

APPLIED INDUSTRIAL TECHNOLOGIES INC

Form DEF 14A

September 04, 2009

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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

Filed by a Party other than the Registrant

Check the appropriate box:

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

No fee required.

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):

(4) Proposed maximum aggregate value of transaction:

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- o Fee paid previously with preliminary materials.
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(1) Amount Previously Paid:

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(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 2009 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 20, 2009, at 10:00 a.m., Eastern Time. The meeting will be held for the following purposes:

1. Electing as directors, for a three-year term, the four nominees named in the attached proxy statement, and
2. Voting on a proposal to ratify the appointment of independent auditors for the fiscal year ending June 30, 2010.

Shareholders of record at the close of business on August 24, 2009, 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 other 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 4, 2009

**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 20, 2009.**

**The Proxy Statement and 2009 Annual Report to Shareholders are available at  
[www.applied.com/proxy](http://www.applied.com/proxy)**

**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. Our 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 2009 annual meeting of shareholders to be held on Tuesday, October 20, 2009, 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 4, 2009.

**On what matters are shareholders voting?**

The election, as directors, of the four nominees named on pages 5 and 6, and

A proposal to ratify the Audit Committee's appointment of Deloitte & Touche LLP as Applied's independent auditors for the fiscal year ending June 30, 2010.

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

Only shareholders of record at the close of business on August 24, 2009, may vote. As of that date, there were 42,318,184 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 directly in your name with our registrar, Computershare Investor Services LLC, 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 and 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.

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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 15, 2009; votes by telephone or online for other shares must be received by Monday, October 19, 2009.

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 two 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. Under NYSE rules, brokers will have discretionary authority to vote on Items 1 and 2, so there should be no broker non-votes.

The affirmative vote of a majority of the votes cast at the meeting is required to approve Item 2. In determining the votes cast on the item, abstentions will not count as votes cast and, accordingly, will not affect the vote's outcome.

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

Receiving multiple sets of proxy cards 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 the costs of soliciting proxies. 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 \$7,000 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 Investor Services LLC 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 2009 annual meeting, the shareholders will elect directors for a three-year term expiring in 2012 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 approved, the nomination of four persons for election as directors: Thomas A. Commes, Peter A. Dorsman, J. Michael Moore, and Dr. Jerry Sue Thornton. All are incumbents who were most recently elected at the 2006 annual meeting. The Board renominated them following the Corporate Governance Committee's review and evaluation of their performance.

The directors serving for terms expiring in 2010 and 2011 will continue in office.

The proxies named on the proxy card accompanying the materials sent to shareholders of record intend to vote for the four 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 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.

**Nominees for Election as Directors with Terms Expiring in 2012**

**Thomas A. Commes**

Director since 1999, member of Audit and Executive Committees

**Business Experience.** Until his retirement in 1999, Mr. Commes, age 67, was President and Chief Operating Officer, and a director, of The Sherwin-Williams Company, a manufacturer, distributor, and retailer of paints and painting supplies. His career included service as that company's Chief Financial Officer.

**Other Directorship.** Agilysys, Inc.

**Peter A. Dorsman**

Director since 2002, member of Corporate Governance Committee

**Business Experience.** Mr. Dorsman, age 54, has served as Senior Vice President, Global Operations for NCR Corporation 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, gaming and public sector 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, a leading provider of information solutions for financial services, healthcare, manufacturing, and other markets worldwide.

**J. Michael Moore**

Director since 1997, member of Audit Committee

***Business Experience.*** Mr. Moore, age 66, is President of Oak Grove Consulting Group, Inc. He was Chairman and Chief Executive Officer of Invetech Company, a distributor of bearings, mechanical and

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electrical drive system products, industrial rubber products, and specialty maintenance and repair products, prior to its acquisition by Applied in 1997.

**Dr. Jerry Sue Thornton**

Director since 1994, member of Audit Committee

**Business Experience.** Dr. Thornton, age 62, is President of Cuyahoga Community College, the largest multi-campus community college in Ohio.

**Other Directorships.** American Greetings Corporation, RPM, Inc.

**Continuing Directors with Terms Expiring in 2010**

**William G. Bares**

Director since 1986, member of Executive and Executive Organization & Compensation Committees

**Business Experience.** Mr. Bares, age 68, was The Lubrizol Corporation's Chairman until his retirement from that post in December 2004. He had also previously served as Lubrizol's Chief Executive Officer. Lubrizol is a premier specialty chemical company focused on providing innovative technology to global transportation, industrial, and consumer markets.

**Other Directorship.** KeyCorp

**Edith Kelly-Green**

Director since 2002, member of Corporate Governance Committee

**Business Experience.** Until her retirement in 2003, Ms. Kelly-Green, age 56, was Vice President and Chief Sourcing Officer of FedEx Express, the world's largest express transportation company and a subsidiary of FedEx Corporation.

**Stephen E. Yates**

Director since 2001, member of Audit Committee

**Business Experience.** Mr. Yates, age 61, is Executive Vice President and Chief Information Officer of KeyCorp, one of the nation's largest bank-based financial services companies.

**Continuing Directors with Terms Expiring in 2011**

**L. Thomas Hiltz**

Director since 1981, member of Corporate Governance Committee

**Business Experience.** Mr. Hiltz, age 63, 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 600,000 shares (as of June 30, 2009) of Applied stock.

**John F. Meier**

Director since 2005, member of Executive Organization & Compensation Committee

**Business Experience.** Mr. Meier, age 61, is Chairman and Chief Executive Officer of Libbey Inc., a leading supplier of tableware products in the U.S. and Canada, in addition to supplying to other key international markets.

**Other Directorships.** Cooper Tire & Rubber Company, Libbey Inc.

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**David L. Pugh**

Director since 2000, member of Executive Committee

**Business Experience.** Mr. Pugh, age 60, is Applied's Chairman & Chief Executive Officer.

**Other Directorships.** Hexcel Corporation, OM Group, Inc.

**Peter C. Wallace**

Director since 2005, member of Executive Organization & Compensation Committee

**Business Experience.** Mr. Wallace, age 55, has served as President and Chief Executive Officer, and a director, of Robbins & Myers, Inc. since 2004. Robbins & Myers is a leading designer, manufacturer, and marketer of highly engineered, application-critical equipment and systems for the pharmaceutical, energy, 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 Directorship.** Robbins & Myers, Inc.

**ITEM 2 RATIFICATION OF AUDITORS**

Subject to shareholder ratification, the Audit Committee has appointed Deloitte & Touche LLP to serve as independent auditors for the fiscal year ending June 30, 2010. The committee made the appointment after evaluating the firm and its performance. Deloitte & Touche has confirmed it is not aware of any relationship between the firm (and its affiliates) and Applied that may reasonably be thought to bear on its independence.

Deloitte & Touche, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates billed the following fees, including expenses, to Applied for fiscal years 2009 and 2008:

<b>Type of Fees</b>	<b>Fiscal 2009 (\$)</b>	<b>Fiscal 2008 (\$)</b>
<b>Audit Fees</b>	1,101,000	933,800
<b>Audit-Related Fees</b>	59,900	53,500
<b>Tax Fees</b>	403,600	215,700
<b>All Other Fees</b>	3,600	3,900

**Audit-Related Fees** in 2009 were for acquisition due diligence (\$51,900), and miscellaneous accounting research projects and reports (\$8,000), and in 2008 were for acquisition due diligence (\$35,000), and miscellaneous accounting research projects and reports (\$18,500).

**Tax Fees** in 2009 were for tax compliance and return preparation (\$69,100) and consulting (\$334,500) and in 2008 were for tax compliance and return preparation (\$65,300) and consulting (\$150,400).

**All Other Fees** in 2009 and in 2008 were for an annual subscription to an accounting research tool.

The Audit Committee pre-approves the services performed by the independent auditors to assure that the provision of the services does not impair the auditors' independence. If a type of service to be provided is not included in the committee's general pre-approval, then it requires specific pre-approval. In addition, any services exceeding pre-approved cost levels require additional committee pre-approval. The committee has delegated pre-approval authority to its chair, provided that the committee reviews the chair's action at its next regular meeting. The committee also reviews, generally on a quarterly basis, reports summarizing the services provided by the independent auditors.

Unless otherwise indicated, the accompanying proxy will be voted in favor of ratifying Deloitte & Touche's appointment. Ratification requires the affirmative vote of a majority of the shares cast at the

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meeting. If Deloitte & Touche withdraws or otherwise becomes unavailable for reasons not currently known, the proxies will vote for other independent auditors, as they deem appropriate.

We expect one or more Deloitte & Touche representatives to be present at the meeting. They will have the opportunity to make a statement and we expect them to be available to respond to appropriate questions.

**The Board of Directors recommends that the shareholders vote FOR ratifying the appointment of the independent auditors.**

## **CORPORATE GOVERNANCE**

### **Corporate Governance Documents**

Applied's Internet address is *www.applied.com*. The following corporate governance documents are available free of charge at 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.

These documents are also available in print to any shareholder who sends a written request to our Vice President-Chief Financial Officer & Treasurer at 1 Applied Plaza, Cleveland, Ohio 44115.

### **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 in 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.

### **Director Attendance at Meetings**

During the fiscal year ended June 30, 2009, the Board had five 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. Mr. Dorsman, the Corporate Governance Committee chair, serves as presiding director of the sessions.

**Committees**

The 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.

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The committee members' names and number of meetings held in fiscal 2009 follow:

<b>Committee</b>	<b>Members</b>	<b>Number of Meetings</b>
<b>Audit Committee</b>	Thomas A. Commes, chair	4
	J. Michael Moore	
	Dr. Jerry Sue Thornton	
	Stephen E. Yates	
<b>Corporate Governance Committee</b>	Peter A. Dorsman, chair	4
	L. Thomas Hiltz	
	Edith Kelly-Green	
	William G. Bares, chair	
<b>Executive Organization &amp; Compensation Committee</b>	John F. Meier	6
	Peter C. Wallace	

We briefly describe each committee below. Their charters, posted at 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 held three meetings in fiscal 2009.

**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 at least one, 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 37 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. Hewitt Associates 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 Hewitt; and recommendations from Mr. Pugh, Applied's Chief

Executive Officer, as to the other officers' compensation and benefits.

For more information on the committee, please read, beginning on page 14, the Compensation Discussion and Analysis portion of this proxy statement.

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**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 established in the investor relations area of Applied's website at [www.applied.com](http://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 a candidate's business, strategic, and financial skills, independence, integrity, and time availability, as well as 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, 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. Shareholders must submit recommendations in a timely manner and include appropriate detail regarding the shareholder's identity and the candidate's business, professional, and educational background 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.

The related party transaction policy applies to any proposed transaction in which Applied is a participant, the amount involved exceeds \$50,000, 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.

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**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.

In considering changes, the committee bases its decisions on a number of factors and 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.

As a result of its fiscal 2009 review, the Board adjusted the quarterly retainer, the supplemental retainer paid to the chair of the Executive Organization & Compensation Committee, and the targeted value of the annual long-term incentive awards to directors, all effective January 1, 2009. The Board also eliminated a company matching contribution feature from the Deferred Compensation Plan for Non-Employee Directors (see below).

