Saba Capital Management, L.P.
Form 4
April 10, 2019

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Saba Capital Management, L.P.

(Last) (First) (Middle)

405 LEXINGTON AVENUE, 58TH FLOOR

(Street)

NEW YORK, NY 10174

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Neuberger Berman High Yield Strategies Fund Inc. [NHS]

3. Date of Earliest Transaction (Month/Day/Year)
04/08/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 04/08/2019 | | P | | 116,890 | A | $ 11.55 | 3,629,425 | I | 0 |
| Common Stock | 04/09/2019 | | P | | 15,746 | A | $ 11.58 | 3,645,171 | I | 0 |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |
| | | | | Code | V | (A) | (D) | | | | | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| Saba Capital Management, L.P.<br>405 LEXINGTON AVENUE<br>58TH FLOOR<br>NEW YORK, NY 10174 | | X | | |
| Weinstein Boaz<br>405 LEXINGTON AVENUE<br>58TH FLOOR<br>NEW YORK, NY 10174 | | X | | |

# Signatures

| | |
|---|---|
| William Manzolillo | 04/10/2019 |
| **Signature of Reporting Person | Date |
| Boaz Weinstein | 04/10/2019 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. d that was included in the contract liabilities at July 1, 2018.
Remaining performance obligations

The Company’s backlog represents written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release has been agreed to with the customer. The Company believes its backlog represents its unsatisfied or partially unsatisfied performance obligations. Backlog at September 30, 2018 was $4,090 million, of which approximately 92 percent is expected to be recognized as revenue within the next 12 months and the balance thereafter.

Adoption of ASU 2014-09

On July 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective approach. The provisions of ASU 2014-09 were applied only to contracts that were not completed as of July 1, 2018. Comparative prior-period financial information has not been restated and continues to be reported under the accounting standards in effect for the comparative prior-year period.

The cumulative effect of the changes made to the Company’s Consolidated Balance Sheet as of July 1, 2018 related to the adoption of ASU 2014-09 is as follows:

| | Balance as of June 30, 2018 | Cumulative Effect of Adjustments | Balance as of July 1, 2018 |
|---|---|---|---|
| Assets: | | | |
| Trade accounts receivable, net | $2,145,517 | $ (11 ) | $2,145,506 |
| Inventories | 1,621,304 | 23,205 | 1,644,509 |
| Prepaid expenses and other | 134,886 | 14,575 | 149,461 |
| Investments and other assets | 801,049 | 2,020 | 803,069 |
| Liabilities: | | | |
| Other accrued liabilities | $502,333 | $ 28,288 | $530,621 |
| Other liabilities | 526,089 | 5,160 | 531,249 |
| Deferred income taxes | 234,858 | 1,560 | 236,418 |
| Equity: | | | |
| Retained earnings | $11,625,975 | $ 4,781 | $11,630,756 |

The adoption of ASU 2014-09 had an immaterial impact on the Company’s net sales, results of operations and financial position for the three months ended September 30, 2018.

4. Earnings per share

The following table presents a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three months ended September 30, 2018 and 2017.

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Numerator: | | |
| Net income attributable to common shareholders | $375,711 | $ 285,397 |
| Denominator: | | |
| Basic - weighted average common shares | 132,361,654 | 133,176,964 |
| Increase in weighted average common shares from dilutive effect of equity-based awards | 2,302,842 | 2,617,306 |
| Diluted - weighted average common shares, assuming exercise of equity-based awards | 134,664,496 | 135,794,270 |
| Basic earnings per share | $2.84 | $ 2.14 |
| Diluted earnings per share | $2.79 | $ 2.10 |

For the three months ended September 30, 2018 and 2017, 732,095 and 603,884 common shares subject to equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

5. Share repurchase program

The Company has a program to repurchase its common shares. On October 22, 2014, the Board of Directors of the Company approved an increase in the overall number of shares authorized for repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million. There is no limitation on the number of shares that can be repurchased in a fiscal year. There is no expiration date for this program. Repurchases may be funded primarily from operating cash flows and commercial paper borrowings and the shares are initially held as treasury shares. During the three-month period ended September 30, 2018, the Company repurchased 293,941 shares at an average price, including commissions, of $170.10 per share.

6. Trade accounts receivable, net

Trade accounts receivable are initially recorded at their net collectible amount and are generally recorded at the time the revenue from the sales transaction is recorded. Receivables are written off to bad debt primarily when, in the judgment of the Company, the receivable is deemed to be uncollectible due to the insolvency of the debtor. Allowance for doubtful accounts was $9,755 and $9,672 at September 30, 2018 and June 30, 2018, respectively.

7. Non-trade and notes receivable

The non-trade and notes receivable caption in the Consolidated Balance Sheet is comprised of the following components:

| | September 30, 2018 | June 30, 2018 |
|---|---|---|
| Notes receivable | $ 135,707 | $149,254 |
| Accounts receivable, other | 176,455 | 179,145 |
| Total | $ 312,162 | $328,399 |

8. Inventories

The inventories caption in the Consolidated Balance Sheet is comprised of the following components:

| | September 30, 2018 | June 30, 2018 |
|---|---|---|
| Finished products | $ 704,313 | $673,323 |
| Work in process | 861,279 | 765,835 |
| Raw materials | 197,048 | 182,146 |
| Total | $ 1,762,640 | $1,621,304 |

9. Business realignment charges

The Company incurred business realignment charges and acquisition integration costs in fiscal 2019 and fiscal 2018. The acquisition integration costs related to the fiscal 2017 acquisition of CLARCOR, Inc.

