

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **SEPTEMBER 30, 2016**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number **1-2299**

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

34-0117420

(I.R.S. Employer
Identification Number)

One Applied Plaza, Cleveland, Ohio

(Address of principal executive offices)

44115

(Zip Code)

Registrant's telephone number, including area code: **(216) 426-4000**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
-------------------------	-------------------------------------	-------------------	--------------------------

Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
-----------------------	--	---------------------------	--------------------------

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

There were 39,006,534 (no par value) shares of common stock outstanding on October 14, 2016 .

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

INDEX

	Page No.
Part I: FINANCIAL INFORMATION	
Item 1: Financial Statements	
Condensed Statements of Consolidated Income-Three Months Ended September 30, 2016 and 2015	2
Condensed Statements of Comprehensive Income-Three Months Ended September 30, 2016 and 2015	3
Condensed Consolidated Balance Sheets-September 30, 2016 and June 30, 2016	4
Condensed Statements of Consolidated Cash Flows-Three Months Ended September 30, 2016 and 2015	5
Notes to Condensed Consolidated Financial Statements	6
Report of Independent Registered Public Accounting Firm	14
Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3: Quantitative and Qualitative Disclosures About Market Risk	23
Item 4: Controls and Procedures	24
Part II: OTHER INFORMATION	
Item 1: Legal Proceedings	25
Item 2: Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 4: Mine Safety Disclosures	25
Item 6: Exhibits	26
Signatures	27

PART I: FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2016	2015
Net Sales	\$ 624,848	\$ 641,904
Cost of Sales	446,518	460,892
Gross Profit	178,330	181,012
Selling, Distribution and Administrative, including depreciation	135,112	139,986
Operating Income	43,218	41,026
Interest Expense, net	2,146	2,187
Other (Income) Expense, net	(398)	1,004
Income Before Income Taxes	41,470	37,835
Income Tax Expense	14,099	13,544
Net Income	\$ 27,371	\$ 24,291
Net Income Per Share - Basic	\$ 0.70	\$ 0.61
Net Income Per Share - Diluted	\$ 0.70	\$ 0.61
Cash dividends per common share	\$ 0.28	\$ 0.27
Weighted average common shares outstanding for basic computation	39,044	39,613
Dilutive effect of potential common shares	338	229
Weighted average common shares outstanding for diluted computation	39,382	39,842

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended September 30,	
	2016	2015
Net income per the condensed statements of consolidated income	\$ 27,371	\$ 24,291
Other comprehensive loss, before tax:		
Foreign currency translation adjustments	(2,349)	(27,516)
Post-employment benefits:		
Reclassification of actuarial losses and prior service cost into SD&A expense and included in net periodic pension costs	127	130
Unrealized gain (loss) on investment securities available for sale	26	(50)
Total of other comprehensive loss, before tax	(2,196)	(27,436)
Income tax expense related to items of other comprehensive income	61	34
Other comprehensive loss, net of tax	(2,257)	(27,470)
Comprehensive income (loss), net of tax	\$ 25,114	\$ (3,179)

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	September 30, 2016	June 30, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 58,022	\$ 59,861
Accounts receivable, less allowances of \$11,628 and \$11,034	347,286	347,857
Inventories	342,044	338,221
Other current assets	30,009	35,582
Total current assets	777,361	781,521
Property, less accumulated depreciation of \$163,245 and \$161,466	106,283	107,765
Identifiable intangibles, net	181,465	191,240
Goodwill	205,537	202,700
Deferred tax assets	11,802	12,277
Other assets	16,991	16,522
TOTAL ASSETS	\$ 1,299,439	\$ 1,312,025
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 149,007	\$ 148,543
Current portion of long term debt	3,248	3,247
Compensation and related benefits	46,327	57,187
Other current liabilities	65,719	65,306
Total current liabilities	264,301	274,283
Long-term debt	301,771	324,583
Post-employment benefits	21,290	21,322
Other liabilities	31,629	33,921
TOTAL LIABILITIES	618,991	654,109
Shareholders' Equity		
Preferred stock—no par value; 2,500 shares authorized; none issued or outstanding	—	—
Common stock—no par value; 80,000 shares authorized; 54,213 shares issued; 39,031 and 39,057 outstanding, respectively	10,000	10,000
Additional paid-in capital	162,518	162,529
Retained Earnings	972,174	944,821
Treasury shares—at cost (15,182 and 15,156 shares, respectively)	(376,441)	(373,888)
Accumulated other comprehensive loss	(87,803)	(85,546)
TOTAL SHAREHOLDERS' EQUITY	680,448	657,916
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,299,439	\$ 1,312,025