**Components of Compensation Program**

The primary components of the director compensation program follow:

***Retainers.*** Directors earn a \$10,000 quarterly retainer.

***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 Chairman's request. 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 Retainers.*** The Corporate Governance Committee chair earns an additional \$1,250 quarterly retainer, and the Audit Committee and the Executive Organization & Compensation Committee chairs each earn an additional \$1,875 quarterly retainer.

***Long-Term Incentives.*** Annually, after considering survey data, the Corporate Governance Committee considers long-term incentive awards to the directors. In 2009, the committee awarded each director 4,792 stock options and 2,860 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 defer payment of

future retainer and meeting fees. Deferred fees are deemed invested, at a director's option, in a money market fund and/or Applied stock.

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.

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Previously, if a director elected to have compensation invested in Applied stock, then Applied contributed an additional amount equal to 25% of the amount so invested. The Board eliminated this matching feature effective January 1, 2009.

Six directors currently 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.

**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. Directors may hold the shares directly or indirectly, including shares deemed invested in the Deferred Compensation Plan for Non-Employee Directors. All the directors meet this guideline.

**Director Compensation Fiscal Year 2009**

The following table shows information about each non-employee director's compensation in 2009.

Name	Fees	Stock	Option	All Other	Total (\$)
	Earned or Paid in Cash (\$)				
William G. Bares	58,500	36,481	31,767	7,063	133,811
Thomas A. Commes	57,250	36,481	31,767	6,750	132,248
Peter A. Dorsman	52,250	36,481	31,767	5,438	125,936
L. Thomas Hiltz	49,250	36,481	31,767	26,067	143,565
Edith Kelly-Green	49,750	36,481	31,767	5,438	123,436
John F. Meier	49,250	36,481	31,767	5,688	123,186
J. Michael Moore	48,250	36,481	31,767	24,618	141,116
Dr. Jerry Sue Thornton	50,250	36,481	31,767	5,938	124,436
Peter C. Wallace	48,250	36,481	31,767	5,438	121,936
Stephen E. Yates	48,750	36,481	31,767	5,563	122,561

(1) At June 30, 2009, each director held 2,860 restricted shares of Applied stock. Awarded in 2009, these shares will vest in January 2010. The grant date fair value was \$47,705. Applied pays dividends on the restricted stock at the same rate paid to all shareholders and the directors hold voting rights for the shares. We determined the fair values and the amounts expensed in 2009, as shown in the table, in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ( SFAS 123(R) ).

(2)

At June 30, 2009, the directors held the corresponding numbers of stock options: Mr. Bares 48,273; Mr. Commes 7,388; Mr. Dorsman 34,773; Mr. Hiltz 48,273; Ms. Kelly-Green 39,273; Mr. Meier 15,273; Mr. Moore 21,273; Dr. Thornton 48,273; Mr. Wallace 15,273; and Mr. Yates 43,773. The Corporate Governance Committee awarded each director 4,792 stock options in 2009; the grant date fair value for the options, which vested immediately, was \$31,767. We determined the fair values and the amounts expensed in 2009, as shown in the table, in accordance with SFAS 123(R).

- (3) Except for Messrs. Hiltz and Moore, the amounts reflect the value of matching contributions, made in shares of Applied stock, to director accounts in the Deferred Compensation Plan for Non-Employee Directors for the first half of the year. Mr. Hiltz's amount includes the value of matching contributions (\$5,438) and health care benefits (\$20,629). Mr. Moore's amount includes 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.

**Table of Contents****BENEFICIAL OWNERSHIP OF CERTAIN APPLIED SHAREHOLDERS AND MANAGEMENT**

The following table shows beneficial ownership of Applied common stock, as of June 30, 2009, by (a) each person believed by us to own beneficially more than 5% of Applied's outstanding shares, based on our review of SEC filings, (b) all directors and nominees, (c) the named executive officers included in the Summary Compensation Table on page 22, and (d) all directors, nominees, and executive officers as a group.

Name of Beneficial Owner	Shares Beneficially Owned on June 30, 2009 (1)	Percent of Class (%) (2)
<b>Dimensional Fund Advisors LP</b> Building One, 6300 Bee Cave Road Austin, Texas 78746	3,538,935(3)	8.4
<b>Applied Industrial Technologies, Inc. Retirement Savings Plan</b> c/o Wachovia Retirement Services 1525 West W. T. Harris Boulevard Charlotte, North Carolina 28262	3,516,487(4)	8.3
<b>T. Rowe Price Associates, Inc.</b> 100 East Pratt Street Baltimore, Maryland 21202	2,779,257(5)	6.6
<b>Capital World Investors</b> 333 South Hope Street, 55 <sup>th</sup> Floor Los Angeles, California 90071-1447	2,738,790(6)	6.5
<b>Barclays Global Investors UK Holdings Limited</b> 1 Churchill Place, Canary Wharf London, England E14 5HP	2,675,461(7)	6.3
<b>Royce &amp; Associates, LLC</b> 745 Fifth Avenue New York, New York 10151	2,371,918(8)	5.6
<b>Allianz Global Investors of America L.P.</b> 680 Newport Center Drive, Suite 250 Newport Beach, California 92660	2,155,600(9)	5.1
<b>William G. Bares</b>	176,576(10)	
<b>Fred D. Bauer</b>	104,557	
<b>Thomas A. Commes</b>	81,412	
<b>Peter A. Dorsman</b>	59,879	
<b>Mark O. Eisele</b>	161,349	
<b>L. Thomas Hiltz</b>	669,990(11)	1.6
<b>Edith Kelly-Green</b>	59,020	
<b>John F. Meier</b>	28,493	
<b>Benjamin J. Mondics</b>	109,617	
<b>J. Michael Moore</b>	81,656(12)	
<b>David L. Pugh</b>	1,223,893	2.8
<b>Jeffrey A. Ramras</b>	137,549	
<b>Dr. Jerry Sue Thornton</b>	102,098	

<b>Peter C. Wallace</b>	29,353	
<b>Stephen E. Yates</b>	76,941	
<b>All directors, nominees, and executive officers as a group (19 individuals)</b>	3,322,634(13)	7.6

(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, 2009, by exercising vested stock options and stock appreciation rights ( SARs ), as follow: Mr. Bares 48,273; Mr. Bauer 61,826; Mr. Commes 7,388; Mr. Dorsman 34,773; Mr. Eisele 59,244; Mr. Hiltz 48,273; Ms. Kelly-Green 39,273; Mr. Meier 15,273; Mr. Mondics 82,716; Mr. Moore 21,273; Mr. Pugh 711,305; Mr. Ramras 105,322; Dr. Thornton 48,273; Mr. Wallace 15,273; and Mr. Yates 43,773. 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 81,867; Mr. Commes 12,248; Mr. Dorsman 20,365; Mr. Eisele 6,451; Ms. Kelly-Green 3,639; Mr. Meier 6,904; Mr. Moore 24,395; Mr. Ramras 19,831; Dr. Thornton 35,111; Mr. Wallace 7,839; and Mr. Yates 28,426. Each non-employee director s total also includes 2,860 restricted shares of stock, for which the director has voting but not dispositive power.

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

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- (3) Dimensional Fund Advisors LP reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 10, 2009, indicating it had sole voting power for 3,507,625 shares, no voting power for 31,310 shares, and sole dispositive power for 0 shares.
- (4) 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.
- (5) T. Rowe Price Associates, Inc., reported its share ownership in a Form 13F filed with the SEC on August 14, 2009, indicating it had sole voting power for 346,100 shares and no voting power for 2,433,157 shares.
- (6) Capital World Investors reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 14, 2009, indicating it had sole dispositive power for 0 shares and no voting power.
- (7) Barclays Global Investors UK Holdings Limited reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 18, 2009, indicating it had sole voting power for 2,040,041 shares, no voting power for 635,420 shares, and sole dispositive power for 0 shares.
- (8) Royce & Associates, LLC, reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 4, 2009.
- (9) Allianz Global Investors of America L.P. reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 12, 2009, indicating it had sole voting power for 2,125,700 shares, no voting power for 29,900, shares, and sole dispositive power for 0 shares.
- (10) Includes 5,062 shares owned by Mr. Bares' wife, who has sole voting and dispositive power.
- (11) Includes 600,000 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.
- (12) Includes 31,247 shares held by an irrevocable family trust of which Mr. Moore disclaims beneficial ownership.
- (13) Includes 1,447,306 shares that could be acquired by the individuals within 60 days after June 30, 2009, 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 59,869 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 2009.

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

### **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 in the broader marketplace for executive talent, and
- Motivate executives to achieve goals consistent with Applied's business strategies.

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. We compete for talent with our business competitors as well as with similarly sized companies outside our industry. For these reasons, we

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have designed Applied's executive compensation program to be competitive both within our industry and in the broader marketplace.

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, all designed to align executives' interests with those of shareholders.

The most recent three years demonstrate this alignment working as designed. In 2008 and 2007, a substantial portion of the compensation our executives earned—particularly payouts under annual Management Incentive Plans and three-year performance grants—reflected Applied's performance exceeding goals set for those years. Conversely, in 2009, as Applied's performance declined due to the economic recession and fell below the incentive plans' goals, the executive officers did not earn incentive payouts.

## **Roles and Responsibilities**

***Executive Organization & Compensation Committee.*** The Executive Organization & Compensation Committee (the Committee) of our Board is composed entirely 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.

For every meeting where compensation items are to be discussed, the Committee receives a tally sheet displaying 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.*** Hewitt Associates 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.

Hewitt 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. The firm submits its invoices to the chair for approval and payment by Applied. Hewitt performs no other work for Applied and receives no other compensation from Applied outside this engagement.

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

Mr. Pugh, our Chief Executive Officer, and other key executives attend portions of Committee meetings at its invitation. They prepare and present analyses at the Committee's request, make recommendations about program components and incentive plan goals, and regularly report on Applied's performance. Mr. Pugh also reports on the other officers' individual performance and makes recommendations regarding their base salaries, incentive awards, and benefits. The Committee sets Mr. Pugh's pay in executive session without management present.

Management does not have its own executive compensation consultant. Mr. Pugh and other executives do assist Hewitt by providing compensation data and other input and helping Hewitt understand Applied's organizational structure, business plans, goals, and performance, and the competitive landscape.

**Table of Contents****Executive Compensation Program Overview**

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

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

The Committee sets salaries to be competitive with similar positions in companies in the peer group described below under Competitive Benchmarking. Annual incentive pay rewards the achievement of short-term objectives, and long-term objectives are promoted through performance-based incentive awards and stock-settled stock appreciation rights. The incentive plans target key company-wide performance measures including total shareholder return, earnings growth, sales growth, and return on sales.

Applied's compensation practices reflect our pay-for-performance philosophy. The Committee places the majority of the compensation provided to the officers named in the Summary Compensation Table on page 22 (the named executive officers), including targeted incentive compensation, at risk and tied to company-wide performance. Moreover, 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 are aligned with those of shareholders. However, to avoid excessive dilution, the Committee manages the form of earned 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.