Business realignment charges and acquisition integration costs presented in the Business Segment Information are as follows:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Diversified Industrial | $8,558 | $13,263 |
| Aerospace Systems | — | 763 |
| Other expense | 55 | — |

Work force reductions in connection with such business realignment charges and acquisition integration costs in the Business Segment Information are as follows:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Diversified Industrial | 201 | 542 |
| Aerospace Systems | — | 37 |

The business realignment charges primarily consist of severance costs related to actions taken under the Company's simplification initiative aimed at reducing organizational and process complexity, as well as plant closures, with the majority of the charges incurred in Europe and North America. The Company believes the realignment actions will positively impact future results of operations but will not have a material effect on liquidity and sources and uses of capital.

The business realignment charges and acquisition integration costs are presented in the Consolidated Statement of Income as follows:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cost of sales | $4,399 | $9,115 |
| Selling, general and administrative expenses | 4,159 | 4,911 |
| Other (income), net | 55 | — |

As of September 30, 2018, approximately $2 million in severance payments had been made relating to business realignment charges and acquisition integration charges incurred during fiscal 2019, the remainder of which are expected to be paid by September 30, 2019. Severance payments relating to prior-year business realignment and acquisition integration actions are being made as required. Remaining severance payments related to current-year and prior-year business realignment actions of approximately $24 million are primarily reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. Additional charges may be recognized in future periods related to the business realignment and acquisition integration actions described above, the timing and amount of which are not known at this time.

10. Equity

Changes in equity for the three months ended September 30, 2018 and 2017 are as follows:

| | Common Stock | Additional Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Treasury Shares | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at June 30, 2018 | $90,523 | $496,592 | $11,625,975 | $(1,763,086) | $(4,590,138) | $ 5,627 | $5,865,493 |
| Impact of adoption of accounting standards | | | 1,483 | (1,734) | | | (251) |
| Net income | | | 375,711 | | | 188 | 375,899 |
| Other comprehensive income (loss) | | | | (11,163) | | (89) | (11,252) |
| Dividends paid ($0.76 per share) | | | (100,869) | | | | (100,869) |
| Stock incentive plan activity | | 6,460 | | | 21,626 | | 28,086 |
| Shares purchased at cost | | | | | (50,000) | | (50,000) |
| Balance at September 30, 2018 | $90,523 | $503,052 | $11,902,300 | $(1,775,983) | $(4,618,512) | $ 5,726 | $6,107,106 |

| | Common Stock | Additional Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Treasury Shares | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at June 30, 2017 | $90,523 | $543,879 | $10,930,348 | $(1,924,204) | $(4,378,897) | $ 5,697 | $5,267,346 |
| Net income | | | 285,397 | | | 138 | 285,535 |
| Other comprehensive income (loss) | | | | 99,701 | | (87) | 99,614 |
| Dividends paid ($0.66 per share) | | | (88,104) | | | | (88,104) |
| Stock incentive plan activity | | (14,923) | | | 31,220 | | 16,297 |
| Acquisition activity | | | | | | (29) | (29) |
| Shares purchased at cost | | | | | (50,000) | | (50,000) |
| Balance at September 30, 2017 | $90,523 | $528,956 | $11,127,641 | $(1,824,503) | $(4,397,677) | $ 5,719 | $5,530,659 |

Changes in accumulated other comprehensive (loss) in shareholders' equity by component for the three months ended September 30, 2018 and 2017 are as follows:

| | Foreign Currency Translation Adjustment and Other | Retirement Benefit Plans | Total |
|---|---|---|---|
| Balance at June 30, 2018 | $(943,477) | $(819,609) | $(1,763,086) |
| Impact of adoption of ASU 2016-01 | (1,734) | — | (1,734) |
| Other comprehensive income before reclassifications | (38,614) | — | (38,614) |

| | | | |
|---|---|---|---|
| Amounts reclassified from accumulated other comprehensive (loss) | 3,578 | 23,873 | 27,451 |
| Balance at September 30, 2018 | $(980,247 ) | $(795,736) | $(1,775,983) |

| | Foreign Currency Translation Adjustment and Other | Retirement Benefit Plans | Total |
|---|---|---|---|
| Balance at June 30, 2017 | $(925,342 ) | $(998,862) | $(1,924,204) |
| Other comprehensive (loss) before reclassifications | 72,966 | — | 72,966 |
| Amounts reclassified from accumulated other comprehensive (loss) | — | 26,735 | 26,735 |
| Balance at September 30, 2017 | $(852,376 ) | $(972,127) | $(1,824,503) |

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Significant reclassifications out of accumulated other comprehensive (loss) in shareholders' equity for the three months ended September 30, 2018 and 2017 are as follows:

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) Three Months Ended September 30, 2018 | Consolidated Statement of Income Classification |
|---|---|---|
| Retirement benefit plans | | |
| Amortization of prior service cost and initial net obligation | $ (1,641 ) | See Note 12 |
| Recognized actuarial loss | (29,297 ) | See Note 12 |
| Total before tax | (30,938 ) | |
| Tax benefit | 7,065 | Income taxes |
| Net of tax | $ (23,873 ) | |

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) Three Months Ended September 30, 2017 | Consolidated Statement of Income Classification |
|---|---|---|
| Retirement benefit plans | | |
| Amortization of prior service cost and initial net obligation | $ (2,133 ) | See Note 12 |
| Recognized actuarial loss | (39,036 ) | See Note 12 |
| Total before tax | (41,169 ) | |
| Tax benefit | 14,434 | Income taxes |
| Net of tax | $ (26,735 ) | |

11. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2018 are as follows:

| | Diversified Industrial Segment | Aerospace Systems Segment | Total |
|---|---|---|---|
| Balance at June 30, 2018 | $5,405,771 | $98,649 | $5,504,420 |
| Acquisition | 3,753 | — | 3,753 |

| | | | |
|---|---|---|---|
| Foreign currency translation and other | (23,026 ) | (3 ) | (23,029 ) |
| Balance at September 30, 2018 | $5,386,498 | $98,646 | $5,485,144 |

The acquisition line represents the original goodwill allocation during the measurement period subsequent to the applicable acquisition date.