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 27,371	\$ 24,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	3,650	3,930
Amortization of intangibles	6,237	6,083
Unrealized foreign exchange transactions loss	248	434
Amortization of stock options and appreciation rights	809	630
(Gain) loss on sale of property	(1,068)	90
Other share-based compensation expense	555	628
Changes in operating assets and liabilities, net of acquisitions	2,835	(23,012)
Other, net	1,227	2,016
Net Cash provided by Operating Activities	41,864	15,090
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	—	(11,250)
Property purchases	(2,999)	(3,112)
Proceeds from property sales	1,747	113
Net Cash used in Investing Activities	(1,252)	(14,249)
Cash Flows from Financing Activities		
Net (Repayments) Borrowings under revolving credit facility	(22,000)	35,000
Long-term debt repayments	(838)	(681)
Purchases of treasury shares	(3,048)	(17,956)
Dividends paid	(10,943)	(10,745)
Tax shortfall from share-based compensation	—	(59)
Acquisition holdback payments	(4,444)	(7,857)
Exercise of stock options and appreciation rights	108	—
Taxes paid for shares withheld for equity awards	(987)	(502)
Net Cash used in Financing Activities	(42,152)	(2,800)
Effect of Exchange Rate Changes on Cash	(299)	(3,545)
Decrease in Cash and Cash Equivalents	(1,839)	(5,504)
Cash and Cash Equivalents at Beginning of Period	59,861	69,470
Cash and Cash Equivalents at End of Period	\$ 58,022	\$ 63,966

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position of Applied Industrial Technologies, Inc. (the “Company”, or “Applied”) as of September 30, 2016, and the results of its operations and its cash flows for the three month periods ended September 30, 2016 and 2015, have been included. The condensed consolidated balance sheet as of June 30, 2016 has been derived from the audited consolidated financial statements at that date. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2016.

Operating results for the three month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2017.

Change in Accounting Principle - Share-based Payment Awards

In March 2016, the FASB issued its final standard on simplifying the accounting for share-based payment awards. This standard, issued as ASU 2016-09, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification on the statement of cash flows, and accounting for forfeitures. This update is effective for annual and interim financial statement periods beginning after December 15, 2016, with early adoption permitted. The Company early adopted ASU 2016-09 in the first quarter of fiscal 2017.

The new standard requires prospective recognition of excess tax benefits and deficiencies resulting from stock-based compensation awards vesting and exercises be recognized in the income statement. Previously, these amounts were recognized in additional paid-in capital. Net excess tax benefits of \$143 for the three months ending September 30, 2016 were recognized as a reduction of income tax expense. In addition, ASU 2016-09 requires excess tax benefits and deficiencies to be prospectively excluded from the assumed future proceeds in the calculation of diluted shares, resulting in an increase in diluted weighted average shares outstanding of 47 shares for the three months ending September 30, 2016, which did not have a material impact on earnings per share.

The Company has elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur.

The standard requires that excess tax benefits from share based compensation awards be reported as operating activities in the consolidated statements of cash flows. Previously, these cash flows were included in financing activities. We have elected to apply this change on a prospective basis, resulting in an increase in net cash provided by operating activities and net cash used by financing activities of \$143 for the three months ending September 30, 2016.

ASU 2016-09 requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statements of cash flows. Previously, these cash flows were included in operating activities. This change was required to be applied on a retrospective basis. As such, the consolidated statements of cash flows for the prior periods were revised. This change resulted in an increase in net cash provided by operating activities and in net cash used in financing activities of \$502 for the three months ending September 30, 2015.

Change in Accounting Principle - Debt Issue Costs

In April 2015, the FASB issued its final standard on simplifying the presentation of debt issue costs. This standard, issued as ASU 2015-03, requires that all costs incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt, rather than as an asset. This update is effective for annual financial statement periods beginning after December 15, 2015, and interim periods within those fiscal years. As required, the Company adopted ASU 2015-03 in the first quarter of fiscal 2017 and has applied the new standard retrospectively. The retrospective adoption of ASU 2015-03 resulted in the reclassification as of June 30, 2016 of unamortized debt

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

issue costs of \$105 from other current assets to a reduction of current portion of long-term debt and \$399 from other assets to a reduction of long-term debt on the Company's condensed consolidated balance sheets.

Change in Accounting Principle - Measurement-period Adjustments for Business Combinations

In September 2015, the FASB issued its final standard on simplifying the accounting for measurement-period adjustments for business combinations. This standard, issued as ASU 2015-16, requires that an entity that is the acquirer in a business combination that identifies adjustments to provisional amounts during the measurement period to recognize those adjustments in the reporting period in which the amounts are determined. This update further requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The update is effective for annual and interim financial statement periods beginning after December 15, 2015, and is applied prospectively to adjustments to provisional amounts that occur after the effective date of this update, with early adoption permitted. The Company adopted ASU 2015-16 in the first quarter of fiscal 2017. The adoption of this update did not have a material impact on the financial statements of the Company.

Inventory

The Company uses the LIFO method of valuing U.S. inventories. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory determination.

Recently Issued Accounting Guidance

In May 2014, the FASB issued its final standard on the recognition of revenue from contracts with customers. The standard, issued as ASU 2014-09, outlines a single comprehensive model for entities to use in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. The core principle of this model is that "an entity recognizes revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services." In August 2015, the FASB issued ASU 2015-14 to delay the effective date of ASU 2014-09 by one year. In accordance with the delay, the update is effective for annual and interim financial statement periods beginning after December 15, 2017. Early adoption is permitted, but not before financial statement periods beginning after December 15, 2016. In March 2016 the FASB issued ASU 2016-08 and ASU 2016-10, and in May 2016 the FASB issued ASU 2016-12, which clarify the guidance in ASU 2014-09 but do not change the core principle of the revenue recognition model. The Company has not determined the collective impact of these pronouncements on its financial statements and related disclosures or the method of adoption.

