxes and any after-tax value the participant would have received if the account had remained in place and been paid as elected by the participant. All contributions, earnings, withdrawals, distributions and aggregate balances for the Named Executive Officers participating in the Executive Deferral Plan during fiscal year 2016 are included in the Nonqualified Deferred Compensation for Fiscal Year 2016 table on page 62.

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Savings Restoration Plan and Executive Deferral Plan account balances are paid out upon any of the following events as follows:

<b>Retirement:</b>	Balances are distributed to the participant in either a lump sum or in periodic installments, based on a prior election by the participant. The participant can delay the commencement of payments up to five years following retirement. Balances continue to accumulate earnings under the various investment funds at all times during the payout period.
<b>Termination Before Retirement:</b>	Balances accruing on or prior to December 31, 2004 are, at our election, distributed to the participant in either a lump sum upon termination or in periodic installments. Account balances accruing on or after January 1, 2005 are distributed to the participant in a lump sum upon termination.
<b>Disability:</b>	If we determine that a participant is totally disabled, the participant's account balance will be paid upon termination in the same manner as if he or she retired.
<b>Withdrawals During Employment:</b>	Balances can be withdrawn without penalty during employment only if we determine that the participant suffered severe financial hardship. Balances accruing on or prior to December 31, 2004 can also be withdrawn voluntarily during employment, subject to a 10% forfeiture penalty.
<b>Death:</b>	Balances are distributed to the participant's beneficiary in a lump sum or, if elected by the participant, in installments.
<b>Change in Control:</b>	Under the Savings Restoration Plan, balances accruing on or prior to December 31, 2004 are distributed to the participant in a lump sum without penalty if the participant expressly elected a lump sum. If the participant did not expressly elect a lump sum, distributions are treated as unscheduled withdrawals and are subject to a forfeiture penalty of 5% if they are withdrawn within 30 days or 10% if they are withdrawn beyond the 30-day period. Balances accruing on or after January 1, 2005 are distributed to the participant in a lump sum. Under the Executive Deferral Plan, balances are distributed to the participant in a lump sum.

The Pension Restoration Plan is available to all individuals who participate in the Pension Plan and who are otherwise eligible to participate in the Pension Restoration Plan. The Pension Restoration Plan was established to restore benefits lost because of statutory limits on the Pension Plan. Specifically, the benefits available under the Pension Restoration Plan equal the amount that would be payable to the participant under the Pension Plan in excess of the Internal Revenue Service statutory limit if that limit did not exist and the participant had not elected to defer any compensation under the Savings Restoration Plan and the Executive Deferral Plan. Similar to the Pension Plan, Converted RONA Bonuses are not considered in calculating the benefits available under the Pension Restoration Plan.

The Supplemental Retirement Program was established to provide executive officers with retirement benefits supplemental to the benefits under the Pension Plan. The benefit provided under the Supplemental Retirement Program is intended, at age 65, to provide to participants with at least 15 years of service 55% of the average of the three highest years of base salary plus annual cash incentive compensation. Similar to the Pension Plan and the Pension Restoration Plan, Converted RONA Bonuses are not considered in calculating the benefits available under the Supplemental Retirement Program. LTIP Awards and Stock Incentives are also not considered in calculating the benefits available under the Supplemental Retirement Program. The benefit is subject to reduction for early retirement, less than 15 years of service, benefits under the Pension Plan, the Pension Restoration Plan and any of our non-U.S. pension plans, 50% of primary social security benefits and 100% of any similar non-U.S. state-provided retirement benefits, and contributions to the participant's retirement



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income accounts under the Retirement Savings Plan and the Savings Restoration Plan. Participants vest at age 60, or at age 55 with the consent of the Committee, and with five years of participation in the Supplemental Retirement Program, or a lesser period established by the Committee at the time they become participants. To receive a benefit under the Supplemental Retirement Program, however, a vested participant must have at least five years of service. In January 2015, the Committee closed the Supplemental Retirement Program to new participants as of July 1, 2014.

The Defined Contribution Supplemental Retirement Program was established to provide executive officers and certain other key management employees with retirement benefits supplemental to the benefits under the Retirement Savings Plan and the Savings Restoration Plan. The Defined Contribution Supplemental Retirement Program was established to replace the Supplemental Retirement Program for executive officers who are designated as participants on or after July 1, 2014. Depending on a participant's salary grade on December 31 of each year, we provide an annual non-discretionary employer contribution of 8%, 10% or 12% of a participant's base salary, Target Incentive Bonus and General RONA Bonus that was paid during the calendar year. The Committee may determine to make an additional annual discretionary contribution to a designated participant's account. Participants vest at age 60, or at age 55 with the consent of the Committee, and with five years of participation in the Defined Contribution Supplemental Retirement Program, or a lesser period established by the Committee at the time they become participants. To receive a benefit under the Defined Contribution Supplemental Retirement Program, however, a vested participant must have at least five years of service. Messrs. Leonti and Weeks are our only Named Executive Officers who participate in the Defined Contribution Supplemental Retirement Program.