Intangible assets are amortized on the straight-line method over their legal or estimated useful lives. The following summarizes the gross carrying value and accumulated amortization for each major category of intangible assets:

| | September 30, 2018 | | June 30, 2018 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | $264,826 | $ 121,067 | $265,423 | $ 117,440 |
| Trademarks | 545,811 | 233,800 | 546,905 | 227,580 |
| Customer lists and other | 2,472,727 | 972,396 | 2,482,079 | 933,867 |
| Total | $3,283,364 | $ 1,327,263 | $3,294,407 | $ 1,278,887 |

Total intangible amortization expense for the three months ended September 30, 2018 was $53,489. The estimated amortization expense for the five years ending June 30, 2019 through 2023 is $196,984, $186,587, $181,969, $176,074 and $168,554, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. No such events or circumstances occurred during the three months ended September 30, 2018.

12. Retirement benefits

Net pension benefit cost recognized included the following components:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Service cost | $20,509 | $23,058 |
| Interest cost | 39,866 | 35,686 |
| Expected return on plan assets | (62,877 ) | (63,176 ) |
| Amortization of prior service cost | 1,648 | 2,104 |
| Amortization of net actuarial loss | 29,293 | 38,682 |
| Amortization of initial net obligation | 4 | 5 |
| Net pension benefit cost | $28,443 | $36,359 |

During the three months ended September 30, 2018 and 2017, the Company recognized $650 and $1,089, respectively, in expense related to other postretirement benefits. Components of net pension benefit cost and other postretirement benefit cost, other than service cost, are included in other (income) expense, net in the Consolidated Statement of Income.

In September 2018, the Company made a discretionary $200 million cash contribution to its domestic qualified defined benefit plan.

13. Income taxes

On December 22, 2017, the TCJ Act was enacted into law. The TCJ Act significantly reforms the Internal Revenue Code of 1986, as amended, by among other things, establishing a flat corporate income tax rate of 21 percent and creating a territorial tax system (with a one-time transition tax imposed on previously undistributed foreign earnings and profits).

The Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for the tax effects of the TCJ Act. SAB 118 provides a measurement period that should not extend beyond one year from the TCJ Act's enactment date for companies to complete the applicable accounting under Topic 740. In accordance with SAB 118, and based on the information available, the Company has recorded provisional amounts for the remeasurement of deferred tax balances and related valuation allowances, the one-time transition tax and the repatriation of undistributed foreign earnings. The Company did not record any adjustments to these provisional amounts during the three months ended September 30, 2018.

During the period ended September 30, 2018, the Company made the accounting policy election to treat taxes related to Global Intangible Low-Taxed Income as a current period expense when incurred.

The Company and its subsidiaries file income tax returns in the United States and in various foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is open to assessment of its federal income tax returns by the U.S. Internal Revenue Service for fiscal years after 2011, and its state and local returns for fiscal years after 2012. The Company is also open to assessment for foreign jurisdictions for fiscal years after 2009. Unrecognized tax benefits reflect the difference between positions taken or expected to be taken on income tax returns and the amounts reflected in the financial statements.

As of September 30, 2018, the Company had gross unrecognized tax benefits of $151,098. The total amount of gross unrecognized tax benefits that, if recognized, would affect the effective tax rate was $151,098. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, is $22,618. It is reasonably possible that within the next 12 months the amount of gross unrecognized tax benefits could be reduced by up to approximately $120,000 as a result of the revaluation of existing uncertain tax positions arising from developments in the examination process or the closure of tax statutes. Any increase in the amount of gross unrecognized tax benefits within the next 12 months is expected to be insignificant.

14. Financial instruments

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities and other investments, accounts receivable and long-term investments as well as obligations under accounts payable, trade, notes payable and long-term debt. Due to their short-term nature, the carrying values for cash and cash equivalents, accounts receivable, accounts payable, trade and notes payable approximate fair value.

Marketable securities and other investments include deposits, equity investments and available-for-sale debt securities. Deposits are recorded at cost, and equity investments and available-for-sale debt securities are recorded at fair value. Changes in fair value related to available-for-sale debt securities are recorded in accumulated other comprehensive (loss). Upon the adoption of ASU 2016-01 on July 1, 2018, changes in fair value of equity investments are recognized in net income. Prior to the adoption of ASU 2016-01, these changes in fair value were recognized in accumulated other comprehensive (loss).

Gross unrealized gains and losses related to both equity investments and available-for-sale debt securities were not material as of September 30, 2018 and June 30, 2018. There were no facts or circumstances that indicated the unrealized losses were other than temporary.

The contractual maturities of available-for-sale debt securities were predominantly one to three years at September 30, 2018 and June 30, 2018. Actual maturities of available-for-sale debt securities may differ from their contractual maturities as the Company has the ability to liquidate the available-for-sale debt securities after giving appropriate notice to the issuer.

The carrying value of long-term debt and estimated fair value of long-term debt are as follows:

| | September 30, 2018 | June 30, 2018 |
|---|---|---|
| Carrying value of long-term debt | $ 4,354,050 | $4,460,402 |
| Estimated fair value of long-term debt | 4,399,405 | 4,548,796 |

The fair value of long-term debt is classified within level 2 of the fair value hierarchy.