In July 2015, the FASB issued its final standard on simplifying the measurement of inventory. This standard, issued as ASU 2015-11, specifies that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new standard does not apply to inventory that is measured using LIFO; therefore, it is not applicable to the Company's U.S. inventory values, but does apply to the Company's foreign inventories which are valued using the average cost method. The update is effective for annual and interim financial statement periods beginning after December 15, 2016, with earlier application permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

In February 2016, the FASB issued its final standard on accounting for leases. This standard, issued as ASU 2016-02, requires that an entity that is a lessee recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. The core principle of this update is that a "lessee should recognize the assets and liabilities that arise from leases." This update is effective for annual and interim financial statement periods beginning after December 15, 2018, with earlier application permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

In June 2016, the FASB issued its final standard on measurement of credit losses on financial instruments. This standard, issued as ASU 2016-13, requires that an entity measure impairment of certain financial instruments,

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

including trade receivables, based on expected losses rather than incurred losses. This update is effective for annual and interim financial statement periods beginning after December 15, 2019, with early adoption permitted for financial statement periods beginning after December 15, 2018. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

In August 2016, the FASB issued its final standard on the classification of certain cash receipts and cash payments within the statement of cash flows. This standard, issued as ASU 2016-15, makes a number of changes meant to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. This update is effective for annual and interim financial statement periods beginning after December 15, 2018, with early adoption permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

2. BUSINESS COMBINATIONS

The operating results of all acquired entities are included within the consolidated operating results of the Company from the date of each respective acquisition.

Fiscal 2016 Acquisitions

On June 14, 2016, the Company acquired 100% of the outstanding stock of Seals Unlimited ("Seals"), a distributor of sealing, fastener, and hose products located in Burlington, Ontario. On January 4, 2016, the Company acquired substantially all of the net assets of HUB Industrial Supply ("HUB"), a distributor of consumable industrial products operating from three locations - Lake City, FL, Indianapolis, IN, and Las Vegas, NV. On August 3, 2015, the Company acquired substantially all of the net assets of Atlantic Fasteners Co., Inc. ("Atlantic Fasteners"), a distributor of C-Class consumables including industrial fasteners and related industrial supplies located in Agawam, MA. Seals, HUB, and Atlantic Fasteners are all included in the Service Center Based Distribution segment. On October 1, 2015, the Company acquired substantially all of the net assets of S.G. Morris Co. ("SGM"). SGM, headquartered in Cleveland, OH, is a distributor of hydraulic components throughout Ohio, Western Pennsylvania and West Virginia and is included in the Fluid Power Businesses Segment. The total combined consideration for these acquisitions was approximately \$66,250, net tangible assets acquired were \$22,650, and intangibles including goodwill were \$43,600 based upon estimated fair values at the acquisition dates. The estimated fair values related to Seals, HUB, and SGM are preliminary and subject to adjustment. The total combined consideration includes \$3,750 of acquisition holdback payments, of which \$625 was paid during the first quarter of fiscal 2017. The remaining balance of \$3,125 is included in other current liabilities and other liabilities on the condensed consolidated balance sheets, which will be paid plus interest at various times through October 2018. The Company funded the amounts paid for the acquisitions at closing using available cash and borrowings under the revolving credit facility at variable interest rates. The acquisition prices and the results of operations for the acquired entities are not material in relation to the Company's condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

3. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill for both the Service Center Based Distribution segment and the Fluid Power Businesses segment for the fiscal year ended June 30, 2016 and the three month period ended September 30, 2016 are as follows:

	Service Centers	Fluid Power	Total
Balance at July 1, 2015	\$ 253,477	\$ 929	\$ 254,406
Goodwill acquired during the period	18,683	3,285	21,968
Impairment	(64,794)	—	(64,794)
Other, primarily currency translation	(8,880)	—	(8,880)
Balance at June 30, 2016	\$ 198,486	\$ 4,214	\$ 202,700
Goodwill added during the period	3,220	—	3,220
Other, primarily currency translation	(383)	—	(383)
Balance at September 30, 2016	\$ 201,323	\$ 4,214	\$ 205,537

On July 1, 2016, the Company enacted a change in its management reporting structure which changed the composition of the Canada service center reporting unit. This triggering event required the Company to perform an interim goodwill impairment test for the Canada service center reporting unit. The Company performed step one of the goodwill impairment test for the Canada service center reporting unit as of July 1, 2016 and determined that the reporting unit had excess fair value of approximately \$8,000 or 5% when compared to its carrying amount of approximately \$163,000. The fair value of the reporting unit in accordance with step one of the goodwill impairment test was determined using the Income and Market approaches. The Income approach employs the discounted cash flow method reflecting projected cash flows expected to be generated by market participants and then adjusted for time value of money factors. The Market approach utilized an analysis of comparable publicly traded companies.