With these guideposts, the Committee establishes a mix among base salary, annual incentive pay, and long-term incentive pay, as well as a mix between cash and equity-based incentives, that are aligned with competitive market practices.

The following table shows the allocation (rounded) of the opportunity provided in 2009 to the named executive officers, considering the primary components of compensation—base salary, target annual incentive opportunity, and target long-term incentive opportunity, including the estimated present value of performance grants that would pay out at the end of 2011, if earned:

<b>Name and Principal Position</b>	<b>Base Salary (% of Total)</b>	<b>Target Annual Incentive Opportunity (% of Total)</b>	<b>Target Long-Term Incentive Opportunity (% of Total)</b>
<b>David L. Pugh</b> Chairman & Chief Executive Officer	26	26	48
<b>Benjamin J. Mondics</b> President & Chief Operating Officer	34	22	44

**Mark O. Eisele**

Vice President	Chief Financial Officer & Treasurer	40	24	36
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**Jeffrey A. Ramras**

Vice President	Supply Chain Management	47	23	30
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**Fred D. Bauer**

Vice President	General Counsel & Secretary	42	23	35
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Overall, there are no material differences in the Committee's application of compensation policies and practices among the named executive officers. Mr. Pugh, our Chief Executive Officer, earns a higher salary and has higher incentive opportunities than the other officers. The primary components of his compensation are also more heavily weighted toward incentive pay. We believe these distinctions are appropriate.

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in light of his responsibility and influence over Applied's performance and they are typical among the companies in the peer group described below.

**Competitive Benchmarking.** Hewitt prepares a target compensation study from its proprietary Total Compensation Measurement database to assist the Committee with competitive benchmarking. The first step in preparing the study is the Committee's selection from the database, with Hewitt's input, of a peer group for evaluating compensation. In 2009, this group (the Peer Group) consisted of 40 companies in the distribution, manufacturing, and industrial machinery and equipment industries. The companies' annual revenues ranged from \$1 billion to over \$6 billion, with median revenues of \$2.5 billion; Hewitt recommended this range to reflect the marketplace within which Applied competes for executive talent. Management did not help select the companies.

The Peer Group included the following members:

Airgas, Inc.	Joy Global Inc.	Rockwell Collins, Inc.
Alliant Techsystems Inc.	Kaman Corporation	Sauer-Danfoss Inc.
BorgWarner Inc.	Kennametal Inc.	Sonoco Products Company
Briggs & Stratton Corporation	Lennox International Inc.	Steelcase Inc.
Brightpoint, Inc.	Martin Marietta Materials, Inc.	Teradyne, Inc.
Cameron International Corporation	MSC Industrial Direct Co., Inc.	Thomas & Betts Corporation
Chemtura Corporation	Nalco Company	The Timken Company
Donaldson Company, Inc.	Olin Corporation	United Stationers Inc.
Fleetwood Enterprises, Inc.	Packaging Corporation of America	Valmont Industries, Inc.
FMC Technologies, Inc.	Polaris Industries Inc.	Vulcan Materials Company
Gordon Food Service	PolyOne Corporation	Waters Corporation
H. B. Fuller Company	Potash Corp. of Saskatchewan Inc.	WESCO International, Inc.
Hercules Incorporated	Rayonier Inc.	W. W. Grainger, Inc.
Herman Miller, Inc.		

References in this Compensation Discussion and Analysis to market generally mean the Peer Group. The Committee may change the Peer Group from year to year based on changes in companies' size and business profile, as well as other factors.

After the Peer Group was identified, Hewitt prepared the target compensation study. The study's goal was to provide benchmarking data to assist the Committee in setting base salaries and incentive pay targets. Hewitt identified market pay for each executive officer position at the 25th, 50th, and 75th percentile levels. In addition, because some companies are larger than Applied and some are smaller, Hewitt adjusted the data using regression analysis based on revenues and market capitalization to produce a size-adjusted 50th percentile value. Hewitt also aged the data to the middle of the fiscal year. The aged, size-adjusted 50th percentile is referred to here as the market median.

Hewitt's study provided analyses, for each position, of base salary, target annual incentive compensation, target total short-term compensation (base salary plus target annual incentive compensation), target long-term incentive compensation, and target total compensation (target total short-term compensation plus target long-term incentive compensation). To assist the Committee in benchmarking Applied's performance, Hewitt's study also compared Applied's total shareholder return, earnings growth, sales growth, and other financial metrics, over one-and five-year periods, with the Peer Group companies.

Using the study, the Committee benchmarks each primary compensation component, by position, against the market with the objective of targeting total compensation at or near market median if Applied's performance targets are met.

By design, 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.

The Committee does not consider the executive officers' personal wealth in determining appropriate levels of future compensation.

### **Components of Compensation Program**

**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 at

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or near (generally, within +/- 10%) the market median for comparable positions. The Committee may, however, set a salary higher or lower to reflect factors such as individual performance and skills, long-term potential, tenure in the position, internal equity, and the position's importance in Applied's organization.

Salary adjustments are then based on changes in market rates for equivalent positions, as well as the Committee's subjective evaluation of such factors as the individual's responsibilities, performance, and overall contribution.

For 2009, after considering the Hewitt study's findings and Mr. Pugh's recommendations for the other officers, the Committee adjusted the salaries for the named executive officers (except Mr. Mondics, who had been recently promoted and whose salary was well below the position's market median) upward in a 3.5-5.5% range.

**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 at or 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, the Committee reviews and discusses proposed Management Incentive Plan performance goals. The Committee considers the market outlook and the business plan, along with the available opportunities and the attendant risks. For 2009, after then also incorporating the projected performance of the businesses added through the company's August 2008 Fluid Power Resource LLC acquisition, the Committee set goals tied to Applied's net income. The Committee adopted net income growth as the sole performance measure because of its value as a proxy for annual growth in shareholder value.

Each year, the Committee sets Management Incentive Plan goals it believes are attainable, but that require executives to perform at a consistently high level to achieve target award values. The Committee set the 2009 goals as follow:

	<b>Net Income</b>			
	<b>Under \$92.62 million</b>	<b>\$92.62 million</b>	<b>\$101.12 million</b>	<b>\$111.39 million</b>
<b>Payout as % of Target Award Value</b>	0%	25%	100%	200%

As shown above, payouts for 2009 could have ranged from 0% to 200% (for stretch performance) of the executive officers' target award values. The Committee established this range after considering Hewitt's guidance as to market practices. Payouts were to be prorated on a straight-line proportional basis for net income results falling between the threshold 25%, target 100% and maximum 200% payout levels.

The \$101.12 million target goal for 2009, which was 6% above 2008's net income, reflected prospective increases in sales and operating profit percentage based on how the market environment appeared at the beginning of the year.

Then, after considering Hewitt's target compensation study, the Committee assigns an incentive target expressed as a percentage of salary to each executive officer. For 2009, the Committee used percentages in line with market medians. The named executive officers' targets follow:

<b>Name</b>	<b>2009 Base Salary (\$)</b>	<b>Incentive Target (%)</b>	<b>Target Award Value (\$)</b>
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<b>D. Pugh</b>	945,000	100	945,000
<b>B. Mondics</b>	450,000	65	292,500
<b>M. Eisele</b>	438,000	60	262,800
<b>J. Ramras</b>	350,000	50	175,000
<b>F. Bauer</b>	355,000	53	188,150

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Applied's performance dictates the amounts paid. In 2009, in recessionary market conditions, and after recognizing a \$36.6 million goodwill impairment charge, Applied earned net income of \$42.26 million. This fell short of the threshold \$92.62 million goal and the executive officers received no annual incentive pay.

Management Incentive Plan payouts are a component of the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table at page 22.

**Long-Term Incentives.** The 2007 Long-Term Performance Plan rewards executives for achieving long-term goals. The plan, which was approved by shareholders, 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 Hewitt's target compensation study. In general, the Committee seeks to provide awards with a targeted value at or near the market median for equivalent positions, with some variation to reflect individual performance and skills, long-term potential, responsibility, tenure in the position, internal equity, and the position's importance in Applied's organization, as well as other factors. The program is intended to pay total long-term compensation at or 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.

In 2009, the Committee awarded the targeted value approximately one-half in nonqualified stock-settled stock appreciation rights (SARs) and one-half in three-year performance grants. The Committee has maintained this mix in recent years after considering Hewitt's input regarding market practices.

**SARs.** The Committee determines the number of SARs to award based on their approximate value at the time of grant. Their ultimate value to executives depends on Applied's stock price growth. The base stock price for the SARs awarded in 2009 is \$29.41, 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.

**Performance grants.** At the beginning of each three-year performance grant period, the Committee sets a target dollar payout for each executive officer. The actual payout earned at the end of the period is calculated, relative to the target payout, based on Applied's achievement of objective performance goals. The Committee sets goals it believes are attainable without inappropriate risk-taking, but that require officers to perform at a consistently high level to achieve the targeted payout. Payouts, if any, are made in cash, Applied stock, or a combination, as determined by the Committee.

The Committee designs performance grants to motivate performance over the three years. Each year, as a new three-year period begins, the Committee reviews the business plan and market outlook. Then, after considering management's recommendations and Hewitt's guidance as to market practices, the Committee determines the performance measures and ranges at which payouts will be earned. For consistency, each year's grants have used the same performance measures, although the Committee reviews and adjusts the goals and payout targets.

Payouts can range from 0% to 200% of the target levels. The Grants of Plan-Based Awards table on page 24 shows the threshold, target, and maximum payouts for the performance grants awarded to the named executive officers in 2009.

The grants tie two-thirds of the target payout to achievement of return on sales and sales growth goals, providing an appropriate balance between profitability and growth. Various payout levels, from a threshold of 50% up to a

maximum of 200%, are linked in a matrix with multiple ranges of achievement for various combinations of the two goals.

The other third is tied to cumulative total shareholder return compared with 20 other companies in Applied s and related industries. The calculations use average market closing prices for the ten

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days prior to the beginning and the end of the three-year period. Payouts are determined based on absolute return and percentile ranking. A 100% payout is predicated on Applied stock achieving a three-year return at least at the 50th percentile and greater than 12.49% on an absolute basis. If, however, the return is lower than the 45th percentile or lower than 0% on an absolute basis, then the executive officers will not earn a payout for this portion of the grants.

No payouts were earned for the performance grant period that ran from July 1, 2006 to June 30, 2009. For the return on sales and sales growth portion of the grants, targets ranged from total three-year sales of \$6.163 billion and net income of \$106.2 million (the targets for a threshold 50% payout), to sales of \$6.358 billion and net income of \$183.0 million (for a maximum 200% payout). Although Applied's net income for the period was \$223.7 million, sales only reached \$6.027 billion, so the threshold targets were not achieved.

As calculated under the grants, Applied's total shareholder return for the period wound up well above the 50th percentile level, but at -9.5% on an absolute basis. So, despite Applied's relative outperformance, the negative return meant that no executive earned a payout on this portion of the grants either, demonstrating the program's alignment with shareholder interests.