The Company utilizes derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges, to manage foreign currency transaction and translation risk. The derivative financial instrument contracts are with major investment grade financial institutions and the Company does not anticipate any material non-performance by any of the counterparties. The Company does not hold or issue derivative financial instruments

for trading purposes.
The Company’s €700 million aggregate principal amount of Senior Notes due 2025 have been designated as a hedge of the Company’s net investment in certain foreign subsidiaries. The translation of the Senior Notes due 2025 into U.S. dollars is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

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Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value.

The location and fair value of derivative financial instruments reported in the Consolidated Balance Sheet are as follows:

| | Balance Sheet Caption | September 30, 2018 | June 30, 2018 |
|---|---|---|---|
| Net investment hedges | | | |
| Cross-currency swap contracts | Other assets | $ 9,598 | $ 7,614 |
| Cash flow hedges | | | |
| Costless collar contracts | Non-trade and notes receivable | 1,125 | 932 |
| Costless collar contracts | Other accrued liabilities | 2,777 | 236 |

The cross-currency swap and costless collar contracts are reflected on a gross basis in the Consolidated Balance Sheet. The Company has not entered into any master netting arrangements.

Gains or losses on derivatives that are not hedges are adjusted to fair value through the cost of sales caption in the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings.

The cross-currency swap contracts have been designated as hedging instruments. The costless collar contracts have not been designated as hedging instruments and are considered to be economic hedges of forecasted transactions.

Gains or losses on derivative financial instruments that were recorded in the Consolidated Statement of Income for the three months ended September 30, 2018 and 2017 were not material.

Gain (losses) on derivative and non-derivative financial instruments that were recorded in accumulated other comprehensive (loss) in the Consolidated Balance Sheet are as follows:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cross-currency swap contracts | $1,920 | $(6,574) |
| Foreign denominated debt | 4,127 | (16,834) |

There was no ineffectiveness of the cross-currency swap contracts or foreign denominated debt, nor was any portion of these financial instruments excluded from the effectiveness testing, during the three months ended September 30, 2018 and 2017.

A summary of financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2018 and June 30, 2018 are as follows:

| | Fair Value at September 30, 2018 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Equity securities | $ 22,262 | $22,262 | $ — | $ — |
| Corporate bonds | 4,937 | 4,937 | — | — |
| Asset-backed and mortgage-backed securities | 3,673 | — | 3,673 | — |
| Derivatives | 16,716 | — | 16,716 | — |
| Investments measured at net asset value | 9,914 | | | |

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Derivatives | 9,851 | — | 9,851 | — |

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| | Fair Value at June 30, 2018 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Equity securities | $ 2,956 | $ 2,956 | $ — | $ — |
| Corporate bonds | 5,331 | 5,331 | — | — |
| Asset-backed and mortgage-backed securities | 3,911 | — | 3,911 | — |
| Derivatives | 14,110 | — | 14,110 | — |
| Investments measured at net asset value | 7,208 | | | |
| Liabilities: | | | | |
| Derivatives | 5,315 | — | 5,315 | — |

The fair values of the equity securities, corporate bonds and asset-backed and mortgage-backed securities are determined using the closing market price reported in the active market in which the fund is traded or the market price for similar assets that are traded in an active market.

Derivatives consist of forward exchange, costless collar and cross-currency swap contracts, the fair values of which are calculated using market observable inputs including both spot and forward prices for the same underlying currencies. The calculation of fair value of the cross-currency swap contracts also utilizes a present value cash flow model that has been adjusted to reflect the credit risk of either the Company or the counterparty.

Investments measured at net asset value primarily consist of investments in fixed income mutual funds, which are measured at fair value using the net asset value per share practical expedient. These investments have not been categorized in the fair value hierarchy. The Company has the ability to liquidate these investments after giving appropriate notice to the issuer.

The primary investment objective for all investments is the preservation of principal and liquidity while earning income.

There are no other financial assets or financial liabilities that are marked to market on a recurring basis. Fair values are transferred between levels of the fair value hierarchy when facts and circumstances indicate that a change in the method of estimating the fair value of a financial asset or financial liability is warranted.

PARKER-HANNIFIN CORPORATION
FORM 10-Q
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018
AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 2017
OVERVIEW

The Company is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets.

The Company's order rates provide a near-term perspective of the Company's outlook particularly when viewed in the context of prior and future order rates. The Company publishes its order rates on a quarterly basis. The lead time between the time an order is received and revenue is realized generally ranges from one day to 12 weeks for mobile and industrial orders and from one day to 18 months for aerospace orders. The Company believes the leading economic indicators of these markets that have a strong correlation to the Company's future order rates are as follows:

- Purchasing Managers Index (PMI) on manufacturing activity specific to regions around the world with respect to most mobile and industrial markets;
- Global aircraft miles flown and global revenue passenger miles for commercial aerospace markets and Department of Defense spending for military aerospace markets; and
- Housing starts with respect to the North American residential air conditioning market and certain mobile construction markets.

A PMI above 50 indicates that the manufacturing activity specific to a region of the world in the mobile and industrial markets is expanding. A PMI below 50 indicates the opposite. Recent PMI levels for some regions around the world were as follows:

| | September 30, 2018 | June 30, 2018 | September 30, 2017 |
|---|---|---|---|
| United States | 59.8 | 60.2 | 60.8 |
| Eurozone countries | 53.2 | 54.9 | 58.1 |
| China | 50.0 | 51.0 | 51.0 |
| Brazil | 50.9 | 49.8 | 50.9 |

Global aircraft miles flown increased by approximately six percent, and available revenue passenger miles increased by approximately seven percent from their comparable fiscal 2018 levels. The Company anticipates that U.S. Department of Defense spending with regard to appropriations and operations and maintenance for the U.S. Government's fiscal year 2019 will be approximately nine percent higher than the comparable fiscal 2018 level.