The techniques used in the Company's impairment test have incorporated a number of assumptions that the Company believes to be reasonable and to reflect known market conditions at the measurement date. Assumptions in estimating future cash flows are subject to a degree of judgment. The Company makes all efforts to forecast future cash flows as accurately as possible with the information available at the measurement date. The Company evaluates the appropriateness of its assumptions and overall forecasts by comparing projected results of upcoming years with actual results of preceding years. Key Level 3 based assumptions relate to pricing trends, inventory costs, customer demand, and revenue growth. A number of benchmarks from independent industry and other economic publications were also used. Changes in future results, assumptions, and estimates after the measurement date may lead to an outcome where impairment charges would be required in future periods. Specifically, actual results may vary from the Company's forecasts and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the conclusions may differ in reflection of prevailing market conditions. Further, continued adverse market conditions could result in the recognition of additional impairment if the Company determines that the fair values of its reporting units have fallen below their carrying values.

In conjunction with this management change, \$2,628 of goodwill has been reallocated from the Canada service center reporting unit to the U.S. service center reporting unit based on the relative fair value as of July 1, 2016.

At September 30, 2016 and June 30, 2016, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled \$36,605 related to the Fluid Power Businesses segment and totaled \$64,794 related to the Service Center Based Distribution segment.

During the three months ended September 30, 2016, the Company recorded an adjustment to the preliminary estimated fair value of intangible assets related to the HUB acquisition. The fair values of the customer relationships and trade names intangible assets were decreased by \$2,636 and \$584, respectively, with a corresponding total increase to goodwill of \$3,220. The changes to the preliminary estimated fair values resulted in a decrease to amortization expense of \$156 during the three months ended September 30, 2016, which is recorded in selling, distribution and administrative expense on the condensed statements of consolidated income.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

The Company's identifiable intangible assets resulting from business combinations are amortized over their estimated period of benefit and consist of the following:

September 30, 2016	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 236,054	\$ 89,314	\$ 146,740
Trade names	43,738	16,858	26,880
Vendor relationships	14,000	8,207	5,793
Non-competition agreements	4,658	2,606	2,052
Total Identifiable Intangibles	<u>\$ 298,450</u>	<u>\$ 116,985</u>	<u>\$ 181,465</u>

June 30, 2016	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 239,132	\$ 84,566	\$ 154,566
Trade names	44,430	16,099	28,331
Vendor relationships	14,042	8,003	6,039
Non-competition agreements	4,700	2,396	2,304
Total Identifiable Intangibles	<u>\$ 302,304</u>	<u>\$ 111,064</u>	<u>\$ 191,240</u>

Amounts include the impact of foreign currency translation. Fully amortized amounts are written off.

Due to continued softness in the upstream oil and gas industry, management also assessed long-lived intangible assets related to the Reliance asset group for impairment. The sum of the undiscounted cash flows exceeded the carrying value of the asset group of \$100,664 by 8% , therefore, no impairment was recognized. Changes in future results, assumptions, and estimates after the measurement date may lead to an outcome where impairment charges would be required in future periods. Specifically, actual results may vary from the Company's forecasts and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the conclusions may differ in reflection of prevailing market conditions. Further, continued adverse market conditions could result in the recognition of additional impairment if the Company determines that the fair values of its intangible assets have fallen below their carrying values.

Estimated future amortization expense by fiscal year (based on the Company's identifiable intangible assets as of September 30, 2016) for the next five years is as follows: \$18,500 for the remainder of 2017 , \$22,500 for 2018 , \$20,700 for 2019 , \$18,900 for 2020 , \$17,400 for 2021 and \$15,000 for 2022 .

4. DEBT

Revolving Credit Facility & Term Loan

In December 2015, the Company entered into a five-year credit facility with a group of banks expiring in December 2020 . This agreement provides for a \$125,000 unsecured term loan and a \$250,000 unsecured revolving credit facility. Fees on this facility range from 0.09% to 0.175% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At September 30, 2016 and June 30, 2016 , the Company had \$122,656 and \$123,438 , respectively, outstanding under the term loan, and \$11,000 and \$33,000 , respectively, outstanding under the revolver. Unused lines under this facility, net of outstanding letters of credit of \$2,726 and \$2,707 to secure certain insurance obligations, totaled \$236,274 and \$214,293 at September 30, 2016 and June 30, 2016 , respectively and are available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan was 1.56% as of September 30, 2016 and 1.50% as of June 30, 2016 . The weighted-average interest rate on the revolving credit facility outstanding was 1.63% as of September 30, 2016 and 1.44% as of June 30, 2016 .

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$2,698 as of September 30, 2016 and June 30, 2016, in order to secure certain insurance obligations.

Other Long-Term Borrowings

In April 2014 the Company assumed \$2,359 of debt as a part of the headquarters facility acquisition. The 1.5% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At September 30, 2016 and June 30, 2016, \$1,840 and \$1,896 was outstanding, respectively.

At September 30, 2016 and June 30, 2016, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$170,000. The "Series C" notes have a principal amount of \$120,000 and carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of \$50,000 and carry a fixed interest rate of 3.21%, and are due in equal principal payments in October 2019 and 2023. As of September 30, 2016, \$50,000 in additional financing was available under this facility.

Unamortized debt issue costs of \$105 are included as a reduction of current portion of long-term debt on the condensed consolidated balance sheets as of September 30, 2016 and June 30, 2016. Unamortized debt issue costs of \$373 and \$399 are included as a reduction of long-term debt on the condensed consolidated balance sheets as of September 30, 2016 and June 30, 2016, respectively.

5. FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at September 30, 2016 and June 30, 2016 totaled \$9,627 and \$9,097, respectively. The majority of these marketable securities are held in a rabbi trust for a non-qualified deferred compensation plan. The marketable securities are included in Other Assets on the accompanying condensed consolidated balance sheets and their fair values were valued using quoted market prices (Level 1 in the fair value hierarchy).

As of September 30, 2016 and June 30, 2016, the carrying values of the Company's fixed interest rate debt outstanding under its unsecured shelf facility agreement with Prudential Investment Management approximated fair value (Level 2 in the fair value hierarchy).

The revolving credit facility and the term loan contain variable interest rates and their carrying values approximate fair value (Level 2 in the fair value hierarchy).

6. SHAREHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

Changes in the accumulated other comprehensive loss, are comprised of the following:

	Three Months Ended September 30, 2016			
	Foreign currency translation adjustment	Unrealized gain (loss) on securities available for sale	Postemployment benefits	Total Accumulated other comprehensive loss
Balance at July 1, 2016	\$ (81,685)	\$ (38)	\$ (3,823)	\$ (85,546)
Other comprehensive loss	(2,349)	15	—	(2,334)
Amounts reclassified from accumulated other comprehensive loss	—	—	77	77
Net current-period other comprehensive (loss) income, net of taxes	(2,349)	15	77	(2,257)
Balance at September 30, 2016	\$ (84,034)	\$ (23)	\$ (3,746)	\$ (87,803)

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

	Three Months Ended September 30, 2015			
	Foreign currency translation adjustment	Unrealized loss on securities available for sale	Postemployment benefits	Total Accumulated other comprehensive loss
Balance at July 1, 2015	\$ (57,244)	\$ (4)	\$ (2,923)	\$ (60,171)
Other comprehensive loss	(27,516)	(33)	—	(27,549)
Amounts reclassified from accumulated other comprehensive loss	—	—	79	79
Net current-period other comprehensive (loss) income, net of taxes	(27,516)	(33)	79	(27,470)
Balance at September 30, 2015	\$ (84,760)	\$ (37)	\$ (2,844)	\$ (87,641)

Other Comprehensive Loss

Details of other comprehensive loss are as follows:

	Three Months Ended September 30,					
	2016			2015		
	Pre-Tax Amount	Tax Expense	Net Amount	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount
Foreign currency translation adjustments	\$ (2,349)	\$ —	\$ (2,349)	\$ (27,516)	\$ —	\$ (27,516)
Post-employment benefits:						
Reclassification of actuarial losses and prior service cost into SD&A expense and included in net periodic pension costs	127	50	77	130	51	79
Unrealized gain (loss) on investment securities available for sale	26	11	15	(50)	(17)	(33)
Other comprehensive loss	\$ (2,196)	\$ 61	\$ (2,257)	\$ (27,436)	\$ 34	\$ (27,470)

Antidilutive Common Stock Equivalents

In the three month periods ended September 30, 2016 and 2015, respectively, stock options and stock appreciation rights related to 680 and 802 shares of common stock, were not included in the computation of diluted earnings per share for the periods then ended as they were anti-dilutive.

7. BENEFIT PLANS

The following table provides summary disclosures of the net periodic post-employment costs recognized for the Company's post-employment benefit plans:

Three Months Ended September 30,	Pension Benefits		Retiree Health Care Benefits	
	2016	2015	2016	2015
Components of net periodic cost:				
Service cost	\$ 31	\$ 23	\$ 7	\$ 6
Interest cost	173	216	16	19
Expected return on plan assets	(115)	(123)	—	—
Recognized net actuarial (gain) loss	218	228	(45)	(53)
Amortization of prior service cost	22	22	(68)	(68)
Net periodic cost	\$ 329	\$ 366	\$ (90)	\$ (96)

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

The Company contributed \$200 to its pension benefit plans and \$50 to its retiree health care plans in the three months ended September 30, 2016 . Expected contributions for the remainder of fiscal 2017 are \$550 for the pension benefit plans to fund scheduled retirement payments and \$130 for retiree health care plans.

8. SEGMENT AND GEOGRAPHIC INFORMATION

The accounting policies of the Company's reportable segments are generally the same as those used to prepare the condensed consolidated financial statements. Intercompany sales primarily from the Fluid Power Businesses segment to the Service Center Based Distribution segment of \$5,264 and \$5,955 , in the three months ended September 30, 2016 and 2015 , respectively, have been eliminated in the Segment Financial Information tables below.

Three Months Ended	Service Center Based Distribution	Fluid Power Businesses	Total
September 30, 2016			
Net sales	\$ 515,633	\$ 109,215	\$ 624,848
Operating income for reportable segments	25,646	11,828	37,474
Assets used in business	1,084,191	215,248	1,299,439
Depreciation and amortization of property	3,320	330	3,650
Capital expenditures	2,626	373	2,999
September 30, 2015			
Net sales	\$ 528,487	\$ 113,417	\$ 641,904
Operating income for reportable segments	29,959	10,283	40,242
Assets used in business	1,175,149	201,111	1,376,260
Depreciation and amortization of property	3,617	313	3,930
Capital expenditures	2,887	225	3,112

Enterprise Resource Planning system (ERP) related assets are included in assets used in business within the Service Center Based Distribution segment.