***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 and Hewitt review the executive-level benefits periodically and compare them with market survey information, considering executives' positions and years of service.

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

*Supplemental Executive Retirement Benefits Plan.* Applied does not maintain a qualified defined benefit plan for employees generally, but does maintain the Supplemental Executive Retirement Benefits Plan (the SERP), a nonqualified defined benefit plan, for executive officers designated as participants by the Board or the Committee. Providing supplemental retirement benefits is an important component of our executive recruitment and retention program.

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 27.

*Nonqualified deferred compensation plans.* Applied also maintains plans that permit highly compensated employees, including 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. We describe the plans more fully in Nonqualified Deferred Compensation, at pages 27-28.

*Welfare plans.* Applied maintains a health care plan as well as life and disability insurance plans for full-time 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 same 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

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and retaining superior employees for key positions. As with other compensation, the Committee periodically reviews and adjusts these benefits after reviewing market practices.

In 2009, the principal perquisites and other personal benefits made available included an automobile allowance, reimbursement and tax gross-up for financial 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 22.

***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 for two reasons: 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, and the agreements are consistent with market practices.

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. The Committee has periodically, including in 2008, reviewed and adjusted the agreements after considering market practices and outside advisors’ advice. We describe the agreements more fully on pages 30–31 of this proxy statement.

**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 13 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:

<b>Chairman &amp; Chief Executive Officer</b>	5x salary
<b>President &amp; Chief Operating Officer</b>	5x salary
<b>Direct reports to CEO or COO</b>	3x salary
<b>Other Vice Presidents</b>	2x salary

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

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.

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

**Table of Contents****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 executive compensation program. Applied intends for Management Incentive Plan awards, income from the exercise of stock options and SARs, and performance grant payouts to qualify as performance-based compensation.

**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.

**Summary Compensation Table Fiscal Years 2009, 2008, and 2007**

The following table summarizes information, for the years ended June 30, 2009, 2008 and 2007, regarding the compensation of Applied's Chief Executive Officer, Chief Financial Officer, and the three other most highly compensated executive officers at June 30, 2009.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$ (1))	Option Awards (\$ (1))	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation	Total (\$)
					(\$ (2))	(\$ (3))	(\$ (4))	
David L. Pugh Chairman & Chief Executive Officer	2009	945,000	0	1,432,220	0	7,456,328	62,515	9,896,043
	2008	913,400	79,689	1,115,068	1,927,866	886,523	58,080	4,980,526
	2007	880,000	136,609	833,600	2,423,500	949,081	68,464	5,291,254
William J. Hines President	2009	450,000	0	179,040	37,429	357,224	34,737	1,058,429

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President & Chief	2008	375,000	3,293	114,494	342,519	195,988	49,135	1,080,4
Operating Officer (5)	2007	224,950	5,645	62,375	217,057	431,451	26,600	968,0
<b>Mark O. Eisele</b>	2009	438,000	0	203,951	0	358,662	35,641	1,036,3
President Chief	2008	415,200	9,879	180,147	544,460	393,372	62,337	1,605,3
Financial Officer & Treasurer	2007	400,000	16,935	147,880	691,267	486,178	50,614	1,792,8
<b>Gregory A. Ramras</b>	2009	350,000	0	176,894	0	192,999	42,861	762,3
President	2008	338,000	9,879	120,690	365,201	218,583	61,448	1,113,3
Supply Chain Management	2007	325,000	16,935	91,741	451,573	301,084	79,277	1,265,0
<b>William D. Bauer</b>	2009	355,000	0	134,404	0	134,065	31,413	654,3
President	2008	337,400	9,879	123,463	364,789	133,532	46,973	1,016,0
General Counsel & Secretary	2007	325,000	16,935	122,714	451,573	140,196	43,211	1,099,0

(1) Represents the proportionate amount of the total fair value of stock and option awards recognized by Applied as an expense in the respective year for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. We determined these awards' fair values and the amounts expensed in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. The awards for

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which expense is shown in this table include the awards described in the Grants of Plan-Based Awards table on page 24, as well as restricted stock, stock options, and stock appreciation rights awarded in previous years for which we continued to recognize expense. No restricted stock grants have been made to the executive officers since 2004. The assumptions we 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.

- (2) No awards were paid under the 2009 Management Incentive Plan or the 2007-2009 performance grants. Mr. Mondics's incentive award was a payout under a non-officer plan in which he participated prior to his promotion to an executive officer position.
- (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 2009 figure is the difference between the number shown in the Pension Benefits table on page 27 for 2009 year-end and the same item calculated for July 1, 2008. 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 by the Pension Protection Act of 2006, as of 2008. Values for 2009 reflect a 6.00% discount rate and a three-segment interest rate structure, in effect for January 2009, with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter.

Values for 2008 reflect a 6.00% discount rate and a three-segment interest rate structure, in effect for January 2008, with 4.34% for the first five years, 4.67% for the next 15 years, and 4.81% thereafter. Values for 2007 reflect a 6.00% discount rate and a 4.85% interest 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 26.

- (4) Amounts in this column for 2009 are totals of the following: (a) Retirement Savings Plan (section 401(k) plan) matching contributions, which the company suspended mid-year, and profit-sharing contributions, (b) gross-up payments to cover income taxes in connection with the reimbursement of expenses for financial planning and tax services and/or in connection with business travel, (c) company contributions for executive life insurance, for a \$300,000 benefit, and (d) the estimated value of perquisites and other personal benefits.

The following perquisites and other personal benefits were provided in 2009 to named executive officers: automobile allowance and related gas and maintenance payments; reimbursement of expenses for financial 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 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.

The following table itemizes All Other Compensation for 2009:

**Retirement  
Savings**

**Perquisites and**

<b>Name</b>	<b>Plan Contributions (\$)</b>	<b>Gross-up Payments (\$)</b>	<b>Life Insurance Benefits (\$)</b>	<b>Other Personal Benefits (\$)</b>
<b>D. Pugh</b>	2,877	7,137	1,489	51,012
<b>B. Mondics</b>	3,344	2,817	655	27,921
<b>M. Eisele</b>	3,213	0	707	31,721
<b>J. Ramras</b>	3,697	2,498	833	35,833
<b>F. Bauer</b>	3,702	35	319	27,357

(5) Mr. Mondics was promoted to an executive officer position, Executive Vice President & Chief Operating Officer, effective on February 1, 2007. The information provided for 2007 reflects his compensation for the full year. The Board elected him President & Chief Operating Officer effective January 1, 2008.

**Table of Contents****Grants of Plan-Based Awards Fiscal Year 2009**

The Executive Organization & Compensation Committee provided the following incentive opportunities and grants in 2009 to the named executive officers:

Name	Grant Date	Estimated Future Payouts under Non-Equity Incentive Plan Awards			All Other Option Awards: Number of Securities	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$)
		(1) Threshold (\$ (2))	(1) Target (\$ (2))	(1) Maximum (\$ (2))			
	8/8/2008				80,800	29.41	917,339
<b>D. Pugh</b>	9/11/2008 (3-Year Performance Grants)	519,000	1,038,000	2,076,000			
	9/11/2008 (2009 Management Incentive Plan)	236,250	945,000	1,890,000			
	8/8/2008				27,900	29.41	319,907
<b>B. Mondics</b>	9/11/2008 (3-Year Performance Grants)	179,200	358,400	716,800			
	9/11/2008 (2009 Management Incentive Plan)	73,125	292,500	585,000			
	8/8/2008				18,800	29.41	215,565
<b>M. Eisele</b>	9/11/2008 (3-Year Performance Grants)	120,500	241,000	482,000			

	9/11/2008 (2009 Management Incentive Plan)	65,700	262,800	525,600			
	8/8/2008				10,300	29.41	118,102
<b>J. Ramras</b>	9/11/2008 (3-Year Performance Grants)	66,250	132,500	265,000			
	9/11/2008 (2009 Management Incentive Plan)	43,750	175,000	350,000			
	8/8/2008				13,700	29.41	157,087
<b>F. Bauer</b>	9/11/2008 (3-Year Performance Grants)	87,650	175,300	350,600			
	9/11/2008 (2009 Management Incentive Plan)	47,038	188,150	376,300			

- (1) The three-year performance grant program and the annual Management Incentive Plan are described in the Compensation Discussion and Analysis at pages 18 – 20. No payouts were made under the 2009 Management Incentive Plan.
- (2) The threshold, target, and maximum payout figures for the performance grants assume that the respective performance level is reached on each grant portion; two-thirds of the grant value is tied to achieving return on sales and sales growth goals for the performance period and one-third is tied to achieving total shareholder return goals.
- (3) The SARs' base price is our stock's closing price on the NYSE on the date the award was granted.

Table of Contents**Outstanding Equity Awards at Fiscal 2009 Year-End**

The following table shows the named executive officers' outstanding stock options and SARs at June 30, 2009.

<b>Name</b>	<b>Number of Securities Underlying Unexercised Options (#) Exercisable</b>	<b>Number of Securities Underlying Unexercised Options (#) Unexercisable</b>	<b>Option Exercise Price (\$/Share)</b>	<b>Option Expiration Date</b>
<b>D. Pugh</b>	112,500	0	6.94	8/6/2012
	256,005	0	9.46	8/8/2013
	144,000	0	12.91	8/6/2014
	59,625	19,875(1)	23.00	8/9/2015
	44,400	44,400(2)	21.94	8/8/2016
	16,250	48,750(3)	25.44	8/9/2017
	0	80,800(4)	29.41	8/8/2018
<b>B. Mondics</b>	11,250	0	8.60	1/18/2011
	6,750	0	7.92	8/9/2011
	9,000	0	6.94	8/6/2012
	10,241	0	9.46	8/8/2013
	11,250	0	12.91	8/6/2014
	4,837	1,613(1)	23.00	8/9/2015
	4,300	4,300(2)	21.94	8/8/2016
	5,000	5,000(5)	23.78	1/23/2017
	4,675	14,025(3)	25.44	8/9/2017
0	27,900(4)	29.41	8/8/2018	
<b>M. Eisele</b>	9,619	0	12.91	8/6/2014
	14,175	4,725(1)	23.00	8/9/2015
	11,650	11,650(2)	21.94	8/8/2016
	4,275	12,825(3)	25.44	8/9/2017
	0	18,800(4)	29.41	8/8/2018
<b>J. Ramras</b>	13,500	0	7.92	8/9/2011
	22,500	0	6.94	8/6/2012
	17,922	0	9.46	8/8/2013
	24,075	0	12.91	8/6/2014
	9,337	3,113(1)	23.00	8/9/2015
	5,000	5,000(2)	21.94	8/8/2016
	2,400	7,200(3)	25.44	8/9/2017
	0	10,300(4)	29.41	8/8/2018
<b>F. Bauer</b>	3,701	0	9.46	8/8/2013
	24,075	0	12.91	8/6/2014
	9,337	3,113(1)	23.00	8/9/2015
	8,150	8,150(2)	21.94	8/8/2016

2,975	8,925(3)	25.44	8/9/2017
0	13,700(4)	29.41	8/8/2018

- (1) These SARs vested on August 9, 2009.
- (2) Half of these SARs vested on August 8, 2009. The remaining SARs vest on August 8, 2010.
- (3) One-third of these SARs vested on August 9, 2009. The remaining SARs vest in equal installments on August 9, 2010 and 2011.
- (4) One-quarter of these SARs vested on August 8, 2009. The remaining SARs vest in equal installments on August 8, 2010, 2011, and 2012.
- (5) These SARs vest in equal installments on January 23, 2010 and 2011.