Housing starts in September 2018 were approximately four percent higher than housing starts in September 2017 and approximately two percent higher than housing starts in June 2018.

The Company believes many opportunities for profitable growth are available. The Company intends to focus primarily on business opportunities in the areas of energy, water, food, environment, defense, life sciences, infrastructure and transportation. The Company believes it can meet its strategic objectives by:

- Serving the customer and continuously enhancing its experience with the Company;
- Successfully executing its Win Strategy initiatives relating to engaged people, premier customer experience, profitable growth and financial performance;
- Maintaining its decentralized division and sales company structure;
- Fostering a safety first and entrepreneurial culture;
- Engineering innovative systems and products to provide superior customer value through improved service, efficiency and productivity;
- Delivering products, systems and services that have demonstrable savings to customers and are priced by the value they deliver;
- Acquiring strategic businesses;
- Organizing around targeted regions, technologies and markets;
- Driving efficiency by implementing lean enterprise principles; and
- Creating a culture of empowerment through its values, inclusion and diversity, accountability and teamwork.

Acquisitions will be considered from time to time to the extent there is a strong strategic fit, while at the same time maintaining the Company's strong financial position. In addition, the Company will continue to assess its existing businesses and initiate efforts to divest businesses that are not considered to be a good long-term strategic fit for the Company. Future business divestitures could have a negative effect on the Company's results of operations.

The discussion below is structured to separately discuss the Consolidated Statement of Income, Results by Business Segment, Consolidated Balance Sheet and Consolidated Statement of Cash Flows.

CONSOLIDATED STATEMENT OF INCOME

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| (dollars in millions) | 2018 | | 2017 | |
| Net sales | $3,479.3 | | $3,364.7 | |
| Gross profit margin | 25.4 | % | 25.0 | % |
| Selling, general and administrative expenses | $394.3 | | $397.0 | |
| Selling, general and administrative expenses, as a percent of sales | 11.3 | % | 11.8 | % |
| Interest expense | $44.3 | | $53.6 | |
| Other (income) expense, net | $(13.9 | ) | $16.5 | |
| Effective tax rate | 18.2 | % | 23.7 | % |
| Net income | $375.9 | | $285.5 | |
| Net income, as a percent of sales | 10.8 | % | 8.5 | % |

Net sales for the current-year quarter increased compared to the prior-year quarter primarily due to higher sales in the Diversified Industrial North American businesses and the Aerospace Systems Segment. The effect of currency rate changes decreased net sales by approximately $57 million in the current-year quarter ($52 million of which was attributable to the Diversified Industrial International businesses).

Gross profit margin (calculated as net sales minus cost of sales, divided by net sales) increased in the current-year quarter primarily due to higher margins in the Aerospace Systems Segment driven by increased aftermarket and original equipment manufacturer (OEM) volume and profitability. Diversified Industrial Segment margins remained flat as higher margins in the Diversified Industrial International businesses were offset by lower margins in the Diversified Industrial North American businesses. Cost of sales for the current-year quarter and prior-year quarter also included business realignment charges and acquisition integration costs of $4.4 million and $9.1 million, respectively.

Selling, general and administrative expenses decreased for the current-year quarter primarily due to the benefits from prior-year restructuring activities and the Company's simplification initiative as well as lower incentive compensation expense. Selling, general and administrative expenses for the current-year quarter also reflected higher expense associated with the Company's deferred compensation programs, higher stock compensation expense and higher professional fees than the prior-year quarter. Selling, general and administrative expenses for the current-year quarter and prior-year quarter also included business realignment charges and acquisition integration costs of $4.2 million and $4.9 million, respectively.

Interest expense for the current-year quarter decreased from the prior-year quarter due to lower average debt outstanding and lower average interest rates.

Other (income) expense, net included the following:

| (dollars in millions) | Three Months Ended September 30, | |
|---|---|---|
| Expense (income) | 2018 | 2017 |
| Income related to equity method investments | $(22.8) | $(6.9) |
| Non-service components of retirement benefit cost | 8.5 | 14.3 |
| Sale of investment | — | 13.8 |
| Other items, net | 0.4 | (4.7) |
| | $(13.9) | $16.5 |

Effective tax rate for the current-year quarter was lower than the prior-year quarter primarily due to the reduced U.S. income tax rate resulting from enactment of the TCJ Act, partially offset by the repeal of the U.S. Manufacturing deduction and a net decrease in discrete tax benefits. The Company expects the fiscal 2019 effective tax rate will be approximately 23 percent.

RESULTS BY BUSINESS SEGMENT

Diversified Industrial Segment

| | Three Months Ended September 30, | |
|---|---|---|
| (dollars in millions) | 2018 | 2017 |
| Net sales | | |
| North America | $1,681.0 | $1,594.7 |
| International | 1,233.8 | 1,238.8 |
| Operating income | | |
| North America | 275.1 | 256.0 |
| International | $206.1 | $191.8 |
| Operating margin | | |
| North America | 16.4 % | 16.1 % |
| International | 16.7 % | 15.5 % |
| Backlog | $2,168.2 | $1,986.9 |

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The Diversified Industrial Segment operations experienced the following percentage changes in net sales in the current-year period versus the comparable prior-year period:

| | Three Months Ended September 30, 2018 Three Months |
|---|---|
| Diversified Industrial North America – as reported | 5.4 % |
| Divestitures | (0.5 )% |
| Currency | (0.3 )% |
| Diversified Industrial North America – without divestitures and currency | 6.2 % |
| | |
| Diversified Industrial International – as reported | (0.4 )% |
| Divestitures | (0.9 )% |
| Currency | (4.1 )% |
| Diversified Industrial International – without divestitures and currency | 4.6 % |
| | |
| Total Diversified Industrial Segment – as reported | 2.9 % |
| Divestitures | (0.6 )% |
| Currency | (2.0 )% |
| Total Diversified Industrial Segment – without divestitures and currency | 5.5 % |

The above presentation reconciles the percentage changes in net sales of the Diversified Industrial Segment reported in accordance with U.S. GAAP to percentage changes in net sales adjusted to remove the effects of divestitures made within the prior four fiscal quarters as well as the effects of currency exchange rates (a non-GAAP measure). The effects of divestitures and currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage changes in net sales on a comparable basis from period to period.

