APPLIED INDUSTRIAL TECHNOLOGIES INC
Form 10-K
August 17, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2011, or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-2299
APPLIED INDUSTRIAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Ohio	34-0117420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Applied Plaza, Cleveland, Ohio 44115
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (216) 426-4000.
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. o Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter (December 31, 2010): $1,339,175,832.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 5, 2011
Common Stock, without par value	42,611,078

DOCUMENTS INCORPORATED BY REFERENCE

Listed hereunder are the documents, portions of which are incorporated by reference, and the Parts of this Form 10-K into which such portions are incorporated:

(1) Applied Industrial Technologies, Inc. annual report to shareholders for the fiscal year ended June 30, 2011, portions of which are incorporated by reference into Parts I, II and IV of this Form 10-K, and

(2) Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011, portions of which are incorporated by reference into Parts II, III, and IV of this Form 10-K.

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CAUTIONARY STATEMENT
UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

This report, including the documents incorporated by reference, contains statements that are forward-looking, based on management s current expectations about the future. Forward-looking statements are often identified by qualifiers such as guidance, expect, believe, plan, intend, will, should, could, anticipate, estimate, forecast, may, and derivative or similar words or expressions. Similarly, descriptions of our objectives, strategies, plans, or goals are also forward-looking statements. These statements may discuss, among other things, expected growth, future sales, future cash flows, future capital expenditures, future performance, and the anticipation and expectations of Applied and its management as to future occurrences and trends. Applied intends that the forward-looking statements be subject to the safe harbors established in the Private Securities Litigation Reform Act of 1995 and by the Securities and Exchange Commission in its rules, regulations, and releases.

Readers are cautioned not to place undue reliance on any forward-looking statements. All forward-looking statements are based on current expectations regarding important risk factors, many of which are outside Applied s control. Accordingly, actual results may differ materially from those expressed in the forward-looking statements. The making of those statements should not be regarded as a representation by Applied or any other person that the results expressed in the statements will be achieved. In addition, Applied assumes no obligation publicly to update or revise any forward-looking statements, whether because of new information or events, or otherwise, except as may be required by law.

Applied believes its primary risk factors include, but are not limited to, those identified in Risk Factors at Part I, Item 1A, and in Narrative Description of Business, at Part I, Item 1, section (c), in this annual report on Form 10-K, as well as in Management s Discussion and Analysis in Applied s 2011 annual report to shareholders. PLEASE READ THOSE DISCLOSURES CAREFULLY.

PART I.

ITEM 1. BUSINESS.

In this annual report on Form 10-K, Applied refers to Applied Industrial Technologies, Inc., an Ohio corporation. References to we, us, our, and the company refer to Applied and its subsidiaries.

Applied is one of the leading industrial distributors in North America, supplying customers in a wide range of industries with products including bearings, power transmission components, fluid power components and systems, industrial rubber products, linear motion components, tools, safety products, and general maintenance and mill supply products. We also provide customized fluid power, mechanical, and rubber shop services, as well as storeroom management services and maintenance training.

Customers use our products primarily to maintain and to repair their machinery and equipment. We also sell for original equipment manufacturing uses. We offer technical application support for our products and provide solutions to help customers minimize their production downtime, improve machine performance, and reduce overall procurement and maintenance costs. Although we do not generally manufacture the products we sell, we do assemble and repair various products and systems.

Applied and its predecessor companies have engaged in this business since 1923. Applied reincorporated in Ohio in 1988.

Our Internet address is *www.applied.com*. The following documents are available free of charge via hyperlink from the investor relations area of our website:

Applied s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, together with Section 16 insider beneficial stock ownership reports these documents are posted as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission

Applied s Code of Business Ethics

Applied s Board of Directors Governance Principles and Practices

Applied s Director Independence Standards

Charters for the Audit, Corporate Governance, and Executive Organization & Compensation Committees of Applied s Board of Directors

The information available via hyperlink from our website is not incorporated into this annual report on Form 10-K.

(a) General Development of Business.

Information regarding developments in our business can be found in Applied s 2011 annual report to shareholders under the caption Management s Discussion and Analysis on pages 5 11. This information is incorporated here by reference.

(b) Financial Information about Segments.

We have identified two reportable segments, service center-based distribution and fluid power businesses.

The service center-based distribution segment provides customers with a wide range of industrial products through a network of service centers stretching across North America. The fluid power businesses segment consists of specialized regional companies that distribute fluid power components and operate shops to assemble fluid power systems and perform equipment repair. The fluid power businesses primarily sell products and services directly to customers rather than through the service centers. Both segments offer technical support and provide solutions to help customers minimize their production downtime, improve machine performance, and reduce overall procurement and maintenance costs.

Segment financial information can be found in the 2011 annual report to shareholders in note 13 to the consolidated financial statements on page 31. That information is incorporated here by reference.

(c) Narrative Description of Business.

Overview. Our field operating structure is built on two platforms service center-based distribution and fluid power businesses:

Service Center-Based Distribution. We distribute a wide range of industrial products through service centers across North America. Customers primarily purchase our products for scheduled maintenance of their machinery and equipment and for emergency repairs.

In addition to the service center network, this segment includes:

Regional fabricated rubber shops, which modify and repair conveyor belts and make hose assemblies in accordance with customer requirements,

Rubber service field crews, which install and repair belts and rubber linings at customer locations, and

UZ Engineered Products, a distributor of industrial supplies to government and commercial customers.

The service center-based distribution business accounts for a substantial majority of our field operations and 80% of our 2011 sales dollars. The business operates in the United

States and Canada using the Applied Industrial Technologies and UZ Engineered Products trade names. We also are known as Applied México in Mexico and Rafael Benitez Carrillo in Puerto Rico.

Fluid Power Businesses. Our specialized fluid power businesses primarily market products and services to customers within the businesses geographic regions. In the United States, the businesses also market products and services through our service center network. In addition to distributing fluid power components, the businesses assemble fluid power systems and components, perform equipment repair, and offer technical advice to customers. Customers include firms purchasing for maintenance, repair, and operational needs, as well as for original equipment manufacturing applications. Our fluid power businesses include the following:

United States		International
A&H Fluid Technologies	ESI Power Hydraulics	Atelier P.V. Hydraulique (Canada)
Air Draulics Engineering	Elect-Air	HyPower (Canada)
Air-Hydraulic Systems	Engineered Sales	Pro-Hydraulique (Canada)
Applied Engineered Systems	FluidTech	Vycmex (Mexico)
Bay Advanced Technologies	HydroAir Hughes	
Carolina Fluid Components	Kent Fluid Power	
DTS Fluid Power	Power Systems	
Dees Fluid Power	Spencer Fluid Power	

Products. We are one of North America s leading distributors of bearings, power transmission components, fluid power components and systems, industrial rubber products, linear motion components, tools, safety products, and general maintenance and mill supply products. Fluid power products include hydraulic, pneumatic, lubrication, and filtration components and systems.

