APPLIED INDUSTRIAL TECHNOLOGIES INC
Form DEF 14A
September 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A
(RULE 14a-101)
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

Applied Industrial Technologies Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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APPLIED INDUSTRIAL TECHNOLOGIES, INC.
1 APPLIED PLAZA
CLEVELAND, OHIO 44115
(216) 426-4000
www.applied.com

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

We are pleased to invite you to the 2011 annual meeting of the shareholders of Applied Industrial Technologies, Inc. The meeting will be at our headquarters, 1 Applied Plaza, East 36th Street and Euclid Avenue, Cleveland, Ohio, 44115 on Tuesday, October 25, 2011, at 10:00 a.m., Eastern Time. The meeting will be held for the following purposes:

1. To elect three directors for a three-year term;

2. To hold a nonbinding advisory vote on the compensation of Applied s named executive officers as disclosed in the attached proxy statement;

3. To hold a nonbinding advisory vote on the frequency of the advisory vote on the compensation of Applied s named executive officers;

4. To act on a proposal to approve the 2011 Long-Term Performance Plan; and

5. To act on a proposal to ratify the Audit Committee s appointment of independent auditors for the fiscal year ending June 30, 2012.

Shareholders of record at the close of business on August 29, 2011, are entitled to vote at the meeting. The transfer books will not be closed. A list of shareholders as of the record date will be available for examination at the meeting.

The attached proxy statement describes the business of the meeting and provides information about our corporate governance. After the meeting, we will report on our operations and other matters of interest.

Fred D. Bauer
Vice President-General Counsel
& Secretary

September 9, 2011

YOUR VOTE IS IMPORTANT! WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE BY TELEPHONE, VIA THE INTERNET, OR BY EXECUTING AND RETURNING THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED. VOTING EARLY WILL HELP AVOID ADDITIONAL SOLICITATION COSTS.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on October 25, 2011.

The Proxy Statement and 2011 Annual Report to Shareholders are available at www.applied.com/proxy

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PROXY STATEMENT

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INTRODUCTION AND VOTING INFORMATION

In this statement, we, our, us, and Applied all refer to Applied Industrial Technologies, Inc., an Ohio corporation. C
common stock, without par value, is listed on the New York Stock Exchange with the ticker symbol AIT.

What is the proxy statement s purpose?

The proxy statement summarizes information you need to vote at our 2011 annual meeting of shareholders to be held on Tuesday, October 25, 2011, at 10:00 a.m., Eastern Time, at our headquarters, and any adjournment of that meeting. We are sending the proxy statement to you because Applied s Board of Directors is soliciting your proxy to vote your shares at the meeting. The proxy statement and the accompanying proxy card are being sent to shareholders of record on or about September 9, 2011.

On what matters are shareholders voting?

1. To elect three directors for a three-year term;

2. A nonbinding advisory vote on the compensation of Applied s named executive officers as disclosed in the proxy statement;

3. A nonbinding advisory vote on the frequency of the advisory vote on the compensation of Applied s named executive officers;

4. A proposal to approve the 2011 Long-Term Performance Plan; and

5. A proposal to ratify the Audit Committee s appointment of independent auditors for the fiscal year ending June 30, 2012.

Who may vote and what constitutes a quorum at the meeting?

Only shareholders of record at the close of business on August 29, 2011, may vote. As of that date, there were 42,377,687 outstanding shares of Applied common stock, without par value. The holders of a majority of those shares will constitute a quorum to hold the meeting. A quorum is necessary for valid action to be taken.

We have no class or series of shares outstanding other than our common stock.

How many votes do I have?

Each shareholder is entitled to one vote per share.

How do I vote?

The answer depends on whether you hold the shares directly in your name, or through a broker, trustee, or other nominee, such as a bank.

> ***Shareholder of record.*** If your shares are registered in your name with our registrar, Computershare Trust Company, N.A., you are considered the shareholder of record and these proxy materials have been sent

directly to you. You may vote in person at the meeting. You may also grant us your proxy to vote your shares by telephone, via the Internet, or by mailing your signed proxy card in the postage-paid envelope provided. The card provides voting instructions.

Beneficial owner. If your shares are held in a brokerage account, by a trustee, or by another nominee, then that other person is considered the shareholder of record. We sent these proxy materials to that other person, and they have been forwarded to you with a voting instructions card. As the shares beneficial owner, you have the right to direct your broker, trustee, or other nominee how to vote, and you are also invited to attend the meeting. Please refer to the information your broker, trustee, or other nominee provided to see what voting options are available to you.

Beneficial owner of shares held in Applied s Retirement Savings Plan or Supplemental Defined Contribution Plan. If you own shares in one of these company plans, then you may direct the plan s trustee how to vote your shares by telephone, via the Internet, or by mailing in your signed voting instructions card.

Votes submitted by telephone or online for shares held in the Retirement Savings Plan or Supplemental Defined Contribution Plan must be received by Thursday, October 20, 2011; votes by telephone or online for other shares must be received by Monday, October 24, 2011.

If you attend the meeting and vote in person, a ballot will be available when you arrive. If, however, your shares are held in the name of your broker, trustee, or other nominee, you must bring a valid proxy from that party giving you the right to vote the shares.

What if I don t indicate my voting choices?

If Applied receives your proxy in time to use at the meeting, your shares will be voted according to your instructions. If you have not indicated otherwise on the proxy you submit, your shares will be voted as the Board of Directors recommends on the matters identified above. In addition, the proxies will vote your shares according to their judgment on other matters brought before the meeting.

What effect do abstentions and broker non-votes have?

Brokers holding shares for beneficial owners must vote the shares according to instructions they receive from the owners. If instructions are not received, then brokers may vote the shares at their discretion, except if New York Stock Exchange (NYSE) rules preclude brokers from exercising discretion relative to a specific type of proposal this is called a broker non-vote.

Abstentions and broker non-votes will affect voting at the meeting as follows:

Item 1. Broker non-votes will not impact the vote s outcome because, pursuant to Ohio law, the properly nominated candidates receiving the greatest number of votes will be elected.

Item 2. Approval of this advisory vote regarding executive compensation requires that more votes be cast for the proposal than against the proposal. Abstentions and broker non-votes will not affect the outcome of the vote.

Item 3. The vote required to determine the frequency of the advisory vote regarding executive compensation is a plurality of the votes cast. Abstentions and broker non-votes will not affect the outcome of the vote.

Item 4. The affirmative vote of a majority of the votes cast at the meeting is required to approve Item 4. In determining the votes cast on the item, abstentions and broker non-votes will not count as votes cast and, accordingly, will not affect the vote s outcome.

Item 5. The affirmative vote of a majority of the votes cast at the meeting is required to approve Item 5. In determining the votes cast on the item, abstentions will not count as votes cast and, accordingly, will not affect the vote s outcome. Brokers have discretionary authority to vote on Item 5, so there will be no broker non-votes on that item.

What happens if a director candidate receives less than a majority of the votes cast?

In 2011, Applied s Board adopted a majority voting policy applicable to uncontested director elections. If a nominee receives a greater number of votes withheld from his or her election than votes for his or her election, then promptly following certification of the shareholder vote the nominee shall submit, in writing, to the Board s Chairman, his or her resignation as a director. The Chairman shall promptly communicate the submission to the Board s Corporate Governance Committee. Notwithstanding the resignation, the Corporate Governance Committee may recommend to the Board that the nominee be asked to serve as a director for his or her term of election and under such arrangements as are approved by the committee. If the Corporate Governance Committee fails to make such a recommendation within 30 days following certification of the shareholder vote, or if the committee earlier determines to accept the resignation, the director s resignation shall be effective as of that date. If the Corporate Governance Committee recommends that the director be asked to serve his or her term as a director notwithstanding the majority withheld vote, the Board shall act promptly (and in any event, within 90 days following certification of the shareholder vote) on such recommendation.

Additional information about the policy is included in Applied s Board of Directors Governance Principles and Practices, available via hyperlink from the investor relations area of Applied s website at *www.applied.com*.

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What does it mean if I receive multiple sets of proxy materials?

Receiving multiple sets usually means your shares are held in different names or different accounts. Please respond to all of the proxy solicitation requests to ensure all of your shares are voted.

May I revoke my proxy?

You may revoke your proxy before it is voted at the meeting by notifying Applied s Secretary in writing, voting a second time by telephone or via the Internet, returning a later-dated proxy card, or voting in person. Your presence at the meeting will not by itself revoke the proxy.

Who pays the costs of soliciting proxies?

Applied pays these costs. We will also pay the standard charges and expenses of brokers or other nominees for forwarding these materials to, and obtaining proxies from, beneficial owners. Directors, officers, and other employees, acting on our behalf, may solicit proxies. We have also retained Morrow & Co., LLC, at an estimated fee of $8,000 plus expenses, to aid in soliciting proxies from brokers and institutional holders. In addition to using the mail, proxies may be solicited personally, and by telephone, facsimile, or other electronic means.

Who counts the votes?

Computershare Trust Company, N.A., will act as inspector of election and tabulate the votes.

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ITEM 1 ELECTION OF DIRECTORS

Applied s Code of Regulations divides our Board of Directors into three classes. The directors in each class are elected for three-year terms so that the term of one class expires at each annual meeting. At the 2011 annual meeting, the shareholders will elect directors for a three-year term expiring in 2014 or until their successors have been elected and qualified. Pursuant to Ohio law, the properly nominated candidates receiving the greatest number of votes will be elected.

The Board s Corporate Governance Committee recommended, and the Board has nominated, three incumbents for election as directors: Thomas A. Commes, John F. Meier, and Peter C. Wallace.

Messrs. Meier and Wallace were most recently elected at the 2008 annual meeting and their terms expire this year. Mr. Commes was elected at the 2009 annual meeting and his current term expires in 2012. The Board renominated them following the Corporate Governance Committee s review and evaluation of their performance.

Mr. Commes has been nominated to replace David L. Pugh in the class whose term will expire in 2014. Mr. Pugh is retiring as Applied s Chief Executive Officer and will resign from the Board at or before the expiration of his term at the 2011 annual meeting. A search for his successor is underway. The Board currently intends to reduce its size to nine directors following the effective time of Mr. Pugh s resignation unless, by that time, a new Chief Executive Officer is selected and elected to the Board. The Board reassigned Mr. Commes to the class whose term will expire in 2014 to comport with both applicable law and Section 9 of Applied s Code of Regulations, which provides in relevant part, If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible . . . .

The directors serving for terms expiring in 2012 and 2013 will continue in office.

The proxies named on the proxy card accompanying the materials sent to shareholders of record intend to vote for the three nominees unless authority is withheld. If a nominee becomes unavailable to serve, the proxies reserve discretion to vote for any other person or persons who may be nominated at the meeting and/or to vote to reduce the number of directors. We are not aware of any existing circumstance that would cause a nominee to be unavailable to serve.

The Board of Directors recommends that the shareholders vote FOR the nominees.

Below we show background information about the nominees and the directors continuing in office. Unless otherwise stated, the individuals have held the positions indicated for the last five years. We also include a summary of reasons our Board concluded, as of the date of this proxy statement, that the respective director or nominee should serve as an Applied director, in light of our business and governance structure. The summaries are not comprehensive, but describe the primary experiences, attributes, and skills that the Board believes qualify the individuals to continue as directors. In addition to the qualifications referred to below, we believe each individual has a reputation for integrity, honesty, and high ethical standards, and has demonstrated strong business judgment.

Nominees for Election as Directors with Terms Expiring in 2014

Thomas A. Commes

Director since 1999, member of Audit and Executive Committees

Business Experience. Until his retirement in 1999, Mr. Commes, age 69, was President and Chief Operating Officer, and a director, of The Sherwin-Williams Company (NYSE: SHW), a manufacturer, distributor, and retailer of paints and painting supplies. His career included service as that company s Chief Financial Officer.

Other Directorships in Previous 5 Years. Agilysys, Inc. (NasdaqGS: AGYS), U-Store-It Trust (NYSE: YSI; until 2008)

Qualifications. Mr. Commes has an extensive background in finance and accounting through his education and work as a Certified Public Accountant with an international public accounting firm and later as a financial executive for several large retailers, culminating in his role as Sherwin-Williams Chief Financial Officer. Mr. Commes then served as President and Chief Operating Officer of Sherwin-Williams, a multi-billion dollar company, for over a decade. From these experiences, he brings to the Board in-depth knowledge of business operations, including the logistics of operating a network of distribution centers and sales outlets, a fundamental characteristic of our business. He also has extensive acquisitions and financing experience. This knowledge and experience, along with his service on other public company boards, make him well-suited for our Board and, in particular, the Audit Committee, which he chairs.

John F. Meier

Director since 2005, member of Executive Organization & Compensation Committee

Business Experience. Until his retirement in July 2011, Mr. Meier, age 63, was Chairman and Chief Executive Officer of Libbey Inc. (NYSE Amex: LBY), a leading supplier of glass tableware products in the U.S., Canada, and Mexico, in addition to supplying to other key international markets.

Other Directorships in Previous 5 Years. Cooper Tire & Rubber Company (NYSE: CTB), Libbey Inc. (until July 2011)

Qualifications. Mr. Meier served as Libbey s Chairman and Chief Executive Officer for 18 years, having led the company through significant business acquisitions and international expansion. He brings to the Board broad general management and marketing experience, including considerable experience working with distributors in markets throughout the world. He also contributes the knowledge and skills he has acquired and continues to acquire through service on other public company boards.

Peter C. Wallace

Director since 2005, member of Executive Organization & Compensation and Executive Committees

Business Experience. Mr. Wallace, age 57, has served as President and Chief Executive Officer, and a director, of Robbins & Myers, Inc. (NYSE: RBN) since 2004. Robbins & Myers is a leading designer, manufacturer, and marketer of highly engineered, application-critical equipment and systems for the energy, chemical, pharmaceutical, and industrial markets worldwide. Prior to joining Robbins & Myers, Mr. Wallace was President and Chief Executive Officer of IMI Norgren Group, a manufacturer of sophisticated motion and fluid control systems for original equipment manufacturers.

Other Directorships in Previous 5 Years. Robbins & Myers, Inc., Rogers Corporation (NYSE: ROG; since 2010)

Qualifications. Mr. Wallace has a wide and varied background as a senior executive in global industrial equipment manufacturing. He brings to the Board the perspective of someone familiar with all facets of worldwide business operations, including the experience of leading a NYSE-listed company. Prior to joining Robbins & Myers, Mr. Wallace had global responsibilities for equipment manufacturers with product lines that Applied (and others) represented as a distributor in the fluid power and power transmission component fields. In those roles, he developed significant knowledge about Applied s industry, including the dynamics of the relationships between industrial product manufacturers and their distributors. These experiences and knowledge, along with his service on other NYSE-listed company boards, enhance Mr. Wallace s contributions and value to our Board.

Continuing Directors with Terms Expiring in 2012

Peter A. Dorsman

Director since 2002, member of Corporate Governance and Executive Committees

Business Experience. Mr. Dorsman, age 56, has served as Senior Vice President, Global Operations for NCR Corporation (NYSE: NCR) since October 2007. NCR is a global technology company providing assisted and self-service solutions and comprehensive support services that address the needs of retail, financial, travel, healthcare, hospitality, entertainment and gaming organizations in more than 100 countries. He joined NCR in April 2006 as Vice President and General Manager of its Systemedia business. From 2000 to 2004, he had been Executive Vice President & Chief Operating Officer of The Standard Register Company (NYSE: SR), a leading provider of information solutions for financial services, healthcare, manufacturing, and other markets worldwide.

Qualifications. Mr. Dorsman has broad experience in marketing, sales, strategy, and operations. At NCR, a multi-billion dollar company, he is responsible for global demand and supply planning, sourcing, manufacturing, fulfillment services, logistics, quality/continuous improvement, and sales order management. With his diverse background and knowledge, he contributes insights about many aspects of our business operations and initiatives. In addition, Mr. Dorsman s leadership skills and dedication have made him an effective Corporate Governance Committee chair.

J. Michael Moore

Director since 1997, member of Audit Committee

Business Experience. Mr. Moore, age 68, is President of Oak Grove Consulting Group, Inc. He was Chairman and Chief Executive Officer of Invetech Company, a distributor of bearings, mechanical and electrical drive system products, industrial rubber products, and specialty maintenance and repair products, prior to its acquisition by Applied in 1997.

Qualifications. Mr. Moore was the longtime Chairman and Chief Executive Officer of Invetech, an industrial distributor and direct competitor of Applied s. After Applied acquired Invetech, Mr. Moore continued to participate in industry trade associations, and served as board chairman of the National Association of Wholesaler-Distributors. His firsthand experience with the operational, financial, and marketplace dynamics of Applied s industry makes him a key contributor to the Board s business discussions. In addition, Mr. Moore s career includes service as Invetech s Chief Financial Officer and as a board member, and chairman, of the Detroit branch of the Federal Reserve Bank of Chicago.

Dr. Jerry Sue Thornton

Director since 1994, member of Audit Committee

Business Experience. Dr. Thornton, age 64, is President of Cuyahoga Community College, the largest multi-campus community college in Ohio.

Other Directorships in Previous 5 Years. American Greetings Corporation (NYSE: AM), RPM, Inc. (NYSE: RPM), National City Corporation (formerly NYSE: NCC; until 2009)

Qualifications. Dr. Thornton is a preeminent educator with significant experience in career training. Our workforce is our most important resource, and her background and skills help the Board monitor Applied s efforts to maximize our associates potential. Having served as Cuyahoga Community College s President for over 19 years, overseeing a budget of over $320 million, she also contributes broad general management skills to Applied s Board. In addition, Dr. Thornton has extensive service as a director of other NYSE-listed companies, including participation on numerous key board committees.

Continuing Directors with Terms Expiring in 2013

William G. Bares

Director since 1986, member of Executive Organization & Compensation Committee

Business Experience. Mr. Bares, age 70, retired as Chairman and Chief Executive Officer of The Lubrizol Corporation (NYSE: LZ) in 2004. Lubrizol is a premier specialty chemical company focused on providing innovative technology to global transportation, industrial, and consumer markets.

Other Directorship in Previous 5 Years. KeyCorp (NYSE: KEY; until May 2011)

Qualifications. Mr. Bares has demonstrated success in business and strong public company leadership skills, serving as Lubrizol s Chairman and Chief Executive Officer for eight years and President for over 20 years. In those roles, he directed his company s global expansion, including making significant business acquisitions and overseeing their financing. As a member of several public company boards during his career, he has chaired numerous key committees and has also served as the lead or presiding director.

L. Thomas Hiltz

Director since 1981, member of Corporate Governance Committee

Business Experience. Mr. Hiltz, age 65, is an attorney in Covington, Kentucky and is one of five trustees of the H.C.S. Foundation, a charitable trust which has sole voting and dispositive power with respect to 500,000 shares (as of June 30, 2011) of Applied stock.

Other Directorship in Previous 5 Years. Great American Financial Resources, Inc. (formerly NYSE: GFR; 2007-2008)

Qualifications. Mr. Hiltz s background as a practicing lawyer and fiduciary includes diverse experience with business transactions, including mergers and acquisitions, and board governance. In addition to his service for Great American Financial Resources, Inc. (prior to its acquisition by American Financial Group, Inc.), he has served as a director of numerous private companies, some with significant minority shareholder bases, and led those boards in overseeing large corporate transactions. Mr. Hiltz also is the Board s longest-serving member, contributing to Board deliberations an institutional memory stretching back several generations of executive teams.

Edith Kelly-Green

Director since 2002, member of Corporate Governance Committee

Business Experience. Until her retirement in 2003, Ms. Kelly-Green, age 58, was Vice President and Chief Sourcing Officer of FedEx Express, the world s largest express transportation company and a subsidiary of FedEx Corporation (NYSE: FDX).

Qualifications. Ms. Kelly-Green has significant procurement and logistics experience from her service with FedEx Express, where she was successful in designing and enhancing the company s extensive internal supply chain processes. Because Applied is a distributor, the processes of buying, inventorying, and transporting products are critical to our business. In addition, her career began in the field of accounting as a Certified Public Accountant with an international public accounting firm and she served as Vice President-Internal Audit with FedEx Corporation. Ms. Kelly-Green s skills and background in these areas make her well-suited for our company and Board.

CORPORATE GOVERNANCE

Corporate Governance Documents

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

Code of Business Ethics,

Board of Directors Governance Principles and Practices,

Director Independence Standards, and

Charters for the Audit, Corporate Governance, and Executive Organization & Compensation Committees of our Board.