Excluding the effects of divestitures and changes in currency exchange rates, Diversified Industrial North American sales increased for the current-year quarter primarily due to higher demand from distributors and end-users in the engines, construction equipment, heavy-duty truck, refrigeration and industrial machinery markets, partially offset by lower demand from end users in the semiconductor, machine tool and oil and gas markets.

Excluding the effects of divestitures and changes in currency exchange rates, Diversified Industrial International sales for the current-year quarter increased primarily due to higher volume in all regions. The Asia Pacific region accounted for approximately 50 percent of the increase in sales for the current year-quarter, and Europe and Latin America each contributed approximately 25 percent. Within the Asia Pacific region, the increase in sales in the current-year quarter was primarily experienced from distributors and end users in the construction equipment market, partially offset by lower end-user demand in the cars and lights trucks and engines markets. Within Europe, end users in the heavy-truck, construction equipment, and telecommunications markets experienced the largest increase in sales during the current-year quarter, which was partially offset by lower end-user demand in the cars and lights trucks and industrial machinery markets. The increase in sales in Latin America was primarily due to higher demand from distributors and end users in the construction equipment and mining markets.

Operating margins in both the Diversified Industrial North American and International businesses for the current-year quarter increased due to higher sales volume and lower operating expenses resulting from prior-year restructuring activities and the Company's simplification initiative. In both businesses these benefits were partially offset by inefficiencies created by manufacturing facility consolidations.

The following business realignment expenses and acquisition integration costs are included in Diversified Industrial North American and Diversified Industrial International operating income:

| (dollars in millions) | Three Months Ended September 30, 2018 | 2017 |
|---|---|---|
| Diversified Industrial North America | $4.8 | $10.1 |
| Diversified Industrial International | 3.8 | 3.2 |

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The business realignment charges primarily consist of severance costs related to actions taken under the Company's simplification initiative implemented by operating units throughout the world as well as plant closures. The majority of the Diversified Industrial International business realignment charges were incurred in Europe. The Company anticipates that cost savings realized from the work force reduction measures taken in the current-year quarter will not materially impact operating income in fiscal 2019 or fiscal 2020. Acquisition integration costs primarily relate to the integration of the fiscal 2017 acquisition of CLARCOR Inc. and are primarily incurred in the Diversified Industrial North American businesses. The Company expects to continue to take the actions necessary to structure appropriately the operations of the Diversified Industrial Segment. Such actions are expected to result in approximately $26 million of additional business realignment charges and acquisition integration costs in the remainder of fiscal 2019.
Diversified Industrial Segment backlog increased from the prior-year quarter primarily due to orders exceeding shipments in both the Diversified Industrial North American and International businesses. Within the International businesses, backlog within the Asia Pacific region represented the entire amount of the increase from the prior-year quarter. Diversified Industrial Segment backlog remained sequentially flat compared to the June 30, 2018 amount of $2,167.2 million due to orders exceeding shipments in the North American businesses offset by shipments exceeding orders in the International businesses. Within the International businesses, shipments exceeding orders in Europe were partially offset by orders exceeding shipments in the Asia Pacific region. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale. The Company anticipates Diversified Industrial North American sales for fiscal 2019 will increase between 2.6 percent and 5.6 percent from their fiscal 2018 level, and Diversified Industrial International sales for fiscal 2019 will decrease between 3.7 percent and 0.7 percent from their fiscal 2018 level. Diversified Industrial North American operating margins in fiscal 2019 are expected to range from 16.4 percent to 17.2 percent, and Diversified Industrial International operating margins in fiscal 2019 are expected to range from 15.5 percent to 15.9 percent.

Aerospace Systems Segment

| | Three Months Ended March 31, | |
|---|---|---|
| (dollars in millions) | 2018 | 2017 |
| Net sales | $564.5 | $531.2 |
| Operating income | $109.9 | $77.4 |
| Operating margin | 19.5 % | 14.6 % |
| Backlog | $1,921.7 | $1,816.4 |

The increase in net sales in the Aerospace Systems Segment for the current-year quarter was primarily due to higher volume in the commercial and military OEM businesses as well as the commercial and military aftermarket businesses. The higher operating margin for the current-year quarter was primarily due to higher OEM and aftermarket volume and profitability, higher joint venture earnings and lower engineering and development costs. Operating margins in the current-year quarter also benefited from the absence of unfavorable contract settlements that occurred in the prior-year quarter.
The increase in backlog from the prior-year quarter is due to orders exceeding shipments within the commercial OEM and commercial and military aftermarket businesses, partially offset by shipments exceeding orders in the military OEM business. The decrease in backlog from the June 30, 2018 amount of $1,954.0 million is primarily due to shipments exceeding orders in the commercial and military OEM businesses, partially offset by orders exceeding shipments in the commercial and military aftermarket businesses. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale. For fiscal 2019, sales are expected to increase between 3.6 percent and 5.6 percent from the fiscal 2018 level and operating margins are expected to range from 18.1 percent to 18.5 percent. A higher concentration of commercial OEM volume in future product mix and higher than expected new product development costs could result in lower margins.