These products are generally supplied to us by manufacturers whom we serve as a non-exclusive distributor. The suppliers also may provide us product training, as well as sales and marketing support. Authorizations to represent particular suppliers and product lines may vary by geographic region, particularly for our fluid power businesses. We believe our supplier relationships are generally good, and many have existed for decades. The disruption of relationships with certain suppliers, or the disruption of their operations, could adversely affect our business.

Our product suppliers typically confine their direct sales activities to large-volume transactions, mainly with original equipment manufacturers. The suppliers generally do not sell maintenance and repair products directly to the customer, but instead refer the customer to us or another distributor. There is no assurance this practice will continue and its discontinuance could adversely affect our business.

Net sales by product category for the most recent three fiscal years is detailed in the 2011 annual report to shareholders in note 13 to the consolidated financial statements on page 32. That information is incorporated here by reference.

Services. Our associates advise and assist customers in selecting and applying products, and in managing inventory. We consider this advice and assistance to be an integral part of our sales efforts. Beyond logistical distribution services, we offer product and process solutions involving multiple technologies. These solutions help customers minimize production downtime, improve machine performance, and reduce overall procurement and maintenance costs. By providing high levels of service, product and industry expertise, and technical support, while at the same time offering product breadth and competitive pricing, we believe we develop stronger, longer-lasting, and more profitable customer relationships.

Our service center sales associates include customer sales and service representatives and account managers, as well as product and industry specialists. Customer sales and service representatives receive, process, and expedite customer orders, provide product information, and assist account managers in serving customers. Account managers make on-site calls to current and potential customers to provide product information, identify customer requirements, make recommendations, and assist in implementing equipment maintenance and storeroom management programs, as well as automated supplies dispensing systems. Account managers also measure and document the value of the cost savings and increased productivity we help generate. Product and industry specialists assist with applications in their areas of expertise.

We maintain product inventory levels at each service center tailored to the local market. These inventories consist of standard items as well as other items specific to local customer demand. Seven distribution centers replenish service center inventories and also may ship products directly to customers. Having product in stock helps us satisfy customers immediate needs.

Timely delivery of products is an integral part of our service, particularly when customers require products for emergency repairs. Service centers and distribution centers use the most effective method of transportation available to meet customer needs. These methods include our own delivery vehicles, dedicated third-party transportation providers, as well as surface and air common carrier and courier services. Customers can also pick up items at our service centers.

Our information systems enhance our customer service. Customers turn to our website at *www.applied.com* to search for products in a comprehensive electronic catalog, research product attributes, view prices, check inventory levels, place orders, and track order status. We also transact with customers through electronic data interchange (EDI) and interface with customers technology platforms and plant maintenance systems.

In addition to our electronic capabilities, we serve customers with our paper catalog, a comprehensive resource for industrial products.

We supplement the service center product offering with our MaintenancePro® fee-based technical training seminars. These courses provide customer personnel with information on maintenance, troubleshooting, component application, and failure analysis in the areas of hydraulics and pneumatics, lubrication, bearings, and power transmission.

In addition to distributing products, we offer shop services in select geographic areas. Our fabricated rubber shops modify and repair conveyor belts and provide hose assemblies (also available at select service centers and distribution centers) in accordance with customer requirements. Field crews install and repair belts and rubber lining, primarily at customer locations. Among the other services we offer, either performed by us directly or by third party providers, are the rebuilding or assembly of speed reducers, pumps, valves, cylinders, and electric and hydraulic motors, and custom machining.

Our specialized fluid power businesses generally operate independently of the service centers, but as product distributors, share the same focus on customer service. Product and application recommendations, inventory availability, and delivery speed are all important to the businesses success.

The fluid power businesses distinguish themselves from most component distributors by offering engineering, design, system fabrication, installation, and repair services. Our capabilities extend to the following specialties: fluid power system integration; manifold design, machining, and assembly; and the integration of hydraulics with electronics for complete machine design. These services can represent a significant portion of the overall value provided to customers.

Each business has account managers with technical knowledge, who handle sophisticated projects, including original equipment manufacturing applications. The businesses also provide technical support to our service centers and their customers.

Markets. We purchase from over 2,000 product manufacturers and resell the products to thousands of customers in a wide variety of industries, including agriculture and food processing, automotive, chemical processing, forest products, industrial machinery and equipment, mining, primary metals, transportation, and utilities, as well as to government entities. Customers range from the largest concerns in North America, with whom we may have multiple-location relationships, to the smallest. We are not significantly dependent on a single customer or group of customers, the loss of which would have a material adverse effect on our business as a whole, and no single customer accounts for more than 3% of our net sales.

Competition. We consider our business to be highly competitive. In addition, our markets present few economic or technological barriers to entry, contributing to a high fragmentation of market share. Longstanding supplier and customer relationships, geographic coverage, name recognition, and our associates knowledge and experience do, however, support our competitive position. Competition is based generally on breadth and quality of product and service offerings, product availability, price, ease of product selection and ordering, online capability, catalogs, and having a local presence. In the fluid power businesses, product manufacturer authorizations are often more selective and can be a more significant competitive factor, along with market reputation and product application knowledge.

Our principal competitors are other bearing, power transmission, industrial rubber, fluid power, linear motion, and general maintenance and safety product distributors, and, to a lesser extent, mill supply and catalog companies. These competitors include local, regional, national, and

multinational operations. We also compete with original equipment manufacturers and their distributors in the sale of maintenance and replacement components. Some competitors have greater financial resources than we do. The identity and number of our competitors vary throughout the geographic and product markets we serve.

Although we are one of the leading distributors in North America for the primary categories of products we carry, our market share for those products in any given geographic area may be relatively small compared to the portion of the market served by original equipment manufacturers and other distributors.

Backlog Orders and Seasonality. Because of our product resources and distribution network, backlog orders are not material to our business as a whole, although they are a more important factor for our fluid power businesses. Our business has exhibited minor seasonality in particular, sales per day during the first half of our fiscal year have tended in the past to be slightly lower compared with the second half due, in part, to the impact of customer plant shutdowns and holidays.

Patents, Trademarks, Trade Names, and Licenses. Customer recognition of our service marks and trade names, including Applied Industrial TechnologiesÒ, AppliedÒ, and AITÒ, is an important contributing factor to our sales. Patents and licenses are not of material importance to our business.