Director Independence

Under the NYSE corporate governance listing standards, a majority of Applied s directors must satisfy the NYSE criteria for independence. In addition to having to satisfy stated minimum requirements, no director qualifies under the standards unless the Board affirmatively determines the director has no material relationship with Applied. In assessing a relationship s materiality, the Board has adopted categorical standards, which may be found via hyperlink from our website s investor relations area.

The Board has determined that all the directors, other than Mr. Pugh, our Chief Executive Officer, meet these independence standards.

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Director Attendance at Meetings

During the fiscal year ended June 30, 2011, the Board had seven meetings. Each director attended at least 75% of the total number of meetings of the Board and all committees on which he or she served.

Applied expects its directors to attend the annual meeting of shareholders, just as they are expected to attend Board meetings. All the directors attended last year s annual meeting.

Meetings of Non-Management Directors

Applied s non-management directors meet in executive sessions without management, typically at every regular Board meeting. Effective July 1, 2011, Mr. Wallace, the Executive Organization & Compensation Committee chair, calls and serves as the presiding director of the sessions; Mr. Dorsman, the Corporate Governance Committee chair, had this role during the fiscal year ended June 30, 2011. On the independent directors behalf, the presiding non-management director provides feedback to management from the sessions, collaborates with management in developing Board meeting schedules and agendas, and performs other duties as determined by the Board or the Corporate Governance Committee.

Board Leadership Structure

The Board is led by a Chairman it elects. Mr. Pugh, our Chief Executive Officer, is also Chairman. Our other directors are independent.

The Board periodically evaluates its leadership structure. The Board has concluded that, under Mr. Pugh s leadership, having our Chief Executive Officer as Chairman is in Applied s best interests because it promotes unity of vision for the company s leadership. The Board also believes that Applied and its shareholders are well served by having a Chairman who has a wide-ranging, in-depth knowledge of Applied s operations and the business landscape and who can best identify the strategic issues to be considered by the Board. In addition, the structure promotes the timely flow of information to support Board decision-making.

There are benefits and limitations to combining the offices of Chairman and Chief Executive Officer, but the Board believes that, in Applied s case, the limitations are substantially diminished by existing safeguards. These safeguards include the roles of the presiding non-management director and the independent chairs of the key committees, regular meetings of the non-management directors in executive session, and the fact that executive compensation is determined by a committee of independent directors who review market compensation and performance levels.

As noted previously, Mr. Pugh has announced his retirement as Chief Executive Officer and his resignation from the Board, both of which will take effect at or before the annual meeting. A search is underway for his successor. As the search concludes, the Board intends to reevaluate its leadership structure under the circumstances then existing.

Committees

The Board s Audit, Corporate Governance, and Executive Organization & Compensation Committees are composed solely of independent directors, as defined in the NYSE listing standards and Applied s categorical standards, and, in the case of the Audit Committee, under applicable federal securities laws.

The committee members names and number of meetings held in fiscal 2011 follow:

Committee	Members	Number of Meetings
Audit Committee	Thomas A. Commes, chair J. Michael Moore Dr. Jerry Sue Thornton Stephen E. Yates (until October 26, 2010)	4
Corporate Governance Committee	Peter A. Dorsman, chair L. Thomas Hiltz Edith Kelly-Green	8
Executive Organization & Compensation Committee	Peter C. Wallace, chair William G. Bares John F. Meier	10

We briefly describe each committee below. The committees charters, posted via hyperlink from the investor relations area of Applied s website, contain more complete descriptions. The Board also has a standing Executive Committee which, during the intervals between Board meetings and subject to the Board s control and direction, possesses and may exercise the Board s powers. The Executive Committee, whose members include the Chairman, the presiding non-management director, and the other committee chairs, did not meet in fiscal 2011.

Audit Committee. The Audit Committee assists the Board in fulfilling its oversight responsibility with respect to the integrity of Applied s accounting, auditing, and reporting processes. The committee appoints, determines the compensation of, evaluates, and oversees the work of the independent auditor, reviews the auditor s independence, and approves non-audit work to be performed by the auditor. The committee also reviews, with management and the auditor, annual and quarterly financial statements, the scope of the independent and internal audit programs, audit results, and the adequacy of Applied s internal accounting and financial controls.

The Board has determined that each Audit Committee member is independent for purposes of section 10A of the Securities Exchange Act of 1934 and that Mr. Commes is an audit committee financial expert, as defined in Item 407(d)(5) of Securities and Exchange Commission (SEC) Regulation S-K.

The Audit Committee s report is on page 50 of this proxy statement.

Corporate Governance Committee. The Corporate Governance Committee assists the Board by reviewing and evaluating potential director nominees, Board and Chief Executive Officer performance, Board governance matters, director compensation, compliance with laws, public policy matters, and other issues. The committee also administers long-term incentive awards to directors under the 2007 Long-Term Performance Plan.

Executive Organization & Compensation Committee. The Executive Organization & Compensation Committee monitors and oversees Applied s management succession planning and leadership development processes, nominates candidates for the slate of officers to be elected by the Board, and reviews, evaluates, and approves the executive officers compensation and benefits. The committee also administers incentive awards to executives under the 2007 Long-Term Performance Plan, including the annual Management Incentive Plan. Pay Governance LLC serves as the committee s independent executive compensation consultant.

In approving the officers compensation and benefits, the committee bases its decisions on a number of factors and considerations, including the following: the committee s own reasoned judgment; peer group and market survey information and recommendations provided by the independent consultant; and recommendations from Applied s Chief Executive Officer as to the other officers compensation and benefits.

For more information on the committee, please read, beginning on page 17, the Compensation Discussion and Analysis portion of this proxy statement.

Board s Role in Risk Oversight

Risk is inherent in every enterprise, and Applied faces many risks of varying size and intensity. While management is responsible for day-to-day management of those risks, the Board, as a whole and through its committees, oversees and monitors risk management. In this role, the Board is responsible for satisfying itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The Board believes that robust communication with management is essential for risk management oversight. Senior management attends quarterly Board meetings and is available to respond to directors questions or concerns about risk management-related and other matters. At these meetings, management regularly presents to the Board on strategic matters involving our operations, and the directors and management engage in dialogue about the company s strategies, challenges, risks, and opportunities. The non-management directors also meet regularly in executive session without management to discuss a variety of topics, including risk.

While the Board is ultimately responsible for risk oversight, the committees assist the Board in fulfilling its responsibility in the areas described below, with each committee chair presenting reports to the Board regarding the committee s deliberations and actions.

The Audit Committee assists with respect to risk management in the areas of financial reporting, internal controls, and compliance with legal and regulatory requirements.

The Executive Organization & Compensation Committee assists with respect to management of risks related to executive succession and arising from our executive compensation policies and programs.

The Corporate Governance Committee assists with respect to management of risks associated with Board organization and membership, and other corporate governance matters, as well as company culture and ethical compliance.

We have assessed the risks arising from Applied s compensation policies and practices for employees, including the executive officers. The findings were reviewed with the Executive Organization & Compensation Committee. Based on the assessment, we believe our compensation policies and practices do not encourage excessive risk-taking and are not reasonably likely to have a material adverse effect on Applied.

Communications with Board of Directors

Shareholders and other interested parties may communicate with any director by writing to that individual c/o Applied s Secretary at 1 Applied Plaza, Cleveland, Ohio 44115. In addition, they may contact the non-management directors or key Board committees by e-mail, anonymously if desired, through a form located in the investor relations area of Applied s website at *www.applied.com*. The Board has instructed Applied s Secretary to review these communications and to exercise his judgment not to forward correspondence such as routine business inquiries and complaints, business solicitations, and frivolous communications.

Director Nominations

In identifying and evaluating director candidates, the Corporate Governance Committee first considers Applied s developing needs and the desired characteristics of a new director, as determined from time to time by the committee. The committee then considers various attributes of candidates, including the following: business, strategic, and financial skills; independence, integrity, and time availability; diversity of gender, race, and other personal characteristics; and overall experience in the context of the Board s needs. The committee in the past has engaged a professional search firm, to which it paid a fee, to assist in identifying and evaluating potential nominees to the Board, and may do so again in the future.

The committee will also consider qualified director candidates recommended by our shareholders. Shareholders can submit recommendations by writing to Applied s Secretary at 1 Applied Plaza, Cleveland, Ohio 44115. For consideration by the committee in the annual director nominating process, shareholders must submit recommendations at least 120 days prior to the first anniversary of the date on which our proxy statement was released to shareholders in connection with the previous year s annual meeting. Shareholders must include appropriate detail regarding the shareholder s identity and the candidate s business, professional, and educational background, diversity considerations, and independence. The committee does not intend to evaluate candidates proposed by shareholders differently than other candidates.

Transactions with Related Persons

Applied s Code of Business Ethics expresses the principle that situations presenting a conflict of interest must be avoided. In furtherance of this principle, the Board has adopted a written policy, administered by the Corporate Governance Committee, for the review and approval, or ratification, of transactions with related persons.

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The related party transaction policy applies to any proposed transaction in which Applied is a participant, the aggregate amount involved exceeds $50,000 in any fiscal year, and any director, executive officer or significant shareholder, or any immediate family member of such a person, has a direct or indirect material interest. The policy provides that the Corporate Governance Committee will consider, among other things, whether the transaction is on terms no less favorable than those provided to unaffiliated third parties under similar circumstances, and the extent of the related person s interest. No director may participate in any discussion or approval of a transaction for which he or she is a related person.

DIRECTOR COMPENSATION

Only non-employee directors receive compensation for service as directors. Mr. Pugh, our Chief Executive Officer, does not receive additional compensation for serving as a director.

Compensation Review

The Corporate Governance Committee reviews our directors compensation annually. The committee seeks to provide a competitive compensation program to assist with director retention and recruitment. If the committee believes a change is warranted to remain competitive considering the size and nature of our business, then the committee makes a recommendation to the Board of Directors.

The committee bases its decisions on a number of considerations, including published survey data and the committee s own reasoned judgment. In general, the committee targets the median director compensation levels for comparably sized companies in similar industries, considering also the time commitments required of directors. A majority of the directors must approve any change.

Management assists the committee by preparing and presenting analyses at the committee s request, but does not play a role in determining or recommending the amount or form of director compensation.

As a result of the fiscal 2011 review, and to maintain the program s competitiveness, effective as of July 1, 2011, the Board increased the quarterly director retainer by $3,750.