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Explanation of Responses:

Corporate general and administrative expenses

Corporate general and administrative expenses were $50.3 million in the current-year quarter compared to $41.4 million in the comparable prior-year quarter. As a percent of sales, corporate general and administrative expenses were 1.4 percent in the current-year quarter and 1.2 percent in the prior-year quarter. The primary drivers for the change in corporate general and administrative expenses between the current-year quarter and prior-year quarter were higher expenses associated with the Company's deferred compensation program and an increase in professional fees, partially offset by lower incentive compensation expense.

Other expense (in the Results By Business Segment) included the following:

| (dollars in millions) | Three Months Ended September 30, | |
|---|---|---|
| Expense (income) | 2018 | 2017 |
| Foreign currency transaction | $3.5 | $3.6 |
| Stock-based compensation | 28.5 | 25.9 |
| Pensions | 5.3 | 8.5 |
| Sale of investment | — | 13.8 |
| Other items, net | (0.6 ) | 4.2 |
| | $36.7 | $56.0 |

Foreign currency transaction primarily relates to the impact of changes in foreign exchange rates on cash, marketable securities and other investments and intercompany transactions.

CONSOLIDATED BALANCE SHEET

| (dollars in millions) | September 30, 2018 | June 30, 2018 |
|---|---|---|
| Cash | $ 992.9 | $ 855.1 |
| Trade accounts receivable, net | 2,065.2 | 2,145.5 |
| Inventories | 1,762.6 | 1,621.3 |
| Shareholders’ equity | 6,101.4 | 5,859.9 |
| Working capital | 1,989.6 | 1,887.8 |
| Current ratio | 1.60 | 1.59 |

Cash (comprised of cash and cash equivalents and marketable securities and other investments) includes $938 million and $836 million held by the Company's foreign subsidiaries at September 30, 2018 and June 30, 2018, respectively. As a result of the TCJ Act, the prior worldwide tax system was replaced by a territorial tax system, which generally allows companies to repatriate future foreign source earnings without incurring additional U.S. federal taxes. However, other U.S. or foreign taxes may be incurred should cash be distributed between the Company's subsidiaries. The Company has determined it will no longer permanently reinvest certain foreign earnings. All other undistributed foreign earnings remain permanently reinvested.

Trade accounts receivable, net are receivables due from customers for sales of product. Days sales outstanding relating to trade accounts receivable was 54 days at September 30, 2018, and 51 days at June 30, 2018. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

Inventories as of September 30, 2018 increased $141 million due to an increase in inventories in both the Diversified Industrial and Aerospace Systems Segments, partially offset by a decrease of $9 million related to the effect of foreign currency translation. Within the Diversified Industrial Segment, approximately 60 percent of the increase in inventories occurred in the Diversified Industrial North American businesses, and approximately 40 percent of the increase occurred in the Diversified Industrial International businesses. Days supply of inventory was 76 days at

September 30, 2018, 64 days at June 30, 2018 and 77 days at September 30, 2017.
Shareholders' equity activity during the current year quarter included a decrease of approximately $50 million as a result of share repurchases and a decrease of approximately $35 million as a result of foreign currency translation.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Three Months Ended September 30, | |
|---|---|---|
| (dollars in millions) | 2018 | 2017 |
| Cash provided by (used in): | | |
| Operating activities | $159.4 | $238.0 |
| Investing activities | (15.1 ) | (117.3 ) |
| Financing activities | (7.2 ) | (135.4 ) |
| Effect of exchange rates | (7.1 ) | 4.6 |
| Net increase (decrease) in cash and cash equivalents | $130.0 | $(10.1 ) |

Cash flows from operating activities for the current year quarter was lower than the prior-year quarter primarily due to a $200 million discretionary cash contribution to the Company's domestic qualified defined benefit plan, partially offset by an increase in net income and cash provided by working capital items. The Company continues to focus on managing its inventory and other working capital requirements.

Cash flows from investing activities includes net maturities (purchases) of marketable securities and other investments of $11 million and $(58) million in the current-year and prior-year quarter, respectively.

Cash flows from financing activities for the current-year quarter included net commercial paper borrowings of $259 million compared to net borrowings of $35 million in the prior-year quarter. During the current-year quarter, the Company also repaid $100 million of long-term debt. Cash flows from financing activities included repurchase activity under the Company's share repurchase program. The Company repurchased 0.3 million common shares for $50 million in both the current-year and prior-year quarter.

The Company’s goal is to have no less than an “A” rating on senior debt to ensure availability and reasonable cost of external funds. In periods following significant capital deployment, including for share repurchases or acquisitions, certain of the ratings assigned to the Company's senior debt may be, and at September 30, 2018 was, lower than the stated goal. The Company does not presently believe that its ability to borrow funds in the future at desirable tenors and affordable interest rates will be impacted if certain of its ratings are temporarily below an "A" level at the time of such borrowings. At September 30, 2018, the long-term credit ratings assigned to the Company's senior debt securities by the credit rating agencies engaged by the Company were as follows:

| | |
|---|---|
| Fitch Ratings | A- |
| Moody's Investor Services, Inc. | Baa1 |
| Standard & Poor's | A |

At September 30, 2018, the Company had a line of credit totaling $2,000 million through a multi-currency revolving credit agreement with a group of banks, $1,205 million of which was available. The credit agreement expires in October 2021; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The credit agreement requires the payment of an annual facility fee, the amount of which may increase in the event the Company’s credit ratings are lowered. Although a lowering of the Company’s credit ratings would likely increase the cost of future debt, it would not limit the Company’s ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

As of September 30, 2018, the Company was authorized to sell up to $2,000 million of short-term commercial paper notes. As of September 30, 2018, $795 million of commercial paper notes were outstanding, and the largest amount of commercial paper notes outstanding during the current-year quarter was $881 million.