Raw Materials and General Business Conditions. Our operations are dependent on general industrial and economic conditions. We would be adversely affected by the unavailability of raw materials to our suppliers, prolonged labor disputes experienced by suppliers or customers, or by any recession or depression that has an adverse effect on North American industrial activity generally or on key customer industries.

Number of Employees. At June 30, 2011, we had 4,640 employees.

Working Capital. Our working capital position is discussed in Management s Discussion and Analysis in the 2011 annual report to shareholders on pages 7 8.

We require substantial working capital related to accounts receivable and inventories. Significant amounts of inventory are carried to meet customers delivery requirements. We generally require payments for sales on account within 30 days. Returns are not considered to have a material effect on our working capital requirements. We believe these practices are generally consistent among companies in our industry.

Environmental Laws. We believe that compliance with laws regulating the discharge of materials into the environment or otherwise relating to environmental protection will not have a material adverse effect on our capital expenditures, earnings, or competitive position.

(d) Financial Information about Geographic Areas.

Information regarding our foreign operations, including information about revenues and long-lived assets, is included in the 2011 annual report to shareholders in note 13 to the consolidated financial statements on page 32 and in Quantitative and Qualitative Disclosures About Market Risk on page 11. That information is incorporated here by reference.

ITEM 1A. RISK FACTORS.

In addition to other information set forth in this report, you should carefully consider the following factors that could materially affect our business, financial condition, or results of operations. The risks described below are not the only risks facing our company. Certain risks are identified in Management s Discussion and Analysis on pages 5 11 in Applied s 2011 annual report to shareholders, and that information is incorporated here by reference. Additional risks not currently known to us, risks that could apply broadly to issuers, or risks that we currently deem immaterial, may also impact our business and operations.

Our business depends heavily on the operating levels of our customers and the economic factors that affect them. Many of the primary markets for the products and services we sell are subject to cyclical fluctuations that affect demand for goods and materials that our customers produce. Consequently, demand for our products and services has been and will continue to be influenced by most of the same economic factors that affect demand for and production of customers goods and materials.

When, as occurred in the recent economic downturn, customers or prospective customers reduce production levels because of lower demand or tight credit conditions, their need for our products and services diminishes. Selling prices and terms of sale come under pressure, adversely affecting the profitability and the durability of customer relationships, and credit losses increase too. Volatile economic and credit conditions also make it more difficult for distributors, as well as customers and suppliers, to forecast and plan future business activities.

In addition, our industry confronts a longer-term secular trend of manufacturing customers moving production overseas to reduce costs. Our ability to continue to serve such customers may be impaired and the size of our overall market opportunity in North America could be adversely affected.

Consolidation occurring in our customers and suppliers industries could adversely affect our business and financial results. In recent years, we have witnessed increased consolidation among our product suppliers and customers. As customer industries consolidate, a greater proportion of our sales could be derived from higher volume contracts, which could adversely impact the amount and volatility of our earnings. Consolidation among customers can trigger changes in their purchasing strategies, potentially moving large blocks of business among competing industrial distributors and contributing to volatility in our sales. In addition, consolidation increases the risk of larger customers seeking to purchase industrial products directly from manufacturers rather than through distributors. Similarly, continued consolidation

among our suppliers could reduce our ability to negotiate favorable pricing and other commercial terms for our inventory purchases.

Loss of key supplier authorizations, lack of product availability, or changes in supplier distribution programs could adversely affect our sales and earnings. Our business depends on maintaining an immediately available supply of various products to meet customer demand. Many of our relationships with key product suppliers are longstanding, but are terminable by either party. The loss of key supplier authorizations, or a substantial decrease in the availability of their products, could put us at a competitive disadvantage and have a material adverse effect on our business. Supply interruptions could arise from raw materials shortages, inadequate manufacturing capacity or utilization to meet demand, financial problems, labor disputes or weather conditions affecting suppliers production, transportation disruptions, or other reasons beyond our control. Furthermore, we cannot be certain that particular products will be available to us, or available in quantities sufficient to meet customer demand, especially if demand outpaces supply in an economic recovery.

In addition, as a distributor, we face the risk of key product suppliers changing their relationships with distributors generally, or Applied in particular, in a manner that adversely impacts us. For example, key suppliers could change any of the following: the prices we must pay for their products relative to other distributors or relative to competing products; the geographic or product line breadth of distributor authorizations; supplier purchasing incentive or other support programs; or product purchase or stocking expectations.

An increase in competition could decrease sales or earnings. We operate in a highly competitive industry. Our competitors include local, regional, national, and multinational distributors of industrial machinery parts, equipment, and supplies. Competition is largely focused in the local service area and is generally based on product line breadth, product availability, service capabilities, and price. Some existing competitors have, and potential market entrants may have, greater financial or other resources than we do, or broader product or service offerings. If existing or future competitors seek to gain or to retain market share by reducing prices, we may need to lower our prices for products or services, thereby adversely affecting financial results.

The purchasing incentives we earn from product suppliers can be impacted if we reduce our purchases in response to declining customer demand. Certain of our product suppliers have historically offered to their distributors, including us, incentives for purchasing their products. In addition to market or customer account-specific incentives, certain suppliers pay incentives to the distributor for attaining specific purchase volumes during the program period. In some cases, in order to earn incentives, we must achieve year-over-year growth in purchases with the supplier. When demand for our products declines, we may be less willing to add inventory to take advantage of certain incentive programs, thereby potentially adversely impacting our profitability.

Our ability to transact business is highly reliant on our information systems. We face additional risks in this regard as we implement a new integrated information technology

platform for our business. We depend on information systems to process customer orders, manage inventory and accounts receivable collections, purchase products, ship products to customers on a timely basis, maintain cost-effective operations, provide superior service to customers, and accumulate financial results. A serious, prolonged disruption of our information systems could materially impair fundamental business processes and increase expenses, decrease sales, or otherwise reduce earnings.

In October 2010 we announced our intent to replace multiple legacy applications with a common SAP software platform, to enhance our business information and transaction systems to support future growth. The implementation is expected to occur over several years in planned phases, primarily based on geographic region. The process is technically intensive, requiring design, testing, modifications, and project coordination. Despite extensive planning, we could experience disruptions in our business operations related to the implementation because of the project s complexity. Disruptions could result in material adverse consequences, including delays, loss of information, damage to our ability to process transactions or harm to our control environment, and unanticipated increases in costs. Further, our ability to achieve anticipated operational benefits from the new platform is not assured.