A reconciliation of operating income for reportable segments to the condensed consolidated income before income taxes is as follows:

	Three Months Ended September 30,	
	2016	2015
Operating income for reportable segments	\$ 37,474	\$ 40,242
Adjustment for:		
Intangible amortization—Service Center Based Distribution	4,762	4,572
Intangible amortization—Fluid Power Businesses	1,475	1,511
Corporate and other (income) expense, net	(11,981)	(6,867)
Total operating income	43,218	41,026
Interest expense, net	2,146	2,187
Other (income) expense, net	(398)	1,004
Income before income taxes	\$ 41,470	\$ 37,835

The change in corporate and other (income) expense, net is due to changes in the amounts and levels of expenses being allocated to the segments. The expenses being allocated include corporate charges for working capital, logistics support and other items.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

Net sales are presented in geographic areas based on the location of the facility shipping the product and are as follows:

	Three Months Ended September 30,	
	2016	2015
Geographic Areas:		
United States	\$ 525,466	\$ 538,369
Canada	62,581	66,233
Other countries	36,801	37,302
Total	<u>\$ 624,848</u>	<u>\$ 641,904</u>

Other countries consist of Mexico, Australia and New Zealand.

9. OTHER (INCOME) EXPENSE, NET

Other (income) expense, net consists of the following:

	Three Months Ended September 30,	
	2016	2015
Unrealized (gain) loss on assets held in rabbi trust for a non-qualified deferred compensation plan	\$ (330)	\$ 454
Foreign currency transactions (gain) loss	(150)	523
Other, net	82	27
Total other (income) expense, net	<u>\$ (398)</u>	<u>\$ 1,004</u>

10. SUBSEQUENT EVENTS

We have evaluated events and transactions occurring subsequent to September 30, 2016 through the date the financial statements were issued.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The accompanying condensed consolidated financial statements of the Company have been reviewed by the Company's independent registered public accounting firm, Deloitte & Touche LLP, whose report covering their reviews of the condensed consolidated financial statements follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Applied Industrial Technologies, Inc. and subsidiaries (the "Company") as of September 30, 2016, and the related condensed statements of consolidated income, consolidated comprehensive income, and consolidated cash flows for the three-month periods ended September 30, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of June 30, 2016, and the related statements of consolidated income, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated August 24, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2016 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Cleveland, Ohio
October 27, 2016

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

With more than 5,500 employees across North America, Australia and New Zealand, Applied Industrial Technologies ("Applied," the "Company," "We," "Us" or "Our") is a leading industrial distributor serving MRO (Maintenance, Repair & Operations) and OEM (Original Equipment Manufacturer) customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial and fluid power applications, as well as customized mechanical, fabricated rubber and fluid power shop services. Applied also offers maintenance training and inventory management solutions that provide added value to our customers. We have a long tradition of growth dating back to 1923, the year our business was founded in Cleveland, Ohio. During the first quarter of fiscal 2017, business was conducted in the United States, Canada, Mexico, Puerto Rico, Australia and New Zealand from 556 facilities.

The following is Management's Discussion and Analysis of significant factors which have affected our financial condition, results of operations and cash flows during the periods included in the accompanying condensed consolidated balance sheets, statements of consolidated income, consolidated comprehensive income and consolidated cash flows. When reviewing the discussion and analysis set forth below, please note that the majority of SKUs (Stock Keeping Units) we sell in any given period were not necessarily sold in the comparable period of the prior year, resulting in the inability to quantify certain commonly used comparative metrics analyzing sales, such as changes in product mix and volume.

Overview

Consolidated sales for the quarter ended September 30, 2016 decreased \$ 17.1 million or 2.7% compared to the prior year quarter, with acquisitions increasing sales by \$15.4 million or 2.4% and unfavorable foreign currency translation of \$2.2 million decreasing sales by 0.3%. Operating margin of 6.9% of sales, was up from 6.4% for the prior year quarter. Net income of \$27.4 million increased 12.7% compared to the prior year quarter. Shareholders' equity was \$ 680.4 million at September 30, 2016, up from the June 30, 2016 level of \$657.9 million. The current ratio was 2.9 to 1 at September 30, 2016 and 2.8 to 1 at June 30, 2016.

Applied monitors several economic indices that have been key indicators for industrial economic activity in the United States. These include the Industrial Production (IP) and Manufacturing Capacity Utilization (MCU) indices published by the Federal Reserve Board and the Purchasing Managers Index (PMI) published by the Institute for Supply Management (ISM). Historically, our performance correlates well with the MCU, which measures productivity and calculates a ratio of actual manufacturing output versus potential full capacity output. When manufacturing plants are running at a high rate of capacity, they tend to wear out machinery and require replacement parts.

The MCU (total industry) and IP indices have generally remained stable since June 2016. The MCU for September 2016 was 75.4, which is the same as the June 2016 reading. The ISM PMI registered 51.5 in September; although down from the June 2016 reading of 53.2, it remains above 50 (its expansionary threshold). The indices for the months during the current quarter were as follows:

Month	Index Reading		
	MCU	PMI	IP
July	75.8	52.6	103.5
August	75.3	49.4	102.9
September	75.4	51.5	103.1

The number of Company employees was 5,516 at September 30, 2016, 5,569 at June 30, 2016, and 5,840 at September 30, 2015. The number of operating facilities totaled 556 at September 30, 2016, 559 at June 30, 2016 and 563 at September 30, 2015.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of Operations

Three months Ended September 30, 2016 and 2015

The following table is included to aid in review of Applied's condensed statements of consolidated income.