Components of Compensation Program

The primary components of the director compensation program follow:

Retainer. Effective as of July 1, 2011, directors earn a $13,750 quarterly retainer, or $55,000 annually.

Meeting Fees. Directors earn a $1,500 fee for the first Board or committee meeting attended per day, and $500 for each additional meeting attended on the same day, up to a maximum of $2,500 per day. Directors may be similarly compensated if they attend other meetings or telephone conferences at the request of the Chairman, the presiding non-management director, or a committee chair. In addition, Applied pays directors $500 for any action taken by unanimous written consent or via telephone conference of less than 30 minutes.

Committee Chair Retainer. The chairs of the Audit Committee, the Corporate Governance Committee, and the Executive Organization & Compensation Committee each earn an additional $1,875 quarterly retainer.

Presiding Non-Management Director Retainer. The presiding non-management director earns an additional $1,875 quarterly retainer.

Long-Term Incentives. Annually, after reviewing survey data, the Corporate Governance Committee considers long-term incentive awards to the directors. In 2011, the committee awarded each director 2,724 stock options and 1,611 restricted shares under the 2007 Long-Term Performance Plan. The stock options exercise price is the closing market price for Applied stock on the grant date. The options are exercisable immediately and expire on the tenth anniversary of the grant date. The restricted shares vest one year after the grant date, subject to conditions as to forfeiture and acceleration of vesting.

Deferred Compensation Plan for Non-Employee Directors. Pursuant to the Deferred Compensation Plan for Non-Employee Directors, and subject to Internal Revenue Code (Code) section 409A, a director may

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defer payment of future retainer and meeting fees. Deferred fees are deemed invested, at a director s option, in Applied stock and/or a money market fund, which earns interest at the prevailing market rate.

At the end of the quarter in which the compensation would otherwise become due and payable, Applied transfers the amount deferred, in either cash or treasury shares (depending on the option chosen), to a grantor trust. In general, distribution of a director s account commences in the manner lump sum or up to 10 annual installments and at the time designated in the director s election form. The plan prohibits acceleration of distributions and any distribution change must comply with section 409A.

Four directors defer all or a portion of their retainer and meeting fees and elect to have the fees invested in Applied stock.

Other Benefits. In addition to the items described above, Applied reimburses directors for travel expenses for attending meetings, as well as for expenses incurred in attending director education seminars and conferences. The directors also participate in our travel accident insurance plan and may elect to participate in our contributory health care plan, although the latter benefit will not be available to future new directors.

Stock Ownership Guideline

Applied expects each non-employee director to maintain, within five years of joining the Board, ownership of Applied shares valued at a minimum of three times the annual retainer fees, or $165,000. Directors may hold the shares directly or indirectly, including shares deemed invested in the Deferred Compensation Plan for Non-Employee Directors, but not including unexercised stock options. All the directors currently satisfy this guideline.

Director Compensation Fiscal Year 2011

The following table shows information about each non-employee director s compensation in 2011.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($) (2)	All Other Compensation ($) (3)	Total ($)
William G. Bares	67,250	51,053	33,255	0	151,558
Thomas A. Commes	64,000	51,053	33,255	0	148,308
Peter A. Dorsman	81,000	51,053	33,255	0	165,308
L. Thomas Hiltz	66,500	51,053	33,255	25,316	176,124
Edith Kelly-Green	66,500	51,053	33,255	0	150,808
John F. Meier	59,500	51,053	33,255	0	143,808
J. Michael Moore	59,500	51,053	33,255	23,614	167,422
Dr. Jerry Sue Thornton	56,500	51,053	33,255	0	140,808
Peter C. Wallace	70,625	51,053	33,255	0	154,933
Stephen E. Yates (4)	27,000	0	0	0	27,000

(1) At June 30, 2011, each current non-employee director held 1,611 restricted shares of Applied stock. These shares will vest in January 2012. Applied pays dividends on the restricted stock at the same rate paid to all shareholders and the directors hold voting rights for the shares. The amounts in the table represent the aggregate grant date fair

value of the 2011 awards computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation (FASB ASC Topic 718).

(2) At June 30, 2011, the current directors held the corresponding numbers of stock options: Mr. Bares 46,434; Mr. Commes 14,549; Mr. Dorsman 22,434; Mr. Hiltz 46,434; Ms. Kelly-Green 37,434; Mr. Meier 22,434; Mr. Moore 28,434; Dr. Thornton 46,434; and Mr. Wallace 22,434. The Corporate Governance Committee awarded each current director 2,724 stock options in 2011. The amounts in the table represent the aggregate grant date fair value of the 2011 awards computed in accordance with FASB ASC Topic 718.

(3) The amounts for Messrs. Hiltz and Moore reflect the value of health care benefits. Aggregate perquisites and other personal benefits provided to each other outside director did not exceed $10,000 in value and are not required to be reported.

(4) Mr. Yates resigned from the Board effective with the expiration of his term on October 26, 2010.

BENEFICIAL OWNERSHIP OF CERTAIN APPLIED SHAREHOLDERS AND MANAGEMENT

The following table shows beneficial ownership of Applied common stock, as of June 30, 2011, by (i) each person believed by us to own beneficially more than 5% of Applied s outstanding shares, based on our review of SEC filings, (ii) all directors and nominees, (iii) the named executive officers included in the Summary Compensation Table on page 29, and (iv) all directors, nominees, and executive officers as a group.

Name of Beneficial Owner	Shares Beneficially Owned on June 30, 2011 (1)	Percent of Class (%) (2)
Royce & Associates, LLC 745 Fifth Avenue New York, New York 10151	3,793,131(3)	8.9
BlackRock, Inc. 40 East 52nd Street New York, New York 10022	3,648,309(4)	8.6
Applied Industrial Technologies, Inc. Retirement Savings Plan c/o Wells Fargo Bank, N.A. 901 Marquette Avenue, Suite 500 Minneapolis, Minnesota 55402	2,997,415(5)	7.0
The Vanguard Group, Inc. P.O. Box 2600 Valley Forge, Pennsylvania 19482-2600	2,303,491(6)	5.4
William G. Bares	129,679(7)	
Fred D. Bauer	118,186	
Thomas A. Commes	83,732	
Peter A. Dorsman	58,060	
Mark O. Eisele	190,738	
L. Thomas Hiltz	565,767(8)	1.3
Edith Kelly-Green	73,000	
John F. Meier	41,435	
Benjamin J. Mondics	128,333	
J. Michael Moore	91,408(9)	
David L. Pugh	738,955	1.7
Jeffrey A. Ramras	108,847	
Dr. Jerry Sue Thornton	109,865	
Peter C. Wallace	45,236	
All directors, nominees, and executive officers as a group (18 individuals)	2,691,173(10)	6.2

(1) We have determined beneficial ownership in accordance with SEC rules; however, the holders may disclaim beneficial ownership. Except as otherwise indicated, the beneficial owner has sole voting and dispositive power over the shares. The directors and named executive officers totals include shares that could be acquired within 60 days after June 30, 2011, by exercising vested stock options and stock-settled stock appreciation rights

(SARs), as follow: Mr. Bares 46,434; Mr. Bauer 69,875; Mr. Commes 14,549; Mr. Dorsman 22,434; Mr. Eisele 87,644; Mr. Hiltz 46,434; Ms. Kelly-Green 37,434; Mr. Meier 22,434; Mr. Mondics 82,825; Mr. Moore 28,434; Mr. Pugh 313,875; Mr. Ramras 75,361; Dr. Thornton 46,434; and Mr. Wallace 22,434. The totals also include the following shares held in nonqualified deferred compensation plan accounts for which the beneficial owner has voting, but not dispositive power: Mr. Bares 11,658; Mr. Commes 14,409; Mr. Dorsman 27,077; Mr. Eisele 6,776; Ms. Kelly-Green 2,696; Mr. Meier 8,437; Mr. Moore 25,623; Mr. Ramras 20,830; Dr. Thornton 26,516; and Mr. Wallace 12,313. Each non-employee director s total also includes 1,611 restricted shares of stock, for which the director has voting but not dispositive power. The executive officers totals do not include their restricted stock unit holdings.

(2) Does not show percent of class if less than 1%.

(3) Royce & Associates, LLC, reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 9, 2011.

(4) BlackRock, Inc. reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13G filed with the SEC on February 2, 2011.

(5) The trustee of the Applied Industrial Technologies, Inc. Retirement Savings Plan, a tax-qualified defined contribution plan with a Code section 401(k) feature, holds shares for the benefit of plan participants. Participants may vote all shares allocated to their accounts and also vote on a pro rata basis, as named fiduciaries, shares for which no voting instructions are received.

(6) The Vanguard Group, Inc. reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 10, 2011, indicating it had sole voting and shared dispositive power for 58,362 shares, and no voting but sole dispositive power for 2,245,129 shares.

(7) Includes 5,062 shares owned by Mr. Bares wife, who has sole voting and dispositive power.

(8) Includes 500,000 shares held by the H.C.S. Foundation, a charitable trust of which Mr. Hiltz is one of five trustees, with sole voting and dispositive power. Pursuant to a Schedule 13D filed by the H.C.S. Foundation in 1989, the trustees, including Mr. Hiltz, disclaimed beneficial ownership of those shares.

(9) Includes 35,740 shares held by an irrevocable family trust of which Mr. Moore disclaims beneficial ownership.

(10) Includes 1,032,708 shares that could be acquired by the individuals within 60 days after June 30, 2011, by exercising vested stock options and SARs. In determining share ownership percentage, these stock option and SAR shares are added to both the denominator and the numerator. Also includes 62,876 shares held by Applied s Retirement Savings Plan for the executive officers benefit; these shares are included too in the figure shown for the plan s holdings.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis provides details about the compensation program for Applied s executive officers. It describes the company s compensation philosophy and objectives, roles and responsibilities in making compensation decisions, the components of compensation, and the reasons for compensation adjustments, incentive payments, and long-term incentive grants made in fiscal year 2011.

Unless otherwise noted, references to years in the Executive Compensation section of this proxy statement mean Applied s fiscal years ending on June 30.

Summary of 2011 Compensation

The Board s Executive Organization & Compensation Committee (the Committee) left the executive officers targeted pay largely unchanged in 2011: the Committee did not adjust the executive officers base salaries or annual incentive target values these remained unchanged since 2009 and long-term incentive target values for the executive officers named in the Summary Compensation Table on page 29 (the named executive officers) were adjusted modestly, by less than 5%. These actions were the outcome of the Committee s review of market pay data from a new distributor-only peer group and executive pay trends prevailing at the beginning of the year.