Volatility in product and energy costs can affect our profitability. In recent years, cost increases in commodity materials, such as steel and energy, led product manufacturers to increase the prices of products we distribute. In addition, a portion of our own distribution costs is comprised of fuel for our sales and delivery vehicles, freight, and utility expenses for our facilities. All of these costs have fluctuated significantly in recent years. Our ability to pass along to customers the increases in our costs depends on market conditions. Raising our prices could result in decreased sales volume, which could significantly reduce our profitability. When costs fall, market prices can fall too, again potentially affecting profitability.

Future acquisitions are a key component of our anticipated growth. We may not be able to identify or to complete future acquisitions, to integrate them effectively into our operations, or to realize their anticipated benefits. Many industries we serve are mature. As a result, our growth in recent years has resulted substantially from the acquisition of other businesses. While we wish to continue to acquire businesses, we may not be able to identify and to negotiate suitable acquisitions, to obtain financing for them on satisfactory terms, or otherwise to complete acquisitions. In addition, existing or future competitors may increasingly seek to compete with us for acquisitions, which could have the effect of increasing the price and reducing the number of suitable opportunities.

We seek acquisition opportunities that complement and expand our operations. However, substantial costs, delays, or other difficulties related to integrating acquisitions into our operations could adversely affect our business or financial results. We could face significant challenges in consolidating functions and integrating procedures, information systems, personnel, and operations in a timely and efficient manner.

Further, even if we successfully integrate the acquisitions with our operations, we may not be able to realize the cost savings, sales increases, or other benefits that we anticipate from

these acquisitions, either as to amount or in the time frame we expect. Our ability to realize anticipated benefits may be affected by a number of factors, including the following: our ability to reduce duplicative expenses and inventory effectively, and to consolidate facilities; the incurrence of significant integration costs or charges in order to achieve those benefits; and our ability to retain key product supplier authorizations, customer relationships, and employees. In addition, future acquisitions could place significant demand on administrative, operational, and financial resources.

Tight credit markets could impact our ability to obtain financing on reasonable terms or increase the cost of future financing. Although the recent credit market turmoil did not have a significant adverse impact on our liquidity or borrowing costs, the availability of funds tightened and credit spreads on corporate debt increased. Obtaining additional or replacement financing may be more difficult and the cost of issuing new debt or replacing a credit facility would likely be higher than under our current facilities. Tight credit conditions could limit our ability to finance acquisitions on terms acceptable to us. For more information relating to borrowing and interest rates, see the following sections of Applied s 2011 annual report to shareholders: Liquidity and Capital Resources on pages 7 8, Quantitative and Qualitative Disclosures About Market Risk on page 11, and notes 5 and 6 to the consolidated financial statements on pages 20 21.

Our growth outside the United States increases our exposure to global economic and political conditions. Foreign operations contributed 15% of our sales in 2011. If we continue to grow outside the U.S., the risks associated with exposure to more volatile economic conditions, political instability, cultural and legal differences in conducting business, and currency fluctuations will increase. In particular, our results are affected by fluctuations in currency exchange rates for the Canadian dollar and the Mexican peso.

Our business depends on our ability to retain and to attract qualified sales and customer service personnel. There are significant costs associated with hiring and training sales and customer service professionals. We greatly benefit from having employees who are familiar with the products we sell and their applications, as well as with our customer and supplier relationships. We could be adversely affected by a shortage of available skilled workers or the loss of a significant number of our sales or customer service professionals, including through retirement as the workforce ages.

An interruption of operations at our headquarters or distribution centers could adversely impact our business. Our business depends on maintaining operations at our headquarters and distribution centers. A serious, prolonged interruption due to power outage, telecommunications outage, terrorist attack, earthquake, hurricane, fire, flood or other natural disaster, or other interruption could have a material adverse effect on our business and financial results.

We are subject to litigation risk due to the nature of our business, which may have a material adverse effect on our business. From time to time, we are involved in lawsuits or other legal proceedings that arise from business transactions. These may, for example, relate to product liability claims, commercial disputes, or employment matters. In addition, we could face

claims over other matters, such as claims arising from our status as a government contractor or corporate or securities law matters. The defense and ultimate outcome of lawsuits or other legal proceedings may result in higher operating expenses, which could have a material adverse effect on our business, financial condition, or results of operations.

In addition to the risks identified above, other risks to our future performance include, but are not limited to, the following:

changes in customer preferences for products and services of the nature, brands, quality, or cost sold by Applied;

changes in customer procurement policies and practices;

changes in the market prices for products and services relative to the costs of providing them;

changes in operating expenses;

organizational changes within the company;

adverse regulation and legislation, both enacted and under consideration, including with respect to health care and federal tax policy (e.g., affecting the use of the LIFO inventory accounting method and the taxation of foreign-sourced income);

the variability and timing of new business opportunities including acquisitions, alliances, customer relationships, and supplier authorizations;

the incurrence of debt and contingent liabilities in connection with acquisitions;

volatility of our stock price and the resulting impact on our consolidated financial statements; and

changes in accounting policies and practices that could impact our financial reporting and increase compliance costs.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We believe having a local presence is important to serving our customers, so we maintain service centers and other operations in local markets throughout North America. At June 30, 2011, we owned real properties at 134 locations and leased 311 locations. Certain properties house more than one operation.

The following were our principal owned real properties (each of which has more than 30,000 square feet of floor space) at June 30, 2011:

Location of Principal Owned Real Property	Type of Facility
Atlanta, Georgia	Distribution center and service center
Florence, Kentucky	Distribution center
Carlisle, Pennsylvania	Distribution center
Fort Worth, Texas	Distribution center and rubber shop

Our principal leased real properties (each of which has more than 30,000 square feet of floor space) at June 30, 2011 were:

Location of Principal Leased Real Property	Type of Facility
Cleveland, Ohio	Corporate headquarters
Fontana, California	Distribution center, rubber shop, fluid power shop, and service center
Newark, California	Fluid power shop
Denver, Colorado	Rubber shop and service center
Lenexa, Kansas	Fluid power shop
Chanhassen, Minnesota	Fluid power shop
Billings, Montana	Fluid power shop
Cleveland, Ohio	Offices and warehouse
Elyria, Ohio	Product return center and service center
Portland, Oregon	Distribution center
Kent, Washington	Offices, fluid power shop, and service center
Longview, Washington	Service center, rubber shop and fluid power shop
Appleton, Wisconsin	Offices, service center, and rubber shop
Winnipeg, Manitoba	Distribution center and service center

The properties in Newark, Lenexa, Chanhassen, and Billings are used in our fluid power businesses segment. The Fontana, Kent, and Longview properties are used in operations both in the service center-based distribution segment and the fluid power businesses segment. The remaining properties are used in the service center-based distribution segment.