**Table of Contents****Option Exercises and Stock Vested Fiscal Year 2009**

The following table shows the value realized in 2009 by the named executive officers on the exercise of stock options and SARs and the vesting of stock awards.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
D. Pugh	0	0	0	0
B. Mondics	0	0	0	0
M. Eisele	0	0	0	0
J. Ramras	0	0	0	0
F. Bauer	0	0	0	0

**Pension Plans**

The SERP, a nonqualified defined benefit plan, provides supplemental retirement benefits to executive officers designated as participants by the Board or the Executive Organization & Compensation Committee. Each of the named executive officers is a participant. Applied offers a section 401(k) defined contribution plan (the Retirement Savings Plan) for employees, but does not maintain a qualified defined benefit plan for employees generally.

The SERP's principal features follow:

**Retirement Benefits.** Except for Mr. Pugh, the annual normal retirement benefit, calculated in a single life annuity form, is 45% of an eligible participant's average base salary and annual incentive pay for the highest three calendar years during the last 10 calendar years of service with Applied. To receive a normal retirement benefit, a participant must separate from service at or after age 65, with at least five years' service as an executive officer. To receive an early retirement benefit prior to attainment of age 65, a participant must separate from service after reaching age 55 and completing at least 10 years' service with Applied, of which at least five were as an executive officer. Of the named executive officers, only Mr. Pugh is currently eligible for early retirement, although Mr. Ramras will become eligible in December 2009, when he turns 55.

Upon completion of 10 years of service with Applied in 2009, Mr. Pugh's normal retirement benefit became based on 60% of average base salary and annual incentive pay. His benefit is reduced, however, by the benefit payable at age 65 in a single life form under all former employer plans and then reduced further by 50% of his primary Social Security benefit.

Normal and early retirement benefits are reduced by 5% for each year that a participant's years of service are less than 20, except that this reduction does not apply to Mr. Pugh, who joined Applied in 1999. In addition, early retirement

benefits are also reduced by 5% for each year that the commencement of benefits precedes age 65.

**Disability Benefits.** If a participant with at least five years of service as an executive officer becomes disabled, as defined in regulations under Code section 409A, the participant will receive a monthly SERP disability benefit until the earlier of age 65 or death. The monthly benefit, when added to all other long-term disability benefits under Applied programs, will equal 1/12th of 60% of the average of the participant's highest three calendar years of total compensation (base salary plus annual incentive pay) during the last 10 calendar years of service with Applied.

**Deferred Vested Benefits.** Deferred vested benefits will be paid at age 65 to any participant who separates from service for reasons other than cause or disability prior to attainment of age 55 with at least 10 years' service, of which at least five were as an executive officer. The benefits will equal 25% of the participant's accrued normal retirement benefits at the time of separation.

**Payment Forms.** Normal and early retirement benefits vested and/or accrued after 2004 are paid in the form designated by the participant pursuant to the provisions of section 409A. Available forms of

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payment include a single life annuity, various joint and survivor annuities, and substantially equal annual installment payments for a minimum of three years (five for any participant who is or was Chairman or Chief Executive Officer) up to a maximum of 10 years. Deferred vested benefits are payable in three substantially equal annual installments following attainment of age 65.

**Death Benefits.** If a participant dies before receiving any SERP benefit, the participant's designated beneficiary will receive the accrued benefit's present value in a lump sum or a series of installments, as the participant elects in advance.

**Change in Control.** If a change in control of Applied (as defined in the SERP) occurs, each participant will be 100% vested, regardless of age and service, in his accrued normal retirement benefit. In addition, the benefit will be increased because the participant will be credited with additional years of service and age equal to one-half the difference between the participant's age at the time of the change in control and age 65, up to a maximum of 10 years. The benefit will be paid in a lump sum unless the participant previously elected a different option.

**Non-Competition.** Except if a change in control occurs, payment of SERP benefits is subject to the condition that the participant not compete with Applied.

**Pension Benefits Fiscal 2009 Year-End**

The following table shows the present value of accumulated benefits payable to the named executive officers and their years of credited service under the SERP.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit		Payments during Last Fiscal Year (\$)
			(\$)	(1) (2)	
D. Pugh	SERP	10.5	11,846,957		0
B. Mondics	SERP	14.8	984,663		0
M. Eisele	SERP	18.1	2,053,840		0
J. Ramras	SERP	27.9	1,783,743		0
F. Bauer	SERP	16.8	810,875		0

(1) This figure reflects the estimated present value of the annual pension benefit accrued through June 30, 2009, and payable at age 65. The plan's actuary used the following key assumptions, pursuant to SEC rules, to determine the present values:

A discount rate of 6.00%, the FAS 87 discount rate as of June 30, 2009,

The Code section 417(e) 2009 Optional Combined Unisex Mortality Table and a three-segment interest rate structure in effect for January 2009 with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter, and

No probability of termination, retirement, death, or disability before normal retirement age.

Actual payments after retirement are determined based on the Code section 417(e) interest rate and mortality table in effect at that time, along with the participant's age, years of service, and compensation history.

- (2) Except as described above under Retirement Benefits with respect to Mr. Pugh, SERP benefits are not subject to deductions for Social Security benefits or other material offset amounts. Only Mr. Pugh is fully vested in his benefits. Messrs. Eisele, Ramras, and Bauer are under 55 years of age but are eligible for deferred vested benefits. Mr. Mondics is also under 55 but is ineligible for deferred vested benefits because he has not served as an executive officer for at least five years.

### **Nonqualified Deferred Compensation**

Applied maintains two nonqualified, unfunded defined contribution plans available to key employees, including executive officers. Eligibility is limited to highly compensated or select management employees whose benefits under the Retirement Savings Plan are subject to certain Code limitations.

### **Supplemental Defined Contribution Plan**

The Supplemental Defined Contribution Plan permits highly compensated employees to defer a portion of their compensation that cannot be deferred under the Retirement Savings Plan due to Code limitations.

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Participants are always fully vested in their Supplemental Defined Contribution Plan deferrals. Applied does not contribute to the plan. In general, with the exception of Applied stock, participants generally have the same diverse equity, fixed income, and money market investment options as they have in the Retirement Savings Plan.

Participants may receive distributions in a lump sum or in installments, as specified in the participant's deferral election form. Acceleration of distributions is prohibited and any distribution change must comply with Code section 409A. Other than a date specified in a deferral election form, the plan only permits withdrawals, while employed, due to an unforeseeable emergency as allowed under section 409A.

Each named executive officer has a plan account. Messrs. Eisele and Ramras made deferrals under the plan in 2009.

## **Deferred Compensation Plan**

The Deferred Compensation Plan permits executive officers to defer a portion or all of the awards payable under an annual incentive plan or performance grant program. The plan's purpose is to promote increased efforts on Applied's behalf through increased investment in Applied stock.

The plan gives each annual incentive plan participant the opportunity to defer payment of his or her cash award. A participant who elects to make a deferral may have the amounts deemed invested in Applied stock and/or in a money market fund.

Prior to 2008, if a participant elected to have at least 50% of an annual incentive plan award invested in Applied stock, then Applied contributed an additional amount equal to 10% of the amount so invested. Similarly, if an executive deferred a cash performance grant award and invested it in stock, Applied contributed an additional amount equal to 10% of the amount so invested. Effective beginning in 2008, Applied eliminated the 10% matching contribution feature.

Participants may receive distributions in a lump sum or in installments over a period not exceeding 10 years, as specified in the participant's deferral election form. Acceleration of distributions is prohibited and any distribution change must comply with Code section 409A. Other than a date specified in a deferral election form, the plan only permits withdrawals, while employed, due to an unforeseeable emergency as allowed under section 409A.

Although none of the named executive officers deferred pay into the Deferred Compensation Plan in 2009, Messrs. Eisele and Ramras have plan accounts due to deferrals in past years.

**Table of Contents****Nonqualified Deferred Compensation Fiscal Year 2009**

The following table presents total contribution, earnings, and balance information for the named executive officers Deferred Compensation Plan and Supplemental Defined Contribution Plan accounts for 2009.

<b>Name and Plan</b>	<b>Executive Contribution in Last FY (\$)</b>	<b>Registrant Contributions in Last FY (\$)</b>	<b>Aggregate Earnings (Losses) in Last FY (\$)</b>	<b>Aggregate Withdrawals/ Distributions (\$)</b>	<b>Aggregate Balance at Last FYE (\$)</b>
<b>D. Pugh</b>					
Deferred Compensation Plan	0	0	(687,465)	(2,633,852)*	0
Supplemental Defined Contribution Plan	0	0	(221,392)	(430,624)	626,891
<b>B. Mondics</b>					
Supplemental Defined Contribution Plan	0	0	(44,360)	0	130,478
<b>M. Eisele</b>					
Deferred Compensation Plan	0	0	(24,313)	0	127,083
Supplemental Defined Contribution Plan	44,432	0	(119,598)	0	395,483
<b>J. Ramras</b>					
Deferred Compensation Plan	0	0	(74,742)	0	390,679
Supplemental Defined Contribution Plan	69,602	0	(67,115)	0	548,286
<b>F. Bauer</b>					
Supplemental Defined Contribution Plan	0	0	(25,506)	0	79,235

\* Mr. Pugh received the distribution of his Deferred Compensation Plan account, net of tax withholdings, in the form of shares of Applied stock pursuant to Code section 409A.

**Potential Payments upon Termination or Change in Control**

The summaries and tables below describe the compensation and benefits that would have been payable to each named executive officer at June 30, 2009, if, as of that date, there had occurred (a) a termination of the executive's employment with Applied prior to a change in control, (b) a termination of employment due to death, disability, or retirement, (c) a change in control of Applied, or (d) a termination of employment following a change in control.

Compensation and benefits earned or accrued prior to the event, and not contingent on the event's occurrence, are not included in the summaries or tables.

### **Payments in the Event of a Termination**

Applied does not have a formal severance policy or arrangement that provides payments to executive officers if termination of employment occurs (other than in the circumstance of a change in control or by reason of death, disability, or retirement). The Board and its Executive Organization & Compensation Committee retain discretion to determine the severance benefits, if any, to be offered.

Regardless of reason, if an executive officer's employment terminates (other than in the circumstance of a change in control or by reason of death, disability or retirement) prior to the end of a vesting or performance period, then the following shall occur:

Annual incentive awards under the Management Incentive Plan shall be forfeited.

Performance grants shall be forfeited.

SARs that have not yet vested shall be forfeited.