Sales and operating income continued to recover from the recession, and Applied achieved the following results:

	2010	2011	% Improvement
Sales	$1.893 billion	**$2.213 billion**	16.9
Net Income	$65.9 million	**$96.8 million**	46.8
After-Tax Return on Assets (ROA)	7.9%	**11.1%**	40.5
Year-End Stock Price	$25.32	**$35.61**	40.6

2011 sales and net income set company records. These accomplishments were particularly notable considering that, during the year, Applied launched a company-wide enterprise resource planning system project, completed and integrated several strategic business acquisitions, and eliminated its long-term debt. Considering the gains in our stock price, which achieved record highs during the year, and reinvested dividends, our shareholders enjoyed a total shareholder return (TSR) of 43.8%.

The executive officers annual incentive pay reflected the improving business conditions and performance that exceeded fiscal plan targets. Payouts were at 167.1% of target values.

Applied did not, however, achieve three-year sales growth and return on sales goals set by the Committee in the summer of 2008. Consistent with our compensation program s alignment with performance, the executive officers earned only partial three-year performance grant incentive payouts, at 64.3% of target achievement.

Compensation Philosophy and Objectives

As with our overall business, Applied s primary goal in compensating our executive officers is maximizing long-term shareholder return. In pursuing this goal, we seek to design and to maintain a program that will accomplish the following:

- Attract and retain qualified and motivated executives by providing compensation that is competitive with our industry peers, and
- Motivate executives to achieve goals, and to take appropriate risks, consistent with Applied s business strategies.

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Applied is an industrial distributor in a mature market. The business is highly competitive, with many other companies offering the same or substantially similar products and services. In this environment, attracting and retaining talented key employees is critical to our success. For this reason, we aim to design Applied s executive compensation program to be competitive with other distributors programs. We also consider trends and practices outside the industry to understand leading or best practices and their potential implications for Applied.

Consistent with maximizing shareholder return, Applied believes it is important for executives to focus on both short-term and long-term performance. Accordingly, we provide annual and long-term incentive plans designed to align executives interests with those of shareholders.

Roles and Responsibilities

Executive Organization & Compensation Committee. The Committee is composed of independent directors and is responsible for the executive compensation program s design and implementation. The Committee s duties include the following:

- Setting compensation components and levels for the Chief Executive Officer and the other executive officers,
- Overseeing Applied s executive compensation and benefit plans, including approving annual and long-term incentive awards, and
- Approving incentive plan goals that use performance metrics and evaluating performance at the end of plan terms (i.e., annually and on a three-year basis) to determine whether goals have been achieved.

The Committee routinely receives a tally sheet displaying updated data with respect to the material components of each executive s compensation and benefits. This enables the Committee to make decisions with respect to each component in the context of total compensation.

Independent Compensation Consultant. Pay Governance LLC serves as the Committee s independent compensation consultant, assisting the Committee in the following:

- Establishing the executive compensation program s components,
- Analyzing the program s competitiveness, and
- Setting each executive officer s annual target compensation levels.

Pay Governance is engaged by and reports directly to the Committee. The firm s representative directly interacts with the Committee chair between meetings and participates in meetings and performs assignments as requested. He also communicates with management to obtain information for completing assignments for the Committee. The firm submits its invoices to the chair for approval and payment by Applied.

Towers Watson & Co. served as the Committee s consultant for the 2011 compensation review and prepared the pay study described in Executive Compensation Program Overview, below. This work was completed at the beginning of the year. Towers Watson s lead representative for the engagement, and certain of his associates, then left the firm in the first quarter of fiscal 2011 to join Pay Governance, and the Committee subsequently appointed Pay Governance as its consultant.

Pay Governance performed no other work for Applied during the year and received no other compensation from Applied outside its engagement by the Committee. A separate group within Towers Watson performed retirement plan actuarial work for Applied during the short period in 2011 in which Towers Watson served the Committee, but amounts billed for that work were immaterial.

Management. While the Committee is responsible for the program s design and implementation, management assists the Committee in several ways.

Key executives may attend portions of Committee meetings at its invitation. They prepare and present analyses at the Committee s request, and regularly report on Applied s performance. Our Chief Executive Officer also reports on the other officers individual performance and offers recommendations regarding their pay. The Committee sets the officers pay in executive session without management present.

Management assists the Committee s consultant by providing compensation data and other input and helping the consultant understand Applied s organizational structure, business plans, goals, and performance, and the competitive landscape. Management does not have its own executive compensation consultant.

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Executive Compensation Program Overview

Structure. The compensation program for executive officers includes the following components:

- Base salary,
- Annual incentives,
- Long-term incentives,
- Qualified and nonqualified plan benefits, and
- Perquisites and other personal benefits.

Base salary, annual incentives, and long-term incentives are the primary components. The Committee sets base salaries to be competitive with similar positions in peer distribution companies. Annual incentive pay rewards the achievement of short-term earnings objectives, and longer-term financial goals, stock price appreciation, and executive retention are promoted through long-term incentive awards including performance shares, stock-settled stock appreciation rights (SARs), and restricted stock units (RSUs).

Applied s compensation practices reflect our pay-for-performance philosophy. The Committee places the majority of the compensation provided to the named executive officers, including targeted incentive compensation, at risk and tied to company-wide performance. Moreover, as reflected in the table below, incentive compensation generally makes up a greater share of the overall opportunity for executives in more senior positions.

Applied also believes that programs leading to equity ownership ensure that the executives interests align with those of shareholders. However, to avoid excessive dilution, the Committee manages incentive awards to keep annual share utilization well below 2% of the shares outstanding. The Committee regularly reviews its share utilization in relation to market practices.

The Committee generally determines each executive officer s base salary, annual incentive target compensation (expressed as a percentage of salary), and long-term incentive target compensation independently from the other primary elements of compensation. Nevertheless, the Committee reviews data regarding total target cash compensation and total target compensation and considers the information contextually when evaluating each primary compensation element.

The result is a mix among base salary, annual incentive target compensation, and long-term incentive target compensation, as well as between cash and equity-based incentives, that is aligned with competitive market practices.

The following table shows the allocation (rounded) of the opportunity provided in 2011 to the named executive officers among the primary components of compensation base salary, annual incentive target opportunity, and approximate long-term incentive target opportunity (awarded in equity-based instruments):

Name and Principal Position	Base Salary (% of Total)	Annual Incentive Target Opportunity (% of Total)	Long-Term Incentive Target Opportunity (% of Total)
David L. Pugh Chairman & Chief Executive Officer	26	26	48
Benjamin J. Mondics President & Chief Operating Officer	33	22	45

Mark O. Eisele Vice President - Chief Financial Officer & Treasurer	39	24	37
Fred D. Bauer Vice President - General Counsel & Secretary	42	22	36
Jeffrey A. Ramras Vice President - Supply Chain Management	46	23	31

As reflected in the table, more senior executives have more pay at risk. While Mr. Pugh, our Chief Executive Officer, earns a higher salary than the other officers, the primary components of his compensation are also more heavily weighted toward incentive pay. This distinction is appropriate considering his responsibility and influence over Applied s performance and is typical among the companies in the peer group described below.

Competitive Pay Review in 2011. In previous years, to help evaluate Applied s executive compensation, the Committee s consultant prepared a target compensation study from its proprietary database, considering compensation and performance data from a peer group composed of a mix of companies in the distribution, manufacturing, and industrial machinery and equipment industries.

In 2011, after further deliberation, the Committee revised the peer group to focus exclusively on distribution companies, primarily industrial distributors, believing this group more accurately reflected the company s principal market for senior executives. Comparisons with other distributors helped provide the Committee greater insight into executive pay and benefits relative to companies in similar market environments.

With assistance from Towers Watson, the Committee selected a group of 20 companies with sales ranging from $700 million to $5 billion, and median sales of $1.5 billion, compared with Applied s fiscal 2010 sales of $1.9 billion. In addition to sales, the Committee considered number of employees, total assets, total capital, and market capitalization in selecting the peers. Each company had disclosed compensation data for its top officers in SEC filings. Management did not participate in selecting the companies.

The 2011 peer group (the Peer Group) included the following companies:

AAR Corp.
A. M. Castle & Co.
Airgas, Inc.
Anixter International Inc.
Bell Microproducts Inc.
Brightpoint, Inc.
DXP Enterprises Inc.
Fastenal Company
H&E Equipment Services, Inc.
Interline Brands, Inc.
Kaman Corporation
LKQ Corporation
MSC Industrial Direct Co., Inc.
Metals USA Holdings Corp.
Nu Horizons Electronics Corp.
Olympic Steel, Inc.
Park-Ohio Holdings Corp.
ScanSource, Inc.
WESCO International, Inc.
Watsco, Inc.

After the Peer Group was selected, Towers Watson prepared its compensation study, analyzing the competitiveness of the named executive officers target compensation relative to comparable Peer Group data. The study identified Peer Group pay for each position at the 25th, 50th, and 75th percentile levels. The 50th percentile is referred to here as the market median and represents Applied s target pay objective.

Beyond the Peer Group data, Towers Watson presented other competitive pay data from other sources: a group of companies in the Standard & Poor s Small Cap 600 Index with sales comparable to Applied, but operating in a variety of industries; and surveys of hundreds of companies across many industries, produced by several large compensation consulting firms. The Committee requested this supplemental data as a secondary resource, not for making pay decisions, but to help confirm the reliability of the Peer Group data.

Towers Watson analyzed base salary, annual incentive target compensation, total cash target compensation (base salary plus annual incentive target compensation), long-term incentive target compensation, and total direct target compensation (total cash target compensation plus long-term incentive target compensation).

Towers Watson also compared Applied s business performance, over one- and five-year periods, with the Peer Group companies performance, considering numerous metrics, including sales growth, EBITDA, operating income, net income margins, return on assets, and total shareholder return. Performance comparisons assist the Committee in examining how Applied s executive pay aligns with company performance relative to peers.

Using Towers Watson s study, the Committee evaluated each primary compensation component, by position, against the market. In most years, including 2011, the Committee seeks to target total compensation near the market median if

Applied s performance targets are met. Sustained performance below target levels should result in realized total compensation below market medians, and performance that exceeds target levels should result in realized total compensation above market medians.