We consider our properties generally sufficient to meet our requirements for office space and inventory stocking. A service center s size is primarily influenced by the amount of inventory the service center requires to meet customers needs.

In recent years, when opening new operations, we have tended to lease rather than purchase real property. We do not consider any of our service center, distribution center, or shop properties to be material, because we believe that, if it becomes necessary or desirable to relocate an operation, other suitable property could be found.

In addition to operating locations, we own or lease certain properties which in the aggregate are not material and are either for sale, lease, or sublease to third parties due to a relocation or closing. We also may lease or sublease to others unused portions of buildings.

Additional information regarding our properties is included in the 2011 annual report to shareholders in note 12 to the consolidated financial statements on page 30. That information is incorporated here by reference.

ITEM 3. LEGAL PROCEEDINGS.

Applied and/or one of its subsidiaries is a party to pending legal proceedings with respect to product liability, commercial, and other matters. Although it is not possible to predict the outcome of these proceedings or the range of possible loss, we believe, based on circumstances currently known, that the likelihood is remote that the ultimate resolution of any of these proceedings will have, either individually or in the aggregate, a material adverse effect on Applied s consolidated financial position, results of operations, or cash flows.

ITEM 4.

Reserved.

EXECUTIVE OFFICERS OF THE REGISTRANT.

Applied s executive officers are elected by the Board of Directors for a term of one year, or until their successors are chosen and qualified, at the Board s organizational meeting held following the annual meeting of shareholders. The following is a list of the executive officers and a description of their business experience during the past five years. Except as otherwise stated, the positions and offices indicated are with Applied, and the persons were elected to their current positions on October 26, 2010:

Name	Positions and Experience	Age
David L. Pugh	Chairman & Chief Executive Officer, and a member of Board of Directors	62
Benjamin J. Mondics	President & Chief Operating Officer (since January 2008); previously served as Executive Vice President & Chief Operating Officer (from February 2007 December 2007) and Vice President-Midwest Area (prior to February 2007)	53
Thomas E. Armold	Vice President-Marketing and Strategic Accounts (since January 2008); previously served as Vice President-Product Management and Marketing	56
Todd A. Barlett	Vice President-Acquisitions and Global Business Development	56
Fred D. Bauer	Vice President-General Counsel & Secretary	45
Michael L. Coticchia	Vice President-Chief Administrative Officer; previously was Vice President-Chief Administrative Officer and Government Business (prior to October 2010)	48
Mark O. Eisele	Vice President-Chief Financial Officer & Treasurer	54
Jeffrey A. Ramras	Vice President-Supply Chain Management; previously served as Vice President-Marketing and Supply Chain Management (prior to January 2008)	56
Richard C. Shaw	Vice President-Communications and Learning	62

PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Applied s common stock, without par value, is listed for trading on the New York Stock Exchange with the ticker symbol AIT. Information concerning the principal market for Applied s common stock, the quarterly stock prices and dividends for the fiscal years ended June 30, 2011, 2010, and 2009 and the number of shareholders of record as of August 5, 2011 is set forth in the 2011 annual report to shareholders on page 37, under the captions Quarterly Operating Results and Quarterly Volume and Price Information, and that information is incorporated here by reference.

The following table summarizes Applied s repurchases of its common stock in the quarter ended June 30, 2011.

Period	(a) Total Number of Shares (1)	(b) Average Price Paid per Share ($)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1, 2011 to April 30, 2011	0		0	694,400
May 1, 2011 to May 31, 2011	0		0	694,400
June 1, 2011 to June 30, 2011	46,800	34.06	46,800	647,600
Total	46,800	34.06	46,800	647,600

(1) During the quarter ended June 30, 2011, Applied purchased 87 shares in connection with an employee deferred compensation program. This purchase is not counted in the Board of Directors authorization in note (2).

(2) On January 23, 2008, the Board of Directors authorized the purchase of up to 1.5 million shares of Applied s common stock. We publicly announced the authorization that day. Purchases may be made in the open market or in privately negotiated transactions. This authorization is in effect until all shares are purchased, or the Board revokes or amends the authorization.

ITEM 6. SELECTED FINANCIAL DATA.

The summary of selected financial data for the last five years is set forth in the 2011 annual report to shareholders in the table on pages 38 39 under the caption 10 Year Summary. That information is incorporated here by reference.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management s Discussion and Analysis is set forth in the 2011 annual report to shareholders on pages 5 11 and is incorporated here by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The disclosures about market risk required by this item are set forth in Applied s 2011 annual report to shareholders on page 11, which information is incorporated here by reference. For more information relating to borrowing and interest rates, see the Liquidity and Capital Resources section of Management s Discussion and Analysis and notes 5 and 6 to the consolidated financial statements in Applied s 2011 annual report to shareholders on pages 7 8,

and 20 21. That information is also incorporated here by reference. In addition, see Risk Factors at pages 10 14, above, for additional risk factors relating to our business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The following consolidated financial statements and supplementary data of Applied and its subsidiaries and the reports of the independent registered public accounting firm listed below, which are included in the 2011 annual report to shareholders at the pages indicated, are incorporated here by reference and filed with this report:

Caption	Page No.
Financial Statements:	
Statements of Consolidated Income for the Years Ended June 30, 2011, 2010, and 2009	12
Consolidated Balance Sheets June 30, 2011 and 2010	13
Statements of Consolidated Cash Flows for the Years Ended June 30, 2011, 2010, and 2009	14
Statements of Consolidated Shareholders Equity for the Years Ended June 30, 2011, 2010, and 2009	15
Notes to Consolidated Financial Statements for the Years Ended June 30, 2011, 2010, and 2009	16 33
Reports of Independent Registered Public Accounting Firm	34, 36
Supplementary Data:	
Quarterly Operating Results	37

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Applied s management, under the supervision and with the participation of the chief executive officer and the chief financial officer, has evaluated the effectiveness of Applied s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, management has concluded that the disclosure controls and procedures are effective.

Management s annual report on Applied s internal control over financial reporting and the attestation report of the independent registered public accounting firm are set forth in the 2011 annual report to shareholders on pages 35 36 and are incorporated here by reference.

Management has not identified any change in internal control over financial reporting occurring during the fourth quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item as to Applied s directors is incorporated by reference to Applied s proxy statement relating to the annual meeting of shareholders to be held October 25, 2011, under the caption Item 1 Election of Directors. The information required by this Item as to Applied s executive officers has been furnished in this report on pages 16 17 in Part I, after Item 4, under the caption Executive Officers of the Registrant.