	Three Months Ended September 30,		
	As a Percent of Net Sales		Change in \$'s Versus Prior Period - % (Decrease) Increase
	2016	2015	
Net Sales	100.0%	100.0%	(2.7)%
Gross Profit	28.5%	28.2%	(1.5)%
Selling, Distribution & Administrative	21.6%	21.8%	(3.5)%
Operating Income	6.9%	6.4%	5.3 %
Net Income	4.4%	3.8%	12.7 %

During the quarter ended September 30, 2016 , sales decreased \$17.1 million or 2.7% compared to the prior year quarter, with unfavorable foreign currency translation accounting for \$2.2 million or 0.3% , offset by sales from acquisitions of \$15.4 million or 2.4% . Excluding the impact of businesses acquired and prior to the impact of currency translation, sales were down \$30.3 million or 4.8% during the quarter with 64 selling days in both quarters ended September 30, 2016 and September 30, 2015 . Of the 4.8% decrease, 2.8% is in our upstream oil and gas-focused subsidiaries and 2.0% is within our traditional core operations.

Sales from our Service Center Based Distribution segment, which operates primarily in MRO markets, decreased \$12.9 million or 2.4% . Acquisitions within this segment increased sales by \$8.9 million or 1.7% , while unfavorable foreign currency translation decreased sales by \$1.7 million or 0.3%. Excluding the impact of businesses acquired and unfavorable currency translation impact, sales decreased \$20.1 million or 3.8%, the majority of which relates to the upstream oil and gas-focused operations, as the traditional core operations had a decrease of 1.4%.

Sales from our Fluid Power Businesses segment, which operates primarily in OEM markets, decreased \$4.2 million or 3.7% . Acquisitions within this segment increased sales by \$6.5 million or 5.7% , while unfavorable foreign currency translation decreased sales by \$0.5 million or 0.4%. Excluding the impact of businesses acquired and unfavorable currency translation impact, sales decreased \$10.2 million or 9.0%.

Sales in our U.S. operations were down \$12.9 million or 2.4% , while acquisitions added \$13.9 million or 2.6% . Excluding the impact of businesses acquired, U.S. sales were down \$26.8 million or 5.0%, of which 2.0% is from our upstream oil and gas-focused subsidiaries and 3.0% is within our traditional core operations. Sales from our Canadian operations decreased \$3.7 million or 5.5% , while acquisitions added \$1.5 million or 2.3% and favorable foreign currency translation increased Canadian sales by \$0.1 million or 0.2% . Excluding the impact of businesses acquired and prior to the impact of foreign currency translation, Canadian sales were down \$5.3 million or 8.0%, due to a decrease of 10.9% related to upstream oil and gas operations, as the traditional core operations increased 2.9%. Consolidated sales from our other country operations, which include Mexico, Australia and New Zealand, were \$0.5 million or 1.3% below the prior year. Unfavorable foreign currency translation decreased other country sales by \$2.3 million or 6.2%. Prior to the impact of currency translation, other country sales were up \$1.8 million, or 4.9% during the quarter.

During the quarter ended September 30, 2016 , industrial products and fluid power products accounted for 72.5% and 27.5%, respectively, of sales, as compared to 72.8% and 27.2%, respectively, for the same period in the prior year.

Our gross profit margin for the quarter was 28.5% compared to the prior year's quarter of 28.2% . The increase in gross profit margin is attributable to 20 bps related to acquisitions and 10 bps related to a LIFO benefit recorded in the three months ended September 30, 2016 .

Selling, distribution and administrative expense (SD&A) consists of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management and providing marketing and distribution of the

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Company's products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, legal, and facility related expenses. SD&A was 21.6% of sales in the quarter ended September 30, 2016 decreasing compared to 21.8% in the prior year quarter. SD&A decreased \$4.9 million or 3.5% compared to the prior year quarter. Changes in foreign currency exchange rates had the effect of decreasing SD&A during the quarter ended September 30, 2016 by \$0.3 million or 0.2% compared to the prior year quarter. Additional SD&A from businesses acquired added \$4.0 million or 2.9% of SD&A expenses including \$0.5 million associated with intangibles amortization. Excluding the impact of businesses acquired and the favorable currency translation impact, SD&A declined \$8.6 million or 6.2% during the quarter ended September 30, 2016 compared to the prior year quarter as a result of continuous efforts to minimize such expenses. These efforts to minimize expense were led by efforts to control headcount. Excluding the effect of acquisitions, overall headcount is down by over 400 associates from September 2015 to September 2016. Excluding the impact of acquisitions, total salaries and wages were down \$5.1 million for the three months ended September 30, 2016 compared to the prior year period. Also, excluding the impact of acquisitions, bad debt expense decreased \$1.0 million for the three months ended September 30, 2016 compared to the prior year period, due to improvement in aged receivables. Further, the Company recorded a gain of \$1.0 million in the three months ended September 30, 2016 related to the sale of two buildings during the quarter. All other expenses within SD&A were down \$1.5 million.

Operating income increased \$2.2 million or 5.3% , and as a percent of sales increased to 6.9% from 6.4% during the prior year quarter.