It is important to note, however, that market medians and the ranges around them only represent beginning reference points; the Committee also uses its subjective judgment to adjust targeted compensation to reflect factors such as individual performance and skills, long-term potential, tenure in the position, internal equity, retention considerations, and the position s importance in Applied s organization.

Components of Compensation

Base Salary. The Committee observes a general policy that base salaries for executive officers who have been in their positions for at least three years and are meeting performance expectations should be near the market median for comparable positions. As with all components of pay, however, the Committee, using its subjective judgment, sets salaries higher or lower to reward individual performance and skills, as well as to reflect factors

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such as long-term potential, tenure in the position, internal equity, retention considerations, and the position s importance in Applied s organization.

As discussed above, the Committee did not adjust the executive officers base salaries in 2011, and they remained unchanged since 2009. This was due primarily to the Committee s adoption of a new peer group composed exclusively of distribution companies. Relative to the new group, Applied s base salaries were generally above median levels. After considering the peer group data, executive pay trends in the broader market (with a number of companies having frozen salary budgets), and the more subjective factors referenced above, the Committee determined that base salary adjustments were not warranted.

The fact that base salaries were not increased was not an indication of the Committee s dissatisfaction with the performance of Applied or the individual officers. Rather, it reflected the Committee s discipline of managing base salaries within the framework of Applied s pay philosophy and the competitive data from the new peer group.

Annual Incentives. The Management Incentive Plan rewards executive officers, in cash, for achieving fiscal year goals. In general, the Committee seeks to pay total short-term compensation near the market median when Applied meets its annual performance goals, and to pay substantially above the market median when Applied substantially exceeds its goals. If Applied does not achieve the threshold performance level, then the executive officers do not earn annual incentive pay.

At the beginning of the fiscal year, after the Board reviews Applied s annual business plan as prepared and presented by management, the Committee reviews and discusses proposed objective performance goals for the Management Incentive Plan. The Committee considers the market outlook and the business plan, along with the available opportunities and the attendant risks.

For the 2011 Management Incentive Plan, the Committee set goals tied to the following performance measures:

Net income bottom-line profitability;
ROA a measure of Applied s operating efficiency; and
Sales to government and government-related customers a key sales initiative.

ROA is calculated by dividing annual net income by average month-end assets for the year. ROA improvements can be achieved by increasing sales, margin, and inventory turnover, all of which are important short-term and long-term objectives for industrial distributors.

Each year, the Committee sets goals it believes are attainable, but that require executives to perform at a consistently high level to achieve target award values. As illustrated in the table below, target and maximum incentive objectives represented significant improvements over results achieved in 2010. The Committee set the 2011 goals as follow:

Net Income (weighted 65%)	**Under $66.385 million**	**$66.385 million**	**$78.1 million**	**$97.625 million**
% of Prorated Portion of Target Award	0%	50%	100%	200%
% Improvement Compared with 2010 Result		1%	19%	48%

ROA (weighted 25%)	Under 7.6%	7.6%	8.9%	11.1%
% of Prorated Portion of Target Award	0%	50%	100%	200%
% Improvement Compared with 2010 Result		(4)%	13%	41%

Government Sales (weighted 10%)	Under $104.763 million	$104.763 million	$123.25 million	$154.063 million
% of Prorated Portion of Target Award	0%	50%	100%	200%
% Improvement Compared with 2010 Result		18%	37%	72%

As shown above, payouts for 2011 could have ranged from 0% to 200% of the executive officers target award values. The Committee established this range of incentive payouts after considering Towers Watson s guidance as to market practices. Payouts for each performance measure were to be prorated on a straight-line proportional basis for results falling between the threshold 50%, 100%, and maximum 200% payout levels.

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Then the Committee assigns an incentive target expressed as a percentage of salary to each executive officer. As with base salaries, the Committee maintained target percentages for 2011 at the same levels used for the previous two years; Towers Watson confirmed that the target percentages approximated market median practices. The named executive officers 2011 targets follow:

Name	Base Salary ($)	Incentive Target (%)	Target Award Value ($)
D. Pugh	945,000	100	945,000
B. Mondics	450,000	65	292,500
M. Eisele	438,000	60	262,800
F. Bauer	355,000	53	188,150
J. Ramras	350,000	50	175,000

Applied s performance dictates the amounts paid. In 2011, the executive officers earned annual incentive pay as a result of achieving incentive goals as follows:

Goal	2011 Achievement	Payout as % of Prorated Portion of Target Award
Net Income (weighted 65%)	$96.759 million	127.1
ROA (weighted 25%)	11.1%	50.0
Government Sales (weighted 10%)	$102.0 million	0.0
		Overall Payout as % of Target Award: 167.1%*

* The Committee reduced the officers overall payout % from the amount calculated by the plan formula due to the net impact of certain nonrecurring income statement items.

Management Incentive Plan payouts are a component of the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table at page 29.

Long-Term Incentives. The 2007 Long-Term Performance Plan rewards executives for achieving long-term goals. The shareholder-approved plan authorizes long-term incentive awards in a variety of forms. The Committee typically makes awards annually, after the release of the previous fiscal year s financial results.

As with the other primary compensation components, the Committee sets the awards value after reviewing the independent consultant s target compensation study. In most years, the Committee seeks to provide awards with a targeted value near the market median for equivalent positions, with variation to reward individual performance and skills, as well as to reflect factors such as long-term potential, responsibility, tenure in the position, internal equity, retention considerations, and the position s importance in Applied s organization.

The Committee uses long-term incentive awards for purposes of motivation, alignment with long-term company performance goals, and executive retention. The Committee intends to pay total long-term compensation near the market median when Applied meets its performance goals and substantially above when Applied substantially exceeds its goals. If goals are not met, then long-term compensation should fall below the market median.

Towers Watson s study indicated that the long-term incentive target compensation values for most executive officers were below Peer Group median levels. After considering this data, executive pay trends in the broader market, and the more subjective factors referenced above, the Committee approved modest in all cases, less than 5% increases to the named executive officers long-term incentive target values compared with 2010 (and 2010 values had been maintained at 2009 levels).

In 2011, as in 2010, the Committee awarded the target value approximately one-third in SARs, one-third in RSUs, and one-third in three-year stock-settled performance shares. The Committee believes this mix of long-term incentive vehicles is appropriate, and Towers Watson reported that it reflected practices used by many companies across industries. More importantly, the combination balances the vehicles distinct purposes and reflects the Committee s subjective judgment regarding the portion of incentive earnings that should be paid in shares.

In determining the number of SARs and RSUs to be awarded and performance shares to be targeted, the Committee valued Applied s shares using a 90-day average price methodology, after considering Towers Watson s input regarding market practices and the desirability of reducing the impact of short-term stock price volatility.

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The Grants of Plan-Based Awards table on page 31 shows the number of SARs and RSUs awarded to the named executive officers, as well as the threshold, target, and maximum payouts for the performance shares.

The following paragraphs describe the three types of long-term incentive awards made in 2011 and also report on performance under the expired 2009-2011 performance grants.

SARs. The SARs ultimate value to executives depends on Applied s stock price growth. The base stock price for the SARs awarded in 2011 is $29.27, the market closing price on the grant date. SARs vest 25% on the first through fourth anniversaries of the grant date, subject to continuous employment with Applied. In addition, unvested SARs vest on retirement. SARs expire on the tenth anniversary of the grant date.

The Committee intends for SARs to align the interests of management and shareholders in achieving long-term growth in the value of Applied s stock by using a form of award the value of which is determined primarily by long-term increases in Applied s stock value. The four-year vesting period, ten-year term, and stock-settled nature of the SARs are consistent with this purpose.

RSUs. RSUs are grants valued in shares of Applied stock, but shares are not issued to the executives until the grants vest three years from the award date, assuming continued employment with Applied. The Committee believes that this use of cliff vesting for restricted stock is more demanding than typical market practices, but appropriate considering the awards limited ties to performance. The RSUs do vest, however, albeit on a pro rata basis, if an executive retires during the three-year term. Applied pays dividend equivalents on RSUs on a current basis, which rewards management for the total returns delivered to shareholders.

The Committee considers RSUs to be a good tool for retaining executives. Because their value will increase or decrease over the three-year vesting period along with Applied s stock, RSUs also promote efforts to maximize long-term shareholder return.

Performance shares. At the beginning of each three-year performance shares period, the Committee sets a target number of shares of Applied stock to be paid to each executive officer at the end of the period. The actual payout the executive earns is calculated, relative to the target payout, based on Applied s achievement of objective performance goals. If an executive retires during the three-year term, the performance shares vest based on the period worked, tied to actual performance.

Each year, as a new three-year period begins, the Committee reviews the business plan and market outlook for the period. Then, after also considering the independent consultant s guidance as to market practices, the Committee determines the performance measures and goal ranges at which payouts can be earned. The Committee sets goals it believes are attainable without inappropriate risk-taking, but that still require officers to perform on a sustained basis at a consistently high level to achieve the targeted payout.

Payouts can range from 0% to 200% of the target number of shares. The target payout is 100% of the target number assigned to the executive. The Grants of Plan-Based Awards table on page 31 shows the threshold, target, and maximum payouts for the performance shares awarded to the named executive officers in 2011.

Because the payout is measured in number of shares, the value of the award depends on both the company s operating performance and its stock price, motivating the executives throughout the performance period with regard to both measures.

Performance shares are intended to provide incentives to achieve goals over a three-year period. For the 2011-2013 performance shares, the Committee set separate goals for each year tied 75% to Applied s earnings before interest, tax, depreciation, and amortization (EBITDA), and 25% to ROA. EBITDA is calculated from our financial statements by starting with operating income, as shown in the statements of consolidated income, and then adding the following items from the statements of consolidated cash flows: depreciation and amortization of property, amortization of intangibles, amortization of stock option and appreciation rights, and goodwill or intangibles impairment (if any). The Committee considered these financial metrics to be appropriate measures of management s impact on the company s operating performance and efficiency over a three-year period.

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Each participant s targeted number of performance shares for the three-year period is, in effect, divided into thirds for each fiscal year. Shares awarded for achievement during a particular fiscal year are then banked for distribution at the end of the three-year term and do not affect distributions for the other years.