The information required by this Item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to Applied s proxy statement, under the caption Section 16(a) Beneficial Ownership Reporting Compliance.

Applied has a code of ethics, named the Code of Business Ethics, that applies to our employees, including our chief executive officer, chief operating officer, chief financial officer, and

corporate controller. The Code of Business Ethics is posted via hyperlink at the investor relations area of our *www.applied.com* website. In addition, amendments to and waivers from the Code of Business Ethics will be disclosed promptly at the same location.

Information regarding the composition of Applied s audit committee and the identification of audit committee financial expert(s) serving on the audit committee is incorporated by reference to Applied s proxy statement, under the caption Corporate Governance.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011, under the captions Executive Compensation and Compensation Committee Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Applied s shareholders have approved the following equity compensation plans: the 1997 Long-Term Performance Plan, the 2007 Long-Term Performance Plan, the Deferred Compensation Plan, and the Deferred Compensation Plan for Non-Employee Directors. All of these plans are currently in effect.

The following table shows information regarding the number of shares of Applied common stock that may be issued pursuant to equity compensation plans or arrangements of Applied as of June 30, 2011.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	1,804,434	22.68	*
Equity compensation plans not approved by security holders	0		0
Total	1,804,434	22.68	*

* The 2007 Long-Term Performance Plan was adopted to replace the 1997 Long-Term Performance Plan, under which previously awarded stock options and stock appreciation rights remain outstanding. The aggregate number of shares that remained available for awards under the 2007 Long-Term Performance Plan at June 30, 2011, was 629,195. The number of shares issuable under the Deferred Compensation Plan for Non-Employee Directors and the Deferred Compensation Plan depends on the dollar amount of participant contributions deemed invested in Applied common stock.

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference to Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011, under the caption Beneficial Ownership of Certain Applied Shareholders and Management.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference to Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011, under the caption Corporate Governance.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated by reference to Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011, under the caption Item 5 Ratification of Auditors.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)1. Financial Statements.

The following consolidated financial statements, notes thereto, the reports of independent registered public accounting firm, and supplemental data are included in the 2011 annual report to shareholders on pages 12 34 and 36 37, and are incorporated by reference in Item 8 of this report.

Caption
Statements of Consolidated Income for the
Years Ended June 30, 2011, 2010, and 2009
Consolidated Balance Sheets
June 30, 2011 and 2010
Statements of Consolidated Cash Flows for
the Years Ended June 30, 2011, 2010, and 2009
Statements of Consolidated Shareholders
Equity for the Years Ended June 30, 2011,
2010, and 2009
Notes to Consolidated Financial Statements
for the Years Ended June 30, 2011, 2010, and 2009
Reports of Independent Registered Public Accounting Firm

Supplementary Data:
Quarterly Operating Results

(a)2. Financial Statement Schedule.

The following report and schedule are included in this Part IV, and are found in this report at the pages indicated:

Caption	Page No.
Report of Independent Registered Public Accounting Firm	30
Schedule II Valuation and Qualifying Accounts	31

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission have been omitted because they are not required under the related instructions, are not applicable, or the required information is included in the consolidated financial statements and notes thereto.

(a)3. Exhibits.

* Asterisk indicates an executive compensation plan or arrangement.

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Applied Industrial Technologies, Inc., as amended on October 25, 2005 (filed as Exhibit 3(a) to Applied s Form 10-Q for the quarter ended December 31, 2005, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to Applied s Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Private Shelf Agreement dated as of November 27, 1996, between Applied and Prudential Investment Management, Inc. (assignee of The Prudential Insurance Company of America), conformed to show all amendments (filed as Exhibit 4.2 to Applied s Form 10-Q for the quarter ended March 31, 2010, SEC File No. 1-2299, and incorporated here by reference).
4.3	Credit Agreement dated as of June 3, 2005, among Applied, KeyBank National Association as Agent, and various financial institutions (filed as Exhibit 4.7 to Applied s Form 10-Q for the quarter ended December 31, 2009, SEC File No. 1-2299, and incorporated here by reference).
4.4	First Amendment Agreement dated as of June 6, 2007, among Applied, KeyBank National Association as Agent, and various financial institutions, amending June 3, 2005 Credit Agreement (filed as Exhibit 4 to Applied s Form 8-K dated June 11, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.1	Form of Change in Control Agreement between Applied and each of its executive officers (filed as Exhibit 99.1 to Applied s Form 8-K dated April 25, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.2	A written description of Applied s director compensation program is incorporated by reference to Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011 under the caption Director Compensation.
*10.3	Deferred Compensation Plan for Non-Employee Directors (September 1, 2003 Restatement), the terms of which govern benefits vested as of December 31, 2004, for certain directors (filed as Exhibit