SERP benefits that have accrued shall be forfeited if the participant separates from service prior to becoming eligible for normal, early, or deferred vested retirement benefits. SERP benefits payable to named executive officers are more fully described on pages 26 - 27 in Pension Plans.

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The accrual of all other compensation and benefits under Applied's qualified and nonqualified benefit plans shall cease.

All perquisites and other personal benefits shall cease.

### **Payments in the Event of Death, Disability, or Retirement**

If an executive officer's employment terminates by reason of death, disability, or retirement (other than following a change in control), then the following shall occur:

Annual incentive awards under the Management Incentive Plan shall be payable on a pro rata basis at the end of the performance period based on the number of quarters during which the executive worked during the performance period and the actual achievement of performance targets.

Performance grants shall be payable on a pro rata basis based on the number of quarters during which the executive worked during the performance period and the actual achievement of performance targets.

SARs that have not yet vested shall vest.

SERP benefits payable on death, separation from service, or termination due to disability are more fully described in Pension Plans.

Upon retirement or termination due to disability after reaching age 55, the executive may continue to participate in Applied's health benefit plans on the same basis, and after paying the same contribution rates, as active employees.

The accrual of all other compensation and benefits under Applied's qualified and nonqualified benefit plans shall cease.

All perquisites and other personal benefits shall cease.

Annual incentive awards, performance grants, stock options and SARs, and SERP benefits payable to executive officers upon separation from service or termination due to disability are subject to forfeiture if the executive competes with Applied following termination, or in certain other circumstances engages in acts inimical to Applied's interests.

### **Payments in the Event of a Change in Control**

***Change in Control Agreements.*** Applied does not have employment agreements with its executive officers. However, Applied has entered into change in control agreements with each of them. The agreements obligate Applied to provide severance benefits to an executive officer who incurs a separation from service effected either by the officer for "good reason" or by Applied "without cause" if the separation occurs within three years after a change in control. The executive officer, in turn, is required not to compete with Applied for one year following the separation and to hold in confidence Applied confidential information and trade secrets.

No compensation or benefits are payable under the agreement on any termination of the executive's employment prior to a change in control, or following a change in control if the executive's employment is terminated by Applied for cause or by reason of death, disability, or retirement.

The compensation and principal benefits to be provided under the agreements to the executive officers are as follow:

A lump sum severance payment equal to three times the aggregate amount of the executive's annual base salary and target annual incentive pay, reduced proportionately if the officer would reach age 65 within three years after termination,

A cash payment for any vested, unexercised SARs held on the termination date, equal to the difference between the exercise price and the higher of (a) the mean of the high and low trading

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prices on the NYSE on the termination date, and (b) the highest price paid for Applied common stock in connection with the change in control,

Continued participation in Applied's employee benefit plans, programs, and arrangements, or equivalent benefits for three years after termination at the levels in effect immediately before termination,

Outplacement services, and

An additional payment in an amount sufficient, after payment of taxes on the additional payment, to pay any required parachute excise tax.

Change in control is generally defined as follows:

A merger of Applied with another entity or a sale of substantially all of Applied's assets to a third party, following which Applied's shareholders prior to the transaction hold less than a majority of the combined voting power of the merged entities or asset acquirer,

Acquisition of beneficial ownership by any person of 20% or more of Applied's then-outstanding common stock, or

One quarter or more of the members of the Board of Directors being persons other than (a) directors who were in office on the agreement date, or (b) directors who are elected after such date and whose nomination or election is approved by two-thirds of directors then in office or their successors approved by that proportion.

Good reason means the following:

Diminution of position or assigned duties, excluding an isolated, insubstantial, and inadvertent action not taken in bad faith,

Reduction of compensation, incentive compensation potential, or benefits following a change in control, other than an isolated, insubstantial, and inadvertent failure not occurring in bad faith,

Applied requiring the executive to change principal place of employment or to travel to a greater extent than required immediately prior to a change in control, or

Failure of a successor to Applied to assume Applied's obligations under the agreement.

Applied may modify or terminate its obligations under the agreements at any time prior to a change in control so long as the modification or termination is not made in anticipation of or in connection with a change in control.

***2007 Long-Term Performance Plan.*** The 2007 Long-Term Performance Plan (as well as the 1997 Long-Term Performance Plan it replaced, under which unvested awards remain outstanding) provides that if a change in control occurs, then all SARs outstanding become exercisable and all cash awards, including awards under a Management Incentive Plan, become earned at the target incentive amount.

***Supplemental Executive Retirement Benefits Plan.*** If a SERP participant is terminated following a change in control (as defined in the regulations under Code section 409A), or is receiving, or is eligible to receive, a retirement benefit when the change in control occurs, the executive is entitled to receive the actuarial equivalent of the executive's retirement benefit in a lump sum. In addition, upon a change in control, the executive will be credited with additional

years of service and age for benefit calculation purposes equal to half the difference between the executive's age and age 65, up to a maximum of 10 years.

**Quantitative Disclosure.** The tables assume that a termination or change in control occurred on June 30, 2009, the last day of our fiscal year, and that the stock price for all calculations is \$19.70, the closing price of Applied's stock on the NYSE on that date. The tables include amounts earned through that time and are estimates of the amounts that would be paid on the occurrence of the events shown. The actual payment amounts can be determined only at the time of the event. The amounts shown do not

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include benefits and payments that are generally available to all salaried employees on a non-discriminatory basis. Also, as noted above, *compensation and benefits earned by an executive prior to an event shown, and not contingent on the event's occurrence, are not reflected in the tables.*

**David L. Pugh, Chairman & Chief Executive Officer**

Benefits and	Termination		Termination for Good		Change in Control (No Termination)	Death (\$)	Termination due to Disability
	(No Change in Control)	Normal Retirement	Early Retirement	Following Cause			
Payments	(\$)	(\$) (1)	(\$) (2)	Control (\$)	Control (\$)	(\$)	(\$)
Base Salary	0	0	0	0	2,835,000	0	0
Management Incentive	0	0	0	0	2,835,000	0	0
Performance Grants (3)	0	0	999,000	0	0	999,000	999,000
RSUs	0	0	0	0	0	0	0
RP (4) (5)	1,469,136	0	1,469,136	0	0	1,863,405	0
Health Care and Welfare Benefits (6)	0	0	0	0	115,200	0	0
Life/Disability Insurance Proceeds (7)	0	0	0	0	0	0	5,560,638
Relocation Services	0	0	0	0	20,000	0	0
Excise Tax Gross-Up	0	0	0	0	0	0	0
Total	1,469,136	0	2,468,136	0	5,805,200	2,862,405	6,559,638

- (1) Normal retirement under Applied's plans is separation from service after attainment of age 65. Mr. Pugh is age 60 and therefore ineligible for normal retirement.
- (2) Early retirement is defined as separation from service after attainment of age 55 with at least 10 years of service, five of which are as an executive officer.
- (3) Payout upon change in control is prorated based on quarters elapsed in performance period and target payout. Payout upon retirement, death, or termination due to disability is prorated based on quarters elapsed in performance period and actual performance achieved during performance period the chart assumes performance will correspond to target payout.
- (4) Calculation of post-termination SERP benefits assumes the executive would receive benefits in the installment payment form at the earliest date he would be eligible. To calculate the estimated present value of the installments, a 6.00% discount rate and the three-segment interest rate structure in effect for January 2009 under Code section 417(e), with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter, are used. The RP-2000 Disability Mortality Table for males and a 6.00% interest rate are used in valuing the

disability benefits.

- (5) The amounts representing SERP payments relating to events of termination prior to a change in control and early retirement are not representative of actual amounts payable under those circumstances. If Mr. Pugh had actually terminated his employment or retired as of June 30, 2009, no additional amounts would have been payable. The amounts shown result from actuarial calculations of amounts payable on the occurrence of those events without discounting for the statistical probability of death, early retirement, or termination due to disability.
  - (6) Includes health care benefits, accidental death and dismemberment insurance, car allowance, gas and maintenance, annual physical examination, and annual financial planning and tax service reimbursement and related gross-up payments.
  - (7) Proceeds are payable from third-party insurance policies and the SERP.
- \* Applied's supplemental long-term disability (LTD) insurance, with premiums paid by the executive, provides a monthly disability benefit equal to 60% of monthly total compensation (monthly base salary plus the average of the three most recent years' annual incentive compensation divided by 12), minus the basic plan benefit of 60% of base salary, up to a \$3,000 per month maximum benefit. The aggregate maximum monthly LTD benefit, under the basic and supplemental programs, is \$21,000. In addition, the SERP provides a monthly disability benefit to participants with five years of service as an executive officer which, when added to the amounts payable under the basic and supplemental LTD programs, equals 1/12th of 60% of the average of the highest three of the last 10 calendar years of total compensation (base salary plus annual incentive).

**Table of Contents****Benjamin J. Mondics, President & Chief Operating Officer**

Benefits and Payments	Termination (No Change in Control)		Termination Without Cause or Reason		Termination for Good Cause		Termination (No Control)		Termination due to	
	Retirement	Early Retirement	Change in Control	Following Cause	Following Reason	Change in Control	Death	Disability		
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Base Salary	0	0	0	0	1,350,000	0	0	0	0	0
Management Incentive Plan	0	0	0	0	877,500	0	0	0	0	0
Performance Grants(3)	0	0	0	0	0	307,267	307,267	307,267	307,267	307,267
SARs	0	0	0	0	0	0	0	0	0	0
Non-Officer Incentive Plan (4)	0	0	0	0	0	0	65,882	65,882	65,882	65,882
SERP (5)	0	0	0	0	0	2,594,677	1,149,691	1,149,691	0*	0*
Health Care and Welfare Benefits (6)	0	0	0	0	138,700	0	0	0	0	0
Life/Disability Insurance Proceeds (7)	0	0	0	0	0	0	1,700,068	1,700,068	0	*
Outplacement Services	0	0	0	0	20,000	0	0	0	0	0
Excise Tax Gross-Up	0	0	0	0	1,245,357	1,241,461	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,631,557</b>	<b>4,143,405</b>	<b>3,222,908</b>	<b>3,222,908</b>	<b>373,149*</b>	<b>373,149*</b>

- (1) Normal retirement under Applied's plans is separation from service after attainment of age 65. Mr. Mondics is age 51 and therefore ineligible for normal retirement.
- (2) Mr. Mondics is ineligible for early retirement under Applied's plans because he is only age 51; early retirement is defined as separation from service after attainment of age 55 with at least 10 years of service, five of which are as an executive officer.
- (3) Payout upon change in control is prorated based on quarters elapsed in performance period and target payout. Payout upon retirement, death, or termination due to disability is prorated based on quarters elapsed in performance period and actual performance achieved during performance period the chart assumes performance will correspond to target payout.
- (4) Shows payout under non-officer incentive plan in which Mr. Mondics participated prior to his promotion to an executive officer position.
- (5)

Calculation of post-termination SERP benefits assumes the executive would receive benefits in the installment payment form at the earliest date he would be eligible. To calculate the estimated present value of the installments, a 6.00% discount rate and the three-segment interest rate structure in effect for January 2009 under Code section 417(e), with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter, are used.