The goals for the first year, 2011, were as follow:

EBITDA (weighted 75%)	**Under $122.52 million**	**$122.52 million**	**$153.15 million**	**$191.437 million**
% of Prorated Portion of Target Share Award	0%	50%	100%	200%
% Improvement Compared with 2010 Result		(9)%	14%	42%

ROA (weighted 25%)	**Under 7.1%**	**7.1%**	**8.9%**	**11.1%**
% of Prorated Portion of Target Share Award	0%	50%	100%	200%
% Improvement Compared with 2010 Result		(10)%	13%	41%

As shown above, banked awards could range from 0% to 200% of the executive officers target share award values. The Committee established this payout range after considering Towers Watson s guidance as to market practices. Awards for each performance measure were to be prorated on a straight-line proportional basis for results falling between the threshold 50%, 100%, and maximum 200% payout levels.

Again, Applied s performance dictates the amounts paid. In 2011, as a result of achieving incentive goals, the participants banked awards, to be distributed in shares of Applied stock at the end of 2013, as follows:

2011 Goal	**Achievement**	**Banked Award as % of Target Performance Shares for 2011**
EBITDA (weighted 75%)	$175.85 million	119.5
ROA (weighted 25%)	11.1%	50.0
		Overall:169.5%

2009-2011 performance grants. Prior to 2010, the Committee made annual awards to the executive officers of three-year performance grants. Performance grants were similar to performance shares, except they had target dollar payouts rather than target share payouts. Once the performance achievement was determined at the end of the three years, the Committee made payouts, if any, in cash.

Payouts could range from 0% to 200% of the targeted dollar levels, with 100% as the target payout.

The Committee established two sets of goals for the 2009-2011 performance grants. Two-thirds of the target payout depended on the achievement of sales growth and average annual return on sales goals, providing a balance between growth and profitability. Payout levels were linked in a matrix with multiple ranges of achievement for various combinations of the two goals.

The matrix for the 2009-2011 performance grants is shown below. In reviewing the goals, please note the following:

- The goals incorporated projections from Applied s $166 million acquisition of Fluid Power Resource, LLC, which was completed shortly after the beginning of the performance period;
- Applied had achieved then-record sales ($2.1 billion) and net income ($95.5 million) in fiscal 2008; and
- The Committee set the goals in the summer of 2008, immediately before the global economic and financial crisis.

2009-2011 Performance Grant Matrix

	Cumulative Annual Sales Growth Percentage					
	Under 9.27% (3-year total sales less than $7.5046 billion)	**9.27% - 9.84%** (3-year total sales of $7.5046-$7.5846 billion)	**9.85% - 10.49%** (3-year total sales of $7.5847-$7.6785 billion)	**10.50% - 11.24%** (3-year total sales of $7.6786-$7.7870 billion)	**11.25% - 12.27%** (3-year total sales of $7.7871-$7.9366 billion)	**Abo** (3-ye gr $7.9
Greater than 5.19%	Payout = 75%	Payout = 150%	Payout = 180%	Payout = 180%	Payout = 200%	Payo
4.35% - 5.19%	Payout = 50%	Payout = 100%	Payout = 120%	Payout = 160%	Payout = 180%	Payo
4.05% - 4.34%	Payout = 0%	Payout = 70%	Payout = 80%	Payout = 100%	Payout = 120%	Payo
3.65% - 4.04%	Payout = 0%	Payout = 40%	Payout = 40%	Payout = 60%	Payout = 70%	Pay
2.85% - 3.64%	Payout = 0%	Payout = 20%	Payout = 20%	Payout = 25%	Payout = 30%	Pay
Less than 2.85%	Payout = 0%	Payout = 0%	Payout = 0%	Payout = 0%	Payout = 0%	Pay

The other third of the target payout was tied to the company s cumulative TSR compared with other companies in Applied s and related industries. The calculations used average market closing prices for the ten days prior to the beginning and the end of the three-year period. Payouts were determined based on absolute return and percentile ranking. A 100% payout depended on Applied stock achieving a three-year return at least at the 50th percentile and greater than 12.49% on an absolute basis. The payouts scaled higher up to a potential 200% payout if Applied s three-year return was at the 75th percentile or higher. If, however, the return was lower than the 45th percentile or lower than 0% on an absolute basis, then the executive officers would not earn a payout for this portion of the grants.

The companies used for TSR comparison purposes were the following:

Airgas, Inc.	Fastenal Company	Pall Corporation
Altra Holdings, Inc.	Genuine Parts Company	Parker Hannifin Corporation
Anixter International Inc.	IDEX Corporation	Sauer-Danfoss Inc.
Baldor Electric Co. (acquired during 2011)	Interline Brands, Inc.	The Timken Company
Barnes Group, Inc.	Kaman Corporation	WESCO International, Inc.
DXP Enterprises, Inc.	Lawson Products, Inc.	W. W. Grainger, Inc.
Donaldson Company, Inc.	MSC Industrial Direct Co., Inc.	

The Committee selected these companies in 2009, when the performance grants were awarded, primarily on an industry basis. Unlike the companies selected for the 2011 compensation review, the TSR group included industrial equipment manufacturers as well as distribution companies, and revenue size was not an important consideration.

Ultimately, the executives earned partial payouts for the 2009-2011 performance grant period. With respect to the matrix, Applied s average annual return on sales for the period was 3.40%, but total sales only reached $6.03 billion, so the threshold levels of achievement were not reached. However, Applied s TSR for the period, as calculated under the grants, was 45.2%, which placed Applied at the 74th percentile. As a result, the executives earned 193% of the portion of the target payout tied to the TSR goal, or 64.3% of the overall target payouts for the performance grants.

The performance grant payouts are a component of the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table at page 29.

Qualified, Nonqualified, and Welfare Plan Benefits. Through the plans described below, we seek to provide personal security and other benefits comparable to those available at similarly sized companies. The Committee, with its independent consultant s assistance, reviews the executive-level benefits periodically and compares them with market survey information, considering executives positions and years of service.

Qualified savings plan. Applied maintains a defined contribution plan with a section 401(k) feature (the Retirement Savings Plan) for eligible U.S. employees, including the officers.

Supplemental Executive Retirement Benefits Plan. Applied does not have a qualified defined benefit plan for employees generally, but does maintain the Supplemental Executive Retirement Benefits Plan (the SERP), a nonqualified defined benefit plan, only for executive officers designated as participants by the Board or the Committee. Providing supplemental retirement benefits assists with executive recruitment and retention.

Normal SERP retirement benefits are payable upon separation from service after attainment of age 65 to participants with at least five years credited service as an executive officer. Reduced benefits are available to participants who separate from service with at least 10 years credited service with Applied, five as an executive officer.

Each named executive officer participates in the SERP. Their accrued benefits are described in Pension Plans, at page 33.

Nonqualified deferred compensation plans. Applied also maintains plans that permit highly compensated U.S. employees, including the executive officers, to defer receiving portions of base salary and cash incentive awards and to accumulate nonqualified savings. Applied does not make contributions to these plans, and participants are not provided above-market or guaranteed returns. We describe the plans more fully in Nonqualified Deferred Compensation, at page 34.

Welfare plans. Applied maintains a health care plan as well as life and disability insurance plans for full-time U.S. employees. Executive officers may also participate in executive life and disability insurance programs.

Retiree health care program. Applied provides retiree health care coverage to executive officers who retire after reaching age 55. Under this program, eligible retirees may participate in the health care plan available to active employees, paying the premiums that active employees pay. When the retiree attains age 65, the program becomes a Medicare supplement.

Perquisites and Other Personal Benefits. Applied provides executive officers with perquisites and other personal benefits that Applied believes are reasonable and consistent with the objective of attracting and retaining superior employees for key positions. As with other compensation, the Committee periodically reviews and adjusts these benefits after reviewing market practices.

In 2011, the principal items available included the following: an automobile allowance, reimbursement and tax gross-up for financial planning, estate planning, and tax return preparation services; an annual executive physical examination; reimbursement and tax gross-up for spousal travel and child care tied to approved business trips; and five weeks annual vacation (other employees get five weeks when they achieve 25 years of service). Applied provides some officers with club memberships for business purposes, which are available for personal use as well; the executive pays for expenses related to personal use. See the All Other Compensation column of the Summary Compensation Table at page 29.

Change in Control and Termination Benefits. Applied does not have employment contracts with its officers, nor does it have a formal executive severance policy. The Committee retains discretion to determine the severance benefits, if any, to be offered if the company terminates an officer s employment, other than in the circumstance of a change in control.

Applied s executive officers do have change in control agreements. These arrangements are designed to retain executives and to promote management continuity if an actual or threatened change in control occurs. The Board approved the agreements primarily because it believes that the executives continued attention and dedication to their duties under the adverse circumstances attendant to a change or potential change in control are ultimately in the best interests of Applied and its shareholders.

The agreements provide severance benefits if an executive s employment is terminated by the officer for Good Reason or by Applied Without Cause (each as defined in the agreements), if the termination occurs within three years after a change in control. The executive, in turn, must not compete with Applied for one year following the termination. We describe the agreements more fully on pages 36-37 of this proxy statement.

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Stock Ownership Guidelines

The Committee believes executives should accumulate meaningful equity stakes in Applied to align their economic interests with shareholders interests, thereby promoting the objective of increasing shareholder value. See Beneficial Ownership of Certain Applied Shareholders and Management on page 16 for the shares of Applied stock beneficially owned by each named executive officer.

Pursuant to Applied s stock ownership guidelines, we expect executive officers not to dispose of stock unless their owned shares market value equals or exceeds the following base salary multiples immediately after the disposition:

Chairman & Chief Executive Officer	5x salary
President & Chief Operating Officer	5x salary
Other executive officers	3x salary

Owned shares, per the guidelines, include those owned outright, those owned beneficially in Applied s Retirement Savings Plan and other deferred compensation plans, and RSUs, but do not include unexercised stock options or SARs, or performance shares.

The guidelines are not mandatory in the sense that they do not require an executive immediately to acquire shares if his or her ownership is below the applicable guideline.

Until the guideline is achieved, the executive is expected to retain the net shares received as a result of the exercise of stock options or SARs. Net shares are those shares that remain after shares are sold or netted to pay the exercise price (if applicable) and withholding taxes.