Exhibit No.	Description
	10(c) to Applied s Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.4	Deferred Compensation Plan for Non-Employee Directors (Post-2004 Terms) (filed as Exhibit 10.2 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.5	A written description of Applied s Life and Accidental Death and Dismemberment Insurance for executive officers (filed as Exhibit 10(d) to Applied s Form 10-K for the year ended June 30, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.6	A written description of Applied s Long-Term Disability Insurance for executive officers (filed as Exhibit 10(c) to Applied s Form 10-Q for the quarter ended December 31, 1997, SEC File No. 1-2299, and incorporated here by reference).
*10.7	Form of Director and Officer Indemnification Agreement entered into between Applied and each of its directors and executive officers (filed as Exhibit 10(g) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
*10.8	Supplemental Executive Retirement Benefits Plan (January 1, 2002 Restatement), the terms of which govern benefits vested as of December 31, 2004, for one executive officer, R. C. Shaw (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended March 31, 2002, SEC File No. 1-2299, and incorporated here by reference).
*10.9	First Amendment to Supplemental Executive Retirement Benefits Plan (January 1, 2002 Restatement) (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended September 30, 2004, SEC File No. 1-2299, and incorporated here by reference).
*10.10	Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) (filed as Exhibit 10.1 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.11	Deferred Compensation Plan (September 1, 2003 Restatement), the terms of which govern benefits vested as of December 31, 2004, for certain executive officers (filed as Exhibit 10(h) to Applied s Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
*10.12	First Amendment to Deferred Compensation Plan (September 1, 2003 Restatement) (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended December 31, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.13	Deferred Compensation Plan (Post-2004 Terms) (filed as Exhibit 10.3 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.14	1997 Long-Term Performance Plan, as amended April 19, 2007 (filed as Exhibit 10(k) to Applied s Form 10-K for the year ended June 30, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.15	Section 409A Amendment to the 1997 Long-Term Performance Plan (filed as Exhibit 10.4 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.16	2007 Long-Term Performance Plan (filed as Exhibit 10 to Applied s Form 8-K dated October 23, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.17	Section 409A Amendment to the 2007 Long-Term Performance Plan (filed as Exhibit 10.5 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.18	Supplemental Defined Contribution Plan (January 1, 1997 Restatement) the terms of which govern benefits vested as of December 31, 2004, for certain executive officers (filed as Exhibit 10(m) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
*10.19	First Amendment to Supplemental Defined Contribution Plan effective as of October 1, 2000 (filed as Exhibit 10(a) to Applied s Form 10-Q for the quarter ended September 30, 2000, SEC File No. 1-2299, and incorporated here by reference).
*10.20	Second Amendment to Supplemental Defined Contribution Plan effective as of January 16, 2001 (filed as Exhibit 10(a) to Applied s Form 10-Q for the quarter ended March 31, 2001, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
*10.21	Supplemental Defined Contribution Plan (Post-2004 Terms) (filed as Exhibit 10.6 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.22	Non-Statutory Stock Option Award Terms and Conditions (Directors) (filed as Exhibit 10 to Applied s Form 8-K dated November 30, 2005, SEC File No. 1-2299, and incorporated here by reference).
*10.23	Restricted Stock Award Terms (Directors) (filed as Exhibit 10(b) to Applied s Form 10-Q for the quarter ended March 31, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.24	Stock Appreciation Rights Award Terms and Conditions (Officers) (filed as Exhibit 10.02 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).
*10.25	Performance Grant Terms and Conditions (filed as Exhibit 10.3 to Applied s Form 10-Q for the quarter ended September 30, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.26	Performance Shares Terms and Conditions (filed as Exhibit 10.04 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).
*10.27	Performance Shares Terms and Conditions, as amended for performance shares awarded to executive officers in September 2010 (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended September 30, 2010, SEC File No. 1-2299, and incorporated here by reference).
*10.28	Restricted Stock Units Terms and Conditions (filed as Exhibit 10.03 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).
*10.29	Management Incentive Plan General Terms (filed as Exhibit 10.01 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).
*10.30	Letter agreement dated April 27, 2011 between Applied and David L. Pugh (filed as Exhibit 10.1 to Applied s Form 8-K dated April 27, 2011, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
*10.31	Non-qualified Deferred Compensation Agreement between Applied and J. Michael Moore effective as of December 31, 1997 (filed as Exhibit 10(a) to Applied s Form 10-Q for the quarter ended March 31, 1998, SEC File No. 1-2299, and incorporated here by reference).
10.32	Lease dated as of March 1, 1996 between Applied and the Cleveland-Cuyahoga County Port Authority (filed as Exhibit 10(n) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
13	Applied s 2011 annual report to shareholders (not deemed filed as part of this Form 10-K except for those portions that are expressly incorporated by reference).
21	Applied s subsidiaries at June 30, 2011.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of attorney.
31	Rule 13a-14(a)/15d-14(a) certifications.
32	Section 1350 certifications.
101	The following materials formatted in XBRL (Extensible Business Reporting Language): (i) Statements of Consolidated Income for the years ended June 30, 2011, 2010, and 2009; (ii) Consolidated Balance Sheets at June 30, 2011 and 2010; (iii) Statements of Consolidated Cash Flows for the years ended June 30, 2011, 2010 and 2009; (iv) Statements of Consolidated Shareholders Equity for the years ended June 30, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements.

Applied will furnish a copy of any exhibit described above and not contained herein upon payment of a specified reasonable fee, which shall be limited to Applied s reasonable expenses in furnishing the exhibit.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Applied Industrial Technologies, Inc.
Cleveland, Ohio

We have audited the consolidated financial statements of Applied Industrial Technologies, Inc. and subsidiaries (the Company) as of June 30, 2011 and 2010, and for each of the three years in the period ended June 30, 2011, and the Company s internal control over financial reporting as of June 30, 2011, and have issued our reports thereon dated August 17, 2011; such consolidated financial statements and reports are included in your 2011 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
Cleveland, Ohio
August 17, 2011

APPLIED INDUSTRIAL TECHNOLOGIES, INC. & SUBSIDIARIES

Schedule

VALUATION AND QUALIFYING ACCOUNTS

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2011, 2010 AND 2009
(in thousands)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	ADDITIONS (DEDUCTIONS) CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVE	BALANCE AT END OF PERIOD
YEAR ENDED JUNE 30, 2011:					
Reserve deducted from assets to which it applies accounts receivable allowances	$ 6,379	$ 2,029	$ 111(A)	$ 1,503(B)	$ 7,016
YEAR ENDED JUNE 30, 2010:					
Reserve deducted from assets to which it applies accounts receivable allowances	$ 6,464	$ 2,508	($95)(A)	$ 2,498(B)	$ 6,379
YEAR ENDED JUNE 30, 2009:					
Reserve deducted from assets to which it applies accounts receivable allowances	$ 6,119	$ 4,540	$ 18(A)	$ 4,213(B)	$ 6,464

(A) Amounts represent reserves for the return of merchandise by customers.

(B) Amounts represent uncollectible accounts charged off.

SCHEDULE II

SIGNATURES

Pursuant to the requirements of Section 13 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.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

/s/ David L. Pugh

David L. Pugh, Chairman &
Chief Executive Officer

/s/ Benjamin J. Mondics

Benjamin J. Mondics, President &
Chief Operating Officer

/s/ Mark O. Eisele

Mark O. Eisele
Vice President-Chief Financial Officer
& Treasurer

/s/ Daniel T. Brezovec

Daniel T. Brezovec
Corporate Controller
(Principal Accounting Officer)