The Company’s credit agreements and indentures governing certain debt securities contain various covenants, the violation of which would limit or preclude the use of the credit agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. Based on the Company’s rating level at September 30, 2018, the most restrictive financial covenant provides that the ratio of debt to debt-shareholders' equity cannot exceed .60 to 1.0. At September 30, 2018, the Company's debt to debt-shareholders' equity ratio was .46 to 1.0. The Company is in compliance with all covenants and expects to remain in compliance during the term of the credit agreements and indentures.

FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the Company, including its individual segments, may differ materially from current expectations, depending on economic conditions within its mobile, industrial and aerospace markets, and the Company’s ability to maintain and achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins, actions taken to combat the effects of the current economic environment, and growth, innovation and global diversification initiatives. Additionally, the actual impact of the TCJ Act may affect future performance and earnings projections as the amounts reflected in this period are preliminary estimates and exact amounts will not be determined until a later date, and there may be other judicial or regulatory interpretations of the TCJ Act that may also affect these estimates and the actual impact on the Company. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance.

Among other factors which may affect future performance are:

- changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments;
- disputes regarding contract terms or significant changes in financial condition, changes in contract cost and revenue estimates for new development programs, and changes in product mix;
- ability to identify acceptable strategic acquisition targets; uncertainties surrounding timing, successful completion or integration of acquisitions and similar transactions, including the integration of CLARCOR Inc.; ability to successfully divest businesses planned for divestiture and realize the anticipated benefits of such divestitures;
- the determination to undertake business realignment activities and the expected costs thereof and, if undertaken, the ability to complete such activities and realize the anticipated cost savings from such activities;
- ability to implement successfully the capital allocation initiatives, including timing, price and execution of share repurchases;
- availability, limitations or cost increases of raw materials, component products and/or commodities that cannot be recovered in product pricing;
- ability to manage costs related to insurance and employee retirement and health care benefits;
- compliance costs associated with environmental laws and regulations;
- potential labor disruptions;
- threats associated with and efforts to combat terrorism and cyber-security risks;
- uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals;
- global competitive market conditions, including global reactions to U.S. trade policies, and resulting effects on sales and pricing; and
- global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability.

The Company makes these statements as of the date of this disclosure, and undertakes no obligation to update them unless otherwise required by law.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages foreign currency transaction and translation risk by utilizing derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges. The derivative financial instrument contracts are with major investment grade financial institutions and the Company does not anticipate any material non-performance by any of the counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Note 14 to the Consolidated Financial Statements. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

The Company’s debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company’s objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates.

## ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s principal executive officer and principal financial officer, of the effectiveness of the Company’s disclosure controls and procedures as of September 30, 2018. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of September 30, 2018, the Company’s disclosure controls and procedures were effective.

There was no change in the Company’s internal control over financial reporting during the quarter ended September 30, 2018 that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PARKER-HANNIFIN CORPORATION
PART II - OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.
(a) Unregistered Sales of Equity Securities. Not applicable.
(b) Use of Proceeds. Not applicable.
(c) Issuer Purchases of Equity Securities.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| July 1, 2018 through July 31, 2018 | 104,100 | $ 159.62 | 104,100 | 15,497,993 |
| August 1, 2018 through August 31, 2018 | 107,800 | $ 170.27 | 107,800 | 15,390,193 |
| September 1, 2018 through September 30, 2018 | 82,041 | $ 183.11 | 82,041 | 15,308,152 |
| Total: | 293,941 | $ 170.08 | 293,941 | |

(1) On October 22, 2014, the Company publicly announced that the Board of Directors increased the overall maximum number of shares authorized for repurchase under the Company's share repurchase program, first announced on August 16, 1990, so that, beginning on October 22, 2014, the maximum aggregate number of shares authorized for repurchase was 35 million shares. There is no limitation on the amount of shares that can be repurchased in a fiscal year. There is no expiration date for this program.

ITEM 6. Exhibits.
The following documents are furnished as exhibits and are numbered pursuant to Item 601 of Regulation S-K:

| Exhibit No. | Description of Exhibit |
|---|---|
| 3(c) | Code of Regulations, as amended on October 24, 2018. * |
| 10(a) | Summary of the Compensation of the Non-Employee Members of the Board of Directors, effective October 24, 2018.* |
| 10(b) | Form of 2018 Parker-Hannifin Corporation Restricted Stock Unit Award Agreement to Certain Executive Officers.* |
| 10(c) | Parker Hannifin Corporation 2018 Restricted Stock Unit Terms and Conditions for Certain Executive Officers.* |
| 31(a) | Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| 31(b) | Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. * |
| 101.INS | XBRL Instance Document.* |
| 101.SCH | XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |

*Submitted electronically herewith.
Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the three months ended September 30, 2018 and 2017, (ii) Consolidated Statement of Comprehensive Income for the three months ended September 30, 2018 and 2017, (iii) Consolidated Balance Sheet at September 30, 2018 and June 30, 2018, (iv) Consolidated Statement of Cash Flows for the three months ended September 30, 2018 and 2017, and (v) Notes to Consolidated Financial Statements for the three months ended September 30, 2018.

SIGNATURE

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

PARKER-HANNIFIN CORPORATION
(Registrant)

/s/ Catherine A. Suever
Catherine A. Suever
Executive Vice President - Finance & Administration and
Chief Financial Officer

Date: November 7, 2018

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