Our contributions made under the Defined Contribution Supplemental Retirement Program for Messrs. Leonti and Weeks during fiscal year 2016 are included in the "All Other Compensation" column of the Summary Compensation Table for Fiscal Year 2016 on page 52. All contributions, earnings, withdrawals, distributions and aggregate balances for the Named Executive Officers participating in the Defined Contribution Supplemental Retirement Program during fiscal year 2016 are included in the Nonqualified Deferred Compensation for Fiscal Year 2016 table on page 62.

***Health and Welfare Benefits.***

The Named Executive Officers participated in various health and welfare programs generally available to all employees during fiscal year 2016. The Named Executive Officers also participated in our Officer Life Insurance Plan and our Executive Long-Term Disability Plan, except that Mr. Washkewicz surrendered his Officer Life Insurance Plan in 2015.

Under the Officer Life Insurance Plan, we pay all required premiums for life insurance on executive officers who were participants prior to January 1, 2008 (which includes Named Executive Officers Messrs. Williams and Banks) for the longer of 10 years or until the executive officer reaches age 65. For those executive officers who were participants after January 1, 2008 (which includes Named Executive Officers Messrs. Marten, Leonti and Weeks) we pay all required premiums for life insurance until retirement up to age 65. The premiums are designed to maintain death benefits equal to:

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

four times base salary during employment and two times final base salary after retirement at age 65 for our Chief Financial Officer and our President and Chief Operating Officer; and



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

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If the participant retires between ages 55 and 65, the post-retirement death benefit is reduced by 10% of base salary for each year prior to age 65 that the participant retires. The amount of the death benefit is adjusted each year on January 1st based on the participant's base salary as of the preceding December 1st. The policies underlying the plan are cash value life insurance policies owned by the participants. The premiums we paid on behalf of the Named Executive Officers during fiscal year 2016 are included in the "All Other Compensation" column of the Summary Compensation Table for Fiscal Year 2016 on page 52.

The Executive Long-Term Disability Plan is intended to replace a reasonable amount of an executive officer's income upon disability. The plan provides a total benefit in the event of a qualifying disability of two-thirds of base salary plus Target Incentive Bonuses and General RONA Bonuses (after applying the PG RONA Multiplier if applicable) paid during the calendar year ending December 31 of the year prior to the disability, up to a maximum monthly benefit, in the case of Messrs. Williams, Marten and Banks, of \$33,000, or, in the case of Messrs. Leonti and Weeks, of \$35,000. Our executive officers are not eligible to receive the long-term disability benefit generally available to other employees.

***Change in Control Agreements.***

We are not a party to any written employment agreements with our executive officers. We have, however, entered into separate Change in Control Severance Agreements with our executive officers, which we refer to as the Change in Control Agreements. We are not obligated to pay severance to executive officers under any agreement other than the Change in Control Agreements. The executive officers are, however, eligible to receive severance upon termination for reasons other than a change in control in accordance with our general severance policy for salaried employees. The Change in Control Agreements are designed to attract, retain and motivate executive officers, provide for stability and continuity of management in the event of any actual or threatened change in control, encourage executive officers to remain in service after a change in control and ensure that executive officers are able to devote their entire attention to maximizing shareholder value and safeguarding employee interests in the event of a change in control. The Committee determined that the amounts payable under the Change in Control Agreements are reasonable and necessary to achieve those objectives. The Potential Payments upon Termination or Change of Control at June 30, 2016 tables and the related narrative descriptions beginning on page 63 provide additional information on the Change in Control Agreements, including a brief discussion of the material provisions of the Change in Control Agreements beginning on pages 66 and 68 under the captions "Payments upon a Change in Control" and "Payments upon a Qualifying Termination in Connection with a Change in Control."

***Indemnification Agreements.***

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

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

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

our business); or

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

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**Table of Contents*****Executive Perquisites.***

During fiscal year 2016, we made various executive perquisites available to each of the Named Executive Officers. These perquisites are offered to promote the business objectives for each perquisite as described below and to ensure that our executive compensation program remains competitive to attract, retain and motivate the individuals necessary to advance the goals of the Win Strategy. The costs of these perquisites for the Named Executive Officers reportable for fiscal year 2016 are included in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2016 on page 52. The Summary Compensation Table further reflects and describes payments to Mr. Weeks for reimbursement of perquisites that are not available to executive officers he received prior to becoming an executive officer.