At June 30, 2011, the value of the named executive officers holdings (determined as described above) and their individual guidelines were as follow:

Name	Value of Holdings of Applied Stock ($)	Guideline ($)
D. Pugh	19,602,593	4,725,000
B. Mondics	3,173,136	2,250,000
M. Eisele	4,714,550	1,314,000
F. Bauer	2,478,848	1,065,000
J. Ramras	1,769,318	1,050,000

The Committee monitors compliance with the guidelines. The Committee also periodically reviews the guidelines and compares them with market data reported by the independent consultant and others. With guidelines in force, the Committee has not adopted stock retention policies for equity-based grants.

Consistent with the objectives of the stock ownership guidelines, the company prohibits its insiders from engaging in:

- Short sales of Applied s stock;
- Market transactions in puts, calls, warrants, or other derivative securities based on Applied stock; and
- Certain hedging or monetization transactions, such as prepaid variable forward contracts, equity swaps, collars, and exchange funds.

Clawback Provisions

Because incentive awards are intended to motivate executives to act in Applied s best interests, the Committee has, since 2010, included provisions in the award terms to claw back compensation under certain circumstances:

The Committee may terminate or rescind an award and, if applicable, require an executive to repay all cash or shares (and any dividends, distributions, and dividend equivalents paid thereon) issued pursuant to the award within the previous six months (and any proceeds thereof), if the Committee determines that, during the executive s employment with Applied or during the period ending six months following separation from service, the executive competed with Applied or in certain other circumstances engaged in acts inimical to Applied s interests.

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The Committee may require an executive to repay all cash or shares (and any dividends, distributions, and dividend equivalents paid thereon) issued pursuant to an award within the previous 36 months (and any proceeds thereof) if (i) Applied restates its historical consolidated financial statements and (ii) the Committee determines that (x) the restatement is a result of the executive s, or another executive officer s, willful misconduct that is unethical or illegal, and (y) the executive s earnings pursuant to the award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

Tax Deductibility and Regulatory Considerations

Code section 162(m) limits the amount of compensation a publicly held corporation may deduct as a business expense for federal income tax purposes. That limit, which applies to the chief executive officer and the three other most highly compensated executive officers, is $1 million per individual per year, subject to certain exceptions. The law provides an exception for compensation that is performance-based.

In general, the Committee seeks to preserve the tax deductibility of compensation without compromising the Committee s flexibility in designing an effective, competitive compensation program. Applied has intended for awards under most of the executive incentive programs Management Incentive Plan awards, income from the exercise of stock options and SARs, and performance grant and performance share payouts to qualify as performance-based compensation.

In making long-term incentive grants in 2011, the Committee considered executive retention to be a key objective. Accordingly, the Committee selected RSUs as one of three types of awards. Although RSUs do not qualify as performance-based compensation, the Committee believes that drawback is outweighed by the awards beneficial impact on executive retention.

Conclusion

The Committee reviews all the components of Applied s executive compensation program. When making a decision regarding any component of an executive officer s compensation, the Committee takes into consideration the other components.

The Committee believes that each executive officer s total compensation is appropriate and that the program s components are consistent with market standards. The program takes into account Applied s performance compared to the Peer Group, and appropriately links executive compensation to Applied s annual and long-term financial results and to the long-term financial return to shareholders. The Committee believes the foregoing philosophy is consistent with Applied s culture and objectives and will continue to serve as a reasonable basis for administering Applied s total compensation program for the foreseeable future.

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Summary Compensation Table Fiscal Years 2011, 2010, and 2009

The following table summarizes information, for the years ended June 30, 2011, 2010 and 2009, regarding the compensation of Applied s Chief Executive Officer, Chief Financial Officer, and the three other most highly compensated executive officers at June 30, 2011.

ne and Principal Position	Year	Salary ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
d L. Pugh	2011	945,000	1,340,566	513,476	2,246,875	2,229,544	99,686	7,375,
rman & Chief	2010	945,000	1,435,480	682,722	1,890,000	754,225	49,498	5,756,9
utive Officer	2009	945,000	0	917,339	0	7,456,328	62,515	9,381,
amin J. dics	2011	450,000	480,028	185,250	748,989	517,668	64,440	2,446,3
dent & Chief	2010	450,000	496,085	235,834	626,393	354,224	56,599	2,219,
ating Officer	2009	450,000	0	319,907	37,429	357,224	34,737	1,199,2
k O. Eisele	2011	438,000	321,970	123,500	594,182	294,550	61,826	1,834,0
President - Chief	2010	438,000	333,538	158,077	525,600	574,733	59,596	2,089,5
ncial Officer & surer	2009	438,000	0	215,565	0	358,662	35,641	1,047,8
D. Bauer	2011	355,000	234,160	90,250	427,175	186,925	47,480	1,340,9
President -	2010	355,000	242,765	115,353	376,300	400,058	34,432	1,523,9
eral Counsel & etary	2009	355,000	0	157,087	0	134,065	31,413	677,5
rey A. Ramras	2011	350,000	181,474	68,401	377,667	221,461	56,289	1,255,2
President -	2010	350,000	183,657	87,156	350,000	316,900	47,126	1,334,8
ly Chain agement	2009	350,000	0	118,102	0	192,999	42,861	703,9

(1) Amounts represent the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used to determine the awards grant date fair values are described in the notes to Applied s consolidated financial statements, included in our annual reports to shareholders for those years. The 2011 awards are described in the Compensation Discussion and Analysis at pages 23-24 and the Grants of Plan-Based Awards table on page 31. The amounts reported for 2011 in the Stock Awards column are totals of the following:

Name	RSUs ($)	Performance Shares ($)
D. Pugh	670,283	670,283
B. Mondics	240,014	240,014
M. Eisele	160,985	160,985
F. Bauer	117,080	117,080
J. Ramras	90,737	90,737

The performance shares grant date fair values assume performance at the target level of achievement. If instead it was assumed that the highest level of performance would be achieved, then the grant date fair values would be twice the amounts reported for the performance shares.

(2) The 2011 amounts include the following elements:

Name	Annual Incentive Earnings Under 2011 Management Incentive Plan ($)	Long-Term Incentive Earnings Under 2009-2011 Performance Grants ($)
D. Pugh	1,579,095	667,780
B. Mondics	488,768	230,571
M. Eisele	439,139	155,043
F. Bauer	314,399	112,776
J. Ramras	292,425	85,242

Mr. Mondics s amount also includes a $29,650 final distribution under a non-officer plan in which he participated prior to his promotion to an executive officer position in 2007.

(3) Reflects the increase in the estimated actuarial present value of the individual s accrued benefit under the Supplemental Executive Retirement Benefits Plan. However, the individual may not currently be entitled to receive the amount shown because it may not be vested. The 2011 figure is the difference between the number shown in the Pension Benefits table on page 34 for 2011 year-end and the same item calculated for July 1, 2010. See the notes to that table for information regarding how the estimated amounts were calculated.

The SERP uses the interest rates and mortality tables that are imposed on tax-qualified pension plans by Code section 417(e). The rates were revised as of 2008 due to the provisions of the Pension Protection Act of 2006. Values for 2011 reflect a 4.50% discount rate and a three-segment interest rate structure, in effect for January 2011, with 2.45% for the first five years, 5.10% for the next 15 years, and 6.04% thereafter, including recognition of the 20% permissible transition with the 30-year treasury rate.

Values for 2010 reflect a 4.25% discount rate and a three-segment interest rate structure, in effect for January 2010, with 3.23% for the first five years, 5.22% for the next 15 years, and 5.72% thereafter, including recognition of the 40% permissible transition with the 30-year treasury rate. Values for 2009 reflect a 6.00% discount rate and a three-segment interest rate structure, in effect for January 2009, with 3.96% for the first five years, 4.60% for the next 15 years, and 4.40% thereafter, including recognition of the 60% permissible transition with the 30-year treasury rate.

In addition, in each successive year, the mortality table reflected adjustments pursuant to Code section 417(e). Present values were determined assuming no probability of termination, retirement, death, or disability before normal retirement age (age 65).

Mr. Pugh s 2009 figure reflects his completion of 10 years of service with Applied, qualifying him for enhanced plan benefits as described in Pension Plans, at page 33.

(4) Amounts in this column for 2011 are totals of the following: (i) Retirement Savings Plan (section 401(k) plan) matching and profit-sharing contributions; (ii) gross-up payments to cover income taxes in connection with the reimbursement of expenses for financial planning, estate planning, and tax return preparation services, business travel, and token awards; (iii) company contributions for executive life insurance, for a $300,000 benefit; and (iv) the estimated value of perquisites and other personal benefits.

The following perquisites and other personal benefits were made available in 2011 to named executive officers: automobile allowance and related gas and maintenance payments; reimbursement of expenses for financial planning, estate planning, and tax return preparation services; physical examinations; the annual expense related to each individual s post-retirement health care benefit; company contributions for officer-level disability and accident insurance benefits; and token awards or souvenirs related to meetings or events. Applied provides certain officers with club memberships for business purposes, which are available for personal use as well, but the officer reimburses Applied for any personal expenses.

No perquisite or personal benefit exceeded the greater of $25,000 or 10% of the total amount of perquisites and personal benefits for any of the named executive officers for 2011, except that Applied reimbursed Mr. Pugh, who has announced his pending retirement, $26,715 for financial planning, estate planning, and tax return preparation service expenses he incurred during the year.

The following table itemizes All Other Compensation for 2011:

Name	Retirement Savings Plan Contributions ($)	Gross-up Payments ($)	Life Insurance Benefits ($)	Perquisites and Other Personal Benefits ($)
D. Pugh	16,351	21,678	1,785	59,872
B. Mondics	17,750	6,929	653	39,108
M. Eisele	17,612	1,993	810	41,411
F. Bauer	16,449	53	366	30,612
J. Ramras	16,508	1,882	962	36,937

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Grants of Plan-Based Awards Fiscal Year 2011

In 2011, the Executive Organization & Compensation Committee provided the following incentive opportunities and grants under the 2007 Long-Term Performance Plan to the named executive officers:

	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Units	All Other Option Awards: Number of Securities Underlying	Base Price of Optio Awar ($/Sha
rant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#) (3)	Options (#)	(4)
9/3/2010							22,900		
9/3/2010								54,800	29.2
9/3/2010 (3-Year erformance Shares)				11,450	22,900	45,800			
9/3/2010 (2011 lanagement Incentive Plan)	472,500	945,000	1,890,000						
9/3/2010							8,200		
9/3/2010								19,500	29.2
9/3/2010 (3-Year erformance Shares)				4,100	8,200	16,400			