(6) Includes health care benefits, accidental death and dismemberment insurance, car allowance, gas and maintenance, annual physical examination, and annual financial planning and tax service reimbursement and related gross-up payments.

(7) Proceeds are payable from third-party insurance policies.

\* Applied's supplemental long-term disability (LTD) insurance, with premiums paid by the executive, provides a monthly disability benefit equal to 60% of monthly total compensation (monthly base salary plus the average of the three most recent years' annual incentive compensation divided by 12), minus the basic plan benefit of 60% of base salary, up to a \$3,000 per month maximum benefit. The aggregate maximum monthly LTD benefit, under the basic and supplemental programs, is \$21,000. In addition, the SERP provides a monthly disability benefit to participants with five years of service as an executive officer (Mr. Mondics does not yet qualify) which, when added to the amounts payable under the basic and supplemental LTD programs, equals 1/12th of 60% of the average of the highest three of the last 10 calendar years of total compensation (base salary plus annual incentive).

**Table of Contents****Mark O. Eisele, Vice President    Chief Financial Officer & Treasurer**

Benefits and Payments	Termination (No Change in Control)		Termination Cause		Termination without Cause or Reason		Change in Control (No Termination)		Termination due to	
	Retirement	Retirement	Change in Control	Change in Control	Change in Control	Change in Control	Death	Disability	Death	Disability
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Base Salary	0	0	0	0	1,314,000	0	0	0	0	0
Management Incentive Plan	0	0	0	0	788,400	0	0	0	0	0
Performance Grants (3)	0	0	0	0	0	251,800	251,800	251,800	251,800	251,800
SARs	0	0	0	0	0	0	0	0	0	0
SERP (4)	0	0	0	0	0	3,508,644	1,822,578	2,261,556*	2,261,556*	2,261,556*
Health Care and Welfare Benefits (5)	0	0	0	0	122,800	0	0	0	0	0
Life/Disability Insurance Proceeds (6)	0	0	0	0	0	0	2,049,828	2,049,828	2,049,828	*
Outplacement Services	0	0	0	0	20,000	0	0	0	0	0
Excise Tax Gross-Up	0	0	0	0	1,171,163	1,347,927	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,416,363</b>	<b>5,108,371</b>	<b>4,124,206</b>	<b>4,124,206</b>	<b>2,513,356*</b>	<b>2,513,356*</b>

- (1) Normal retirement under Applied's plans is separation from service after attainment of age 65. Mr. Eisele is age 52 and therefore ineligible for normal retirement.
- (2) Mr. Eisele is ineligible for early retirement under Applied's plans because he is only age 52; early retirement is defined as separation from service after attainment of age 55 with at least 10 years of service, five of which are as an executive officer.
- (3) Payout upon change in control is prorated based on quarters elapsed in performance period and target payout. Payout upon retirement, death, or termination due to disability is prorated based on quarters elapsed in performance period and actual performance achieved during performance period – the chart assumes performance will correspond to target payout.
- (4) Calculation of post-termination SERP benefits assumes the executive would receive benefits in the installment payment form at the earliest date he would be eligible. To calculate the estimated present value of the installments, a 6.00% discount rate and the three-segment interest rate structure in effect for January 2009 under Code section 417(e), with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter, are used. The RP-2000 Disability Mortality Table for males and a 6.00% interest rate are used in valuing the disability benefits.

(5) Includes health care benefits, accidental death and dismemberment insurance, car allowance, gas and maintenance, annual physical examination, and annual financial planning and tax service reimbursement and related gross-up payments.

(6) Proceeds are payable from third-party insurance policies and the SERP.

\* Applied's supplemental long-term disability ( LTD ) insurance, with premiums paid by the executive, provides a monthly disability benefit equal to 60% of monthly total compensation (monthly base salary plus the average of the three most recent years' annual incentive compensation divided by 12), minus the basic plan benefit of 60% of base salary, up to a \$3,000 per month maximum benefit. The aggregate maximum monthly LTD benefit, under the basic and supplemental programs, is \$21,000. In addition, the SERP provides a monthly disability benefit to participants with five years of service as an executive officer which, when added to the amounts payable under the basic and supplemental LTD programs, equals 1/12th of 60% of the average of the highest three of the last 10 calendar years of total compensation (base salary plus annual incentive).

**Table of Contents****Jeffrey A. Ramras, Vice President Supply Chain Management**

Benefits and Payments	Termination (No Change in Control)		Termination Cause for Termination for Good		Termination without Cause or Reason Following		Change in Control (No Termination)		Termination due to	
	Retirement	Retirement	Change in Control	Change in Control	Change in Control	Change in Control	Death	Disability		
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	
Base Salary	0	0	0	0	1,050,000	0	0	0	0	
Management Incentive Plan	0	0	0	0	525,000	0	0	0	0	
Performance Grants (3)	0	0	0	0	0	140,767	140,767	140,767	140,767	
SARs	0	0	0	0	0	0	0	0	0	
SERP (4)	0	0	0	0	0	2,617,595	1,528,225	1,569,415*	1,569,415*	
Health Care and Welfare Benefits (5)	0	0	0	0	122,800	0	0	0	0	
Life/Disability Insurance Proceeds (6)	0	0	0	0	0	0	1,515,645		*	
Outplacement Services	0	0	0	0	20,000	0	0	0	0	
Excise Tax Gross-Up	0	0	0	0	893,584	1,093,532	0	0	0	
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,611,384</b>	<b>3,851,894</b>	<b>3,184,637</b>	<b>1,710,182*</b>	<b>1,710,182*</b>	

- (1) Normal retirement under Applied's plans is separation from service after attainment of age 65. Mr. Ramras is age 54 and therefore ineligible for normal retirement.
- (2) Mr. Ramras is currently ineligible for early retirement under Applied's plans because he is only age 54; early retirement is defined as separation from service after attainment of age 55 with at least 10 years of service, five of which are as an executive officer. He will, however, be eligible in December 2009, when he turns 55.
- (3) Payout upon change in control is prorated based on quarters elapsed in performance period and target payout. Payout upon retirement, death, or termination due to disability is prorated based on quarters elapsed in performance period and actual performance achieved during performance period the chart assumes performance will correspond to target payout.
- (4) Calculation of post-termination SERP benefits assumes the executive would receive benefits in the installment payment form at the earliest date he would be eligible. To calculate the estimated present value of the installments, a 6.00% discount rate and the three-segment interest rate structure in effect for January 2009 under Code section 417(e), with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter, are used. The RP-2000 Disability Mortality Table for males and a 6.00% interest rate are used in valuing the disability benefits.

- (5) Includes health care benefits, accidental death and dismemberment insurance, car allowance, gas and maintenance, annual physical examination, and annual financial planning and tax service reimbursement and related gross-up payments.
- (6) Proceeds are payable from third-party insurance policies and the SERP.
- \* Applied's supplemental long-term disability ( LTD ) insurance, with premiums paid by the executive, provides a monthly disability benefit equal to 60% of monthly total compensation (monthly base salary plus the average of the three most recent years' annual incentive compensation divided by 12), minus the basic plan benefit of 60% of base salary, up to a \$3,000 per month maximum benefit. The aggregate maximum monthly LTD benefit, under the basic and supplemental programs, is \$21,000. In addition, the SERP provides a monthly disability benefit to participants with five years of service as an executive officer which, when added to the amounts payable under the basic and supplemental LTD programs, equals 1/12th of 60% of the average of the highest three of the last 10 calendar years of total compensation (base salary plus annual incentive).

Table of Contents**Fred D. Bauer, Vice President General Counsel & Secretary**

Benefits and Payments	Termination (No Change in Control)		Termination Cause for Termination for Good Cause		Termination without Cause or Reason Following		Change in Control (No Termination)		Termination due to	
	Retirement	Retirement	Change in Control	Change in Control	Change in Control	Change in Control	Death	Disability		
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	
Base Salary	0	0	0	0	1,065,000	0	0	0	0	
Management Incentive Plan	0	0	0	0	564,450	0	0	0	0	
Performance Grants (3)	0	0	0	0	0	178,100	178,100	178,100	178,100	
SARs	0	0	0	0	0	0	0	0	0	
SERP (4)	0	0	0	0	0	1,127,807	858,465	1,482,763*		
Health Care and Welfare Benefits (5)	0	0	0	0	113,100	0	0	0	0	
Life/Disability Insurance Proceeds (6)	0	0	0	0	0	0	1,527,802		*	
Outplacement Services	0	0	0	0	20,000	0	0	0	0	
Excise Tax Gross-Up	0	0	0	0	0	0	0	0	0	
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,762,550</b>	<b>1,305,907</b>	<b>2,564,367</b>	<b>1,660,863*</b>		

- (1) Normal retirement under Applied's plans is separation from service after attainment of age 65. Mr. Bauer is age 43 and therefore ineligible for normal retirement.
- (2) Mr. Bauer is ineligible for early retirement under Applied's plans because he is only age 43; early retirement is defined as separation from service after attainment of age 55 with at least 10 years of service, five of which are as an executive officer.
- (3) Payout upon change in control is prorated based on quarters elapsed in performance period and target payout. Payout upon retirement, death, or termination due to disability is prorated based on quarters elapsed in performance period and actual performance achieved during performance period the chart assumes performance will correspond to target payout.
- (4) Calculation of post-termination SERP benefits assumes the executive would receive benefits in the installment payment form at the earliest date he would be eligible. To calculate the estimated present value of the installments, a 6.00% discount rate and the three-segment interest rate structure in effect for January 2009 under Code section 417(e), with 4.78% for the first five years, 5.45% for the next 15 years, and 5.46% thereafter, are used. The RP-2000 Disability Mortality Table for males and a 6.00% interest rate are used in valuing the disability benefits.

- (5) Includes health care benefits, accidental death and dismemberment insurance, car allowance, gas and maintenance, annual physical examination, and annual financial planning and tax service reimbursement and related gross-up payments.
- (6) Proceeds are payable from third-party insurance policies and the SERP.
- \* Applied's supplemental long-term disability ( LTD ) insurance, with premiums paid by the executive, provides a monthly disability benefit equal to 60% of monthly total compensation (monthly base salary plus the average of the three most recent years' annual incentive compensation divided by 12), minus the basic plan benefit of 60% of base salary, up to a \$3,000 per month maximum benefit. The aggregate maximum monthly LTD benefit, under the basic and supplemental programs, is \$21,000. In addition, the SERP provides a monthly disability benefit to participants with five years of service as an executive officer which, when added to the amounts payable under the basic and supplemental LTD programs, equals 1/12th of 60% of the average of the highest three of the last 10 calendar years of total compensation (base salary plus annual incentive).

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**COMPENSATION COMMITTEE REPORT**

The Executive Organization & Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement. Based on the review and discussions, the committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and the annual report on Form 10-K for the fiscal year ended June 30, 2009, filed with the SEC.