***Private Clubs.*** We pay or reimburse initiation fees for one private club for each executive officer. Historically we also provided a gross up payment to account for taxes assessed against the executive officers with respect to those fees. In fiscal year 2016 we implemented a policy to no longer provide gross up payments on those club initiation fees and in 2016 no such gross up payments were made to any of our Named Executive Officers. We offer these perquisites to encourage executive officers to entertain business colleagues and customers, engage in social interaction with peers from other companies, local leadership and the community, and hold business meetings at offsite locations. Historically we have paid or reimbursed the initiation fees and provided gross up payments on those fees for additional clubs for the Chief Executive Officer, the Chief Financial Officer, the President and Chief Operating Officer and at the Executive and Senior Vice President levels on a business-needs basis and only with appropriate advance approval. In fiscal year 2016 we implemented a policy to no longer provide gross up payments on those fees for additional clubs and in 2016 no such gross up payments were made to any of our Named Executive Officers.

***Spousal Travel.*** In limited circumstances and only with appropriate advance approval, we reimburse our executive officers for transportation, lodging, meals, entertainment and other travel expenses for their spouses or other family members who accompany them on out-of-town business. We offer these perquisites to encourage executive officers to spend an appropriate amount of time with their direct reports in locations away from corporate headquarters, to allow executive officers and their spouses to develop a more personal relationship with the executive officers' subordinates and their families, and to encourage spouses to attend retirement parties, funerals, business dinners and other corporate functions at locations away from their homes.

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

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

***Matching Gifts Program.*** We match any amount in excess of \$20 contributed to any accredited educational institution by an active, full-time employee, retiree, or member of our Board of Directors. Our matching contributions are capped at \$5,000 per fiscal year for any individual's contribution to any single institution, and \$10,000 per fiscal year for any individual's aggregate contributions to all institutions.

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

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

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

***CONSIDERATION OF 2015 SAY-ON-PAY VOTING RESULTS.***

At our 2015 Annual Meeting of Shareholders, we received approval, based on the total votes cast, for our advisory say-on-pay vote to approve the compensation of our Named Executive Officers. The Committee and Mercer specifically considered the voting results when exploring potential changes to our executive compensation program in 2016. The Committee believes the voting results demonstrate strong, consistent support for our executive compensation program. Based on the Committee's own independent analysis and taking into consideration the continued shareholder support, the Committee made changes to the existing program as described under the Highlights and Significant Changes to Executive Compensation Program section on page 26. The Committee will continue to explore with Mercer potential improvements to our executive compensation program to the extent appropriate to keep our executive compensation program aligned with best practices in our competitive market.

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**COMPENSATION COMMITTEE REPORT**

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

**Human Resources and Compensation Committee:**

Candy M. Obourn, Chair

Robert G. Bohn

Robert J. Kohlhepp

Joseph Scaminace

James L. Wainscott

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## COMPENSATION TABLES

## SUMMARY COMPENSATION TABLE FOR FISCAL YEAR 2016

The following table sets forth compensation information for our Named Executive Officers.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension	All Other Compensation (\$)	Total (\$)
						Value and Nonqualified Deferred Compensation Earnings (\$)		
Thomas L. Williams, Executive Officer	2016	1,000,000(1)	3,062,194(3)	1,871,520(5)	1,887,760(6)	2,837,394(7)	127,460(8)	10,780,000
	2015	857,667	4,718,462	1,745,870	1,242,322	769,731	162,870	9,490,000
Chairman of the Board	2014	720,000	1,260,840	2,030,626	823,952	1,228,950	98,041	6,160,000
Marten, Financial Officer and Executive Vice President of Sales & Administration	2016	657,500(1)	670,453(3)	545,860(5)	833,051(6)	1,565,581(7)	121,909(8)	4,390,000
	2015	657,500	880,413	839,395	762,497	1,240,790	126,894	4,500,000
	2014	611,310	1,456,299	907,037	699,724	1,580,094	114,556	5,360,000
James Banks, President and Chief Marketing Officer	2016	850,000(1)	1,532,957(3)	1,247,680(5)	1,222,471(6)	2,093,986(7)	102,660(8)	7,040,000
	2015	795,167	2,818,417	1,900,379	987,524	442,954	144,090	7,080,000
	2014	720,000	1,260,840	1,539,161	823,952	1,101,243	96,292	5,540,000
R. Leonti (9), President, General Counsel and Secretary	2016	410,400(1)	421,304(3)	343,112(5)	458,465(6)	--(7)	479,043(8)	2,110,000
James M. Weeks (9), President and Vice President - Hydraulics Group	2016	400,956(1)	907,854(3)	325,618(5)	333,449(6)	--(7)	464,793(8)	2,430,000
Edward E. Washkewicz (10)	2016	485,000(1)(2)						