Date: August 17, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

*

William G. Bares, Director

*

Thomas A. Commes, Director

*

Peter A. Dorsman, Director

*

L. Thomas Hiltz, Director

*

Edith Kelly-Green, Director

*

John F. Meier, Director

/s/ David L. Pugh

J. Michael Moore, Director

David L. Pugh, Chairman & Chief Executive Officer and Director

*

Dr. Jerry Sue Thornton, Director

*

Peter C. Wallace, Director

/s/ Fred D. Bauer
Fred D. Bauer, as attorney in fact
for persons indicated by *

Date: August 17, 2011

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
EXHIBIT INDEX
TO FORM 10-K FOR THE YEAR ENDED JUNE 30, 2011

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3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to Applied s Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Private Shelf Agreement dated as of November 27, 1996, between Applied and Prudential Investment Management, Inc. (assignee of The Prudential Insurance Company of America), conformed to show all amendments (filed as Exhibit 4.2 to Applied s Form 10-Q for the quarter ended March 31, 2010, SEC File No. 1-2299, and incorporated here by reference).
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4.4	First Amendment Agreement dated as of June 6, 2007, among Applied, KeyBank National Association as Agent, and various financial institutions, amending June 3, 2005 Credit Agreement (filed as Exhibit 4 to Applied s Form 8-K dated June 11, 2007, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
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*10.2	A written description of Applied s director compensation program is incorporated by reference to Applied s proxy statement for the annual meeting of shareholders to be held October 25, 2011, under the caption Director Compensation.
*10.3	Deferred Compensation Plan for Non-Employee Directors (September 1, 2003 Restatement) the terms of which govern benefits vested as of December 31, 2004, for certain directors (filed as Exhibit 10(c) to Applied s Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.4	Deferred Compensation Plan for Non-Employee Directors (Post-2004 Terms) (filed as Exhibit 10.2 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.5	A written description of Applied s Life and Accidental Death and Dismemberment Insurance for executive officers (filed as Exhibit 10(d) to Applied s Form 10-K for the year ended June 30, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.6	A written description of Applied s Long-Term Disability Insurance for executive officers (filed as Exhibit 10(c) to Applied s Form 10-Q for the quarter ended December 31, 1997, SEC File No. 1-2299, and incorporated here by reference).
*10.7	Form of Director and Officer Indemnification Agreement entered into between Applied and each of its directors and executive officers (filed as Exhibit 10(g) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
*10.8	Supplemental Executive Retirement Benefits Plan (January 1, 2002 Restatement), the terms of which govern benefits vested as of December 31, 2004, for one executive officer, R. C. Shaw (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended March 31, 2002, SEC File No. 1-2299, and incorporated here by reference).
*10.9	First Amendment to Supplemental Executive Retirement Benefits Plan (January 1, 2002 Restatement) (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended September 30, 2004, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
*10.10	Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) (filed as Exhibit 10.1 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.11	Deferred Compensation Plan (September 1, 2003 Restatement), the terms of which govern benefits vested as of December 31, 2004, for certain executive officers (filed as Exhibit 10(h) to Applied s Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.12	First Amendment to Deferred Compensation Plan (September 1, 2003 Restatement) (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended December 31, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.13	Deferred Compensation Plan (Post-2004 Terms) (filed as Exhibit 10.3 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.14	1997 Long-Term Performance Plan, as amended April 19, 2007 (filed as Exhibit 10(k) to Applied s Form 10-K for the year ended June 30, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.15	Section 409A Amendment to the 1997 Long-Term Performance Plan (filed as Exhibit 10.4 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.16	2007 Long-Term Performance Plan (filed as Exhibit 10 to the Applied s Form 8-K dated October 23, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.17	Section 409A Amendment to the 2007 Long-Term Performance Plan (filed as Exhibit 10.5 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.18	Supplemental Defined Contribution Plan (January 1, 1997 Restatement) the terms of which govern benefits vested as of December 31, 2004, for certain executive officers (filed as Exhibit 10(m) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).

Exhibit No.	Description
*10.19	First Amendment to Supplemental Defined Contribution Plan effective as of October 1, 2000 (filed as Exhibit 10(a) to Applied s Form 10-Q for the quarter ended September 30, 2000, SEC File No. 1-2299, and incorporated here by reference).
*10.20	Second Amendment to Supplemental Defined Contribution Plan effective as of January 16, 2001 (filed as Exhibit 10(a) to Applied s Form 10-Q for the quarter ended March 31, 2001, SEC File No. 1-2299, and incorporated here by reference).
*10.21	Supplemental Defined Contribution Plan (Post-2004 Terms) (filed as Exhibit 10.6 to Applied s Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.22	Non-Statutory Stock Option Award Terms and Conditions (Directors) (filed as Exhibit 10 to Applied s Form 8-K dated November 30, 2005, SEC File No. 1-2299, and incorporated here by reference).
*10.23	Restricted Stock Award Terms (Directors) (filed as Exhibit 10(b) to Applied s Form 10-Q for the quarter ended March 31, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.24	Stock Appreciation Rights Award Terms and Conditions (Officers) (filed as Exhibit 10.02 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).
*10.25	Performance Grant Terms and Conditions (filed as Exhibit 10.3 to Applied s Form 10-Q for the quarter ended September 30, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.26	Performance Shares Terms and Conditions (filed as Exhibit 10.04 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).
*10.27	Performance Shares Terms and Conditions, as amended for performance shares awarded to executive officers in September 2010 (filed as Exhibit 10 to Applied s Form 10-Q for the quarter ended September 30, 2010, SEC File No. 1-2299, and incorporated here by reference).
*10.28	Restricted Stock Units Terms and Conditions (filed as Exhibit 10.03 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description	
*10.29	Management Incentive Plan General Terms (filed as Exhibit 10.01 to Applied s Form 8-K dated September 16, 2009, SEC File No. 1-2299, and incorporated here by reference).	
*10.30	Letter agreement dated April 27, 2011 between Applied and David L. Pugh (filed as Exhibit 10.1 to Applied s Form 8-K dated April 27, 2011, SEC File No. 1-2299, and incorporated here by reference).	
*10.31	Non-qualified Deferred Compensation Agreement between Applied and J. Michael Moore effective as of December 31, 1997 (filed as Exhibit 10(a) to Applied s Form 10-Q for the quarter ended March 31, 1998, SEC File No. 1-2299, and incorporated here by reference).	
10.32	Lease dated as of March 1, 1996 between Applied and the Cleveland-Cuyahoga County Port Authority (filed as Exhibit 10(n) to Applied s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).	
13	Applied s 2011 annual report to shareholders (not deemed filed as part of this Form 10-K except for those portions that are expressly incorporated by reference).	Attached
21	Applied s subsidiaries at June 30, 2011.	Attached
23	Consent of Independent Registered Public Accounting Firm.	Attached
24	Powers of attorney.	Attached
31	Rule 13a-14(a)/15d-14(a) certifications.	Attached
32	Section 1350 certifications.	Attached
101	The following materials formatted in XBRL (Extensible Business Reporting Language): (i) Statements of Consolidated Income for the years ended June 30, 2011, 2010, and 2009; (ii) Consolidated Balance Sheets at June 30, 2011 and 2010; (iii) Statements of Consolidated Cash Flows for the years ended June 30, 2011, 2010 and 2009; (iv) Statements of Consolidated Shareholders Equity for the years ended June 30, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements.	Attached