**EXECUTIVE ORGANIZATION &  
COMPENSATION COMMITTEE**

William G. Bares, Chair  
John F. Meier  
Peter C. Wallace

**AUDIT COMMITTEE REPORT**

The Audit Committee is composed solely of independent directors, as determined by the Board according to applicable laws and SEC and NYSE rules, and operates under a written charter. The charter is posted at the investor relations area of Applied's website at [www.applied.com](http://www.applied.com).

In performing its responsibilities relating to the audit of Applied's consolidated financial statements for the fiscal year ended June 30, 2009, the committee reviewed and discussed the audited financial statements with management and Applied's independent auditors, Deloitte & Touche. The committee also discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The independent auditors also provided to the committee the letter and written disclosures required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence. The committee discussed with Deloitte & Touche their independence and also considered whether their provision of non-audit services to Applied is compatible with maintaining their independence.

Based on the reviews and discussions described above, the committee recommended to the Board that the audited financial statements be included in Applied's 2009 annual report on Form 10-K for filing with the SEC.

**AUDIT COMMITTEE**

Thomas A. Commes, Chair  
J. Michael Moore  
Dr. Jerry Sue Thornton  
Stephen E. Yates

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Applied's executive officers and directors, and persons who beneficially own more than 10% of Applied's stock, must file initial reports of ownership and reports of changes in ownership with the SEC and furnish copies to Applied.

Based solely on a review of forms furnished to us and written representations from Applied's executive officers and directors, we believe that during the fiscal year ended June 30, 2009 all filing requirements were satisfied on a timely basis.

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**SHAREHOLDER PROPOSALS FOR 2010 ANNUAL MEETING**

Proposals by shareholders for inclusion in our 2010 annual meeting proxy statement must be received by Applied's Secretary at 1 Applied Plaza, Cleveland, Ohio 44115, no later than May 7, 2010. Under Ohio law, only proposals included in the meeting notice may be raised at a meeting of shareholders. Accordingly, if you wish to nominate a candidate for director or bring other business from the floor of the 2010 annual meeting, you must notify the Secretary in writing by August 27, 2010.

**HOUSEHOLDING INFORMATION**

Only one copy of this proxy statement and annual report is being delivered to multiple shareholders sharing an address unless Applied received contrary instructions from one or more of the shareholders.

If a shareholder at a shared address to which single copies of the proxy statement and annual report were delivered wishes to receive a separate copy of the proxy statement or annual report, he or she should contact Applied's transfer agent, Computershare Investor Services LLC, by telephoning 1-800-988-5291 or by writing to Computershare at P.O. Box 43078, Providence, Rhode Island 02940-3078. The shareholder will be delivered, without charge, a separate copy of the proxy statement or annual report promptly upon request.

If shareholders at a shared address currently receiving multiple copies of the proxy statement and annual report wish to receive only a single copy of these documents, they should contact Computershare in the manner provided above.

**OTHER MATTERS**

The Board of Directors does not know of any other matters to be presented at the meeting. If other matters requiring a shareholder vote arise, including the question of adjourning the meeting, the persons named on the accompanying proxy card will vote your shares according to their judgment in the interests of Applied.

By order of the Board of Directors.

Fred D. Bauer  
*Vice President-General Counsel  
& Secretary*

Dated: September 4, 2009

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**Electronic Voting Instructions**

**You can vote by Internet or telephone!  
Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by Monday, October 19, 2009 (Thursday, October 15, 2009 for Retirement Savings Plan or Supplemental Defined Contribution Plan participants).**

**Vote by Internet**

Log on to the Internet and go to **www.investorvote.com/AIT**

Follow the steps outlined on the secured website.

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. X

**Annual Meeting Proxy Card/Instruction Card**

**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**A Proposals The Board of Directors recommends a vote FOR the listed nominees and FOR Proposal 2.**

1. Election of Directors:	<b>For</b>	<b>Withhold</b>
01 - Thomas A. Commes	o	o
04 - Dr. Jerry Sue Thornton	o	o
02 - Peter A. Dorsman	<b>For</b> o	<b>Withhold</b> o
03 - J. Michael Moore	<b>For</b> o	<b>Withhold</b> o

**For    Against    Abstain**

                      

2. Ratification of appointment of independent auditors.

In their discretion, the proxies are authorized to vote on such other business as may properly come before the meeting.

**B Non-Voting Items**

**Change of Address    Please print new address below.**

**C Authorized Signatures    This section must be completed for your vote to be counted    Date and sign below**

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy)    Please print date below.

/

/

2009

Signature 1    Please keep signature within the box.

Signature 2    Please keep signature within the box.

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**CONSIDER RECEIVING FUTURE APPLIED INDUSTRIAL TECHNOLOGIES, INC. PROXY MATERIALS VIA THE INTERNET!**

Consider receiving future Applied Industrial Technologies, Inc. proxy notifications in electronic form rather than in print form. While voting via the Internet, just provide your e-mail address where indicated and click the box to give your consent. Electronic delivery saves Applied a significant portion of the costs associated with printing and mailing annual meeting materials. If you consent to electronic delivery of meeting materials, you will receive an e-mail with links to all annual meeting materials and to the online proxy voting site for every annual meeting. If you do not consent to electronic delivery, you will continue to receive the proxy notification in the mail.

Accessing the Applied Industrial Technologies, Inc. annual report and proxy materials via the Internet may result in charges to you from your Internet service provider and/or telephone companies.

**DIRECTIONS TO MEETING**

You may access directions to attend the meeting at [www.investorvote.com/AIT](http://www.investorvote.com/AIT).

**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proxy/Instruction Card Applied Industrial Technologies, Inc.**

**Proxy Solicited on Behalf of the Board of Directors**

The undersigned appoints David L. Pugh, Benjamin J. Mondics, and Mark O. Eisele, and each of them, as proxies, with full power of substitution, to attend the Annual Meeting of Shareholders of Applied Industrial Technologies, Inc., on October 20, 2009, and any adjournments, and to represent and vote the shares which the undersigned is entitled to vote on the following matters as directed on the reverse side.

**When properly executed, these instructions will be voted in the manner directed on the reverse side of this card; if you do not provide direction, this proxy will be voted FOR Items 1 and 2.**

**NOTICE TO PARTICIPANTS IN THE RETIREMENT SAVINGS PLAN  
AND/OR SUPPLEMENTAL DEFINED CONTRIBUTION PLAN**

This card also constitutes voting instructions for participants in the Applied Industrial Technologies, Inc. Retirement Savings Plan and/or Supplemental Defined Contribution Plan. A participant who signs on the reverse side hereby instructs Wachovia Retirement Services, Trustee, to vote all the shares of Applied's common stock allocated to the participant's account(s) in the plan(s) and any shares not otherwise directed under the Retirement Savings Plan, at the Annual Meeting of Shareholders. If no voting instructions are provided on a properly executed card, the shares will be voted FOR items 1 and 2.

**If you vote by telephone or the Internet, please DO NOT mail back this proxy card.**

**YOUR VOTE IS IMPORTANT!**

**PLEASE VOTE, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE**

**OR VOTE BY TELEPHONE OR INTERNET PURSUANT TO THE INSTRUCTIONS ON THE REVERSE.  
SEE REVERSE SIDE**

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**IMPORTANT SHAREHOLDER MEETING INFORMATION  
YOUR VOTE COUNTS!**

**Shareholder Meeting Notice**

**Important Notice Regarding the Availability of Proxy Materials for the**

**Applied Industrial Technologies, Inc. Annual Meeting of Shareholders to be Held on October 20, 2009**

Under new Securities and Exchange Commission rules, you are receiving this notice that the proxy materials for the annual shareholders meeting are available on the Internet. Follow the instructions below to view the materials and vote online or request a copy. The items to be voted on and location of the annual meeting are on the reverse side. Your vote is important!

**This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting. The proxy statement and annual report to shareholders are available at:**

**[www.investorvote.com/AIT](http://www.investorvote.com/AIT)**

**Easy Online Access A Convenient Way to View Proxy Materials and Vote**

**When you go online to view materials, you can also vote your shares.**

**Step 1:** Go to [www.investorvote.com/AIT](http://www.investorvote.com/AIT).

**Step 2:** Click the **View** button(s) to access the proxy materials.

**Step 3:** Return to the investorvote.com window and follow the instructions on the screen to log in.

**Step 4:** Make your selection as instructed on each screen to select delivery preferences and vote.

**When you go online, you can also help the environment by consenting to receive electronic delivery of future materials.**

**Obtaining a Copy of the Proxy Materials - If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side on or before October 10, 2009 to facilitate timely delivery.**

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**Shareholder Meeting Notice**

**The Applied Industrial Technologies, Inc. Annual Meeting of Shareholders will be held on October 20, 2009, at 10:00 a.m. ET, at Applied's corporate headquarters, 1 Applied Plaza, East 36th Street and Euclid Avenue, Cleveland, Ohio 44115.**

**Proposals to be voted on at the meeting, or any adjournments, are listed below along with the recommendations of the Board of Directors.**

**The Board of Directors recommends that you vote FOR the listed director nominees and FOR Proposal 2.**

1. Election of Directors:

01 - Thomas A. Commes, 02 -Peter A. Dorsman, 03 -J. Michael Moore, 04 -Dr. Jerry Sue Thornton

2. Ratification of the Audit Committee's appointment of Deloitte & Touche LLP as independent auditors for the fiscal year ending June 30, 2010.

In their discretion, the proxies are authorized to vote on such other business as may properly come before the meeting.

**PLEASE NOTE -YOU CANNOT VOTE BY RETURNING THIS NOTICE. To vote your shares you must vote online by Thursday, October 15, 2009, or request a paper copy of the proxy materials to receive a proxy card.**

**If you wish to attend and vote at the meeting, please bring this notice with you.**

You may access directions to attend the meeting at [www.investorvote.com/AIT](http://www.investorvote.com/AIT).

**Here's how to order a copy of the proxy materials and select a future delivery preference:**

**Paper copies:** Current and future paper delivery requests can be submitted via the telephone, Internet or e-mail options below.

**E-mail copies:** Current and future e-mail delivery requests must be submitted via the Internet following the instructions below.

If you request an e-mail copy of current materials you will receive an e-mail with a link to the materials.

**PLEASE NOTE:** You must use the numbers in the shaded bar on the reverse side when requesting a set of proxy materials.

**Internet** - Go to [www.investorvote.com/AIT](http://www.investorvote.com/AIT). Follow the instructions to log in and order a paper or e-mail copy of the current meeting materials and submit your preference for e-mail or paper delivery of future meeting materials.

**Telephone** - Call us free of charge at 1-866-641-4276 using a touch-tone phone and follow the instructions to log in and order a paper copy of the materials by mail for the current meeting. You can also submit a preference to receive a paper copy for future meetings.

**E-mail** - Send e-mail to [investorvote@computershare.com](mailto:investorvote@computershare.com) with Proxy Materials Applied Industrial Technologies, Inc. in the subject line. Include in the message your full name and address, plus the three numbers located in the shaded bar on the reverse, and state in the e-mail that you want a paper copy of current meeting materials. You can also state your preference to receive a paper copy for future meetings.

To facilitate timely delivery, all requests for a paper copy of the proxy materials must be received by October 10, 2009.

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