Operating income as a percentage of sales for the Service Center Based Distribution segment decreased to 5.0% in the current year quarter from 5.7% in the prior year quarter. This decrease is primarily attributable to a decline in sales levels, without a commensurate decline in the business segment's SD&A expenses.

Operating income as a percentage of sales for the Fluid Power Business segment increased to 10.8% in the current year quarter from 9.1% in the prior year quarter. This increase is due to improved gross profit margin and a reduction in SD&A (excluding the impact of acquisitions) despite a decrease in sales.

Other income was \$0.4 million in the quarter which included unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.3 million , as well as \$0.2 million of net favorable foreign currency transaction gains, offset by \$0.1 million of expense from other items. During the prior year quarter, other expense was \$1.0 million which included unrealized losses on investments held by non-qualified deferred compensation trusts of \$0.5 million , as well as \$0.5 million of net unfavorable foreign currency transaction losses.

The effective income tax rate was 34.0% for the quarter ended September 30, 2016 compared to 35.8% for the quarter ended September 30, 2015 . This decrease in the effective tax rate is primarily the result of mix of income and discrete tax items positively impacting the rate. We expect our full year tax rate for fiscal 2017 to be in the 34.0% to 35.0% range.

As a result of the factors addressed above, net income increased \$3.1 million or 12.7% compared to the prior year quarter. Net income per share was \$0.70 per share for the quarter ended September 30, 2016 , compared to \$0.61 in the prior year quarter, an increase of 14.8% . Net income per share was also favorably impacted due to lower weighted average common shares outstanding as a result of our share repurchases program.

Liquidity and Capital Resources

Our primary source of capital is cash flow from operations, supplemented as necessary by bank borrowings or other sources of debt. At September 30, 2016 , we had \$305.5 million in outstanding borrowings. At June 30, 2016 , we had \$328.3 million in outstanding borrowings. Management expects that our existing cash, cash equivalents, funds available under the revolving credit facility, cash provided from operations, and the use of operating leases will be sufficient to finance normal working capital needs, payment of dividends, acquisitions, investments in properties, facilities and equipment, and the purchase of additional Company common stock. Management also believes that additional long-term debt and line of credit financing could be obtained based on the Company's credit standing and financial strength.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The Company holds, from time to time, relatively significant cash and cash equivalent balances in tax jurisdictions outside of the United States. The following table shows the Company's total cash as of September 30, 2016 by tax jurisdiction.

Country	Amount
United States	\$ 10,277
Canada	36,159
Other countries	11,586
Total	\$ 58,022

To the extent cash in foreign countries is distributed to the U.S., it could become subject to U.S. income taxes. Foreign tax credits may be available to offset all or a portion of such taxes. At September 30, 2016, all foreign earnings are considered permanently reinvested.

The Company's working capital at September 30, 2016 was \$513.1 million, compared to \$507.2 million at June 30, 2016. The current ratio was 2.9 to 1 at September 30, 2016 and 2.8 to 1 at June 30, 2016.

Net Cash Flows

The following table is included to aid in review of Applied's condensed statements of consolidated cash flows; all amounts are in thousands.

Net Cash Provided by (Used in):	Three Months Ended September 30,	
	2016	2015
Operating Activities	\$ 41,864	\$ 15,090
Investing Activities	(1,252)	(14,249)
Financing Activities	(42,152)	(2,800)
Exchange Rate Effect	(299)	(3,545)
Decrease in Cash and Cash Equivalents	\$ (1,839)	\$ (5,504)

Net cash provided by operating activities was \$41.9 million for the three months ended September 30, 2016 as compared to \$15.1 million provided by operating activities in the prior period. The increase in cash provided by operating activities during the three months ended September 30, 2016 is due primarily to decreased working capital needs due to lower receivables levels and decreases in inventories due to lower sales levels as compared to the prior period.

Net cash used in investing activities during the three months ended September 30, 2016 is less than the prior period as there were no dollars spent on acquisitions in the current period.

Net cash used by financing activities was \$42.2 million for the three months ended September 30, 2016 versus \$2.8 million in the prior year period. Lower borrowing needs, primarily due to fewer dollars spent on acquisitions and lower working capital needs, contributed to the increase in cash used in financing activities. We had \$22.8 million of debt payments in the current period compared to \$34.3 million of net borrowings in the prior year period. Also, cash was used in the current period for the purchase of treasury shares in the amount of \$3.0 million and dividends paid in the amount of \$10.9 million. In the prior period, \$18.0 million of cash was used for the purchase of treasury shares and \$10.7 million of cash was used for the payment of dividends. Further, \$4.4 million of cash was used in the current period to make acquisition holdback payments, while \$7.9 million was used in the prior year period.

Share Repurchases

The Board of Directors has authorized the repurchase of shares of the Company's common stock. These purchases may be made in open market and negotiated transactions, from time to time, depending upon market conditions. We acquired 65,000 shares of treasury stock on the open market in the three months ended September 30, 2016 for \$3.0 million. At September 30, 2016, we had authorization to repurchase an additional 231,200 shares. During the three months ended September 30, 2015, we acquired 451,100 shares of treasury stock on the open market for \$18.0 million.

Borrowing Arrangements

In December 2015, the Company entered into a five-year credit facility with a group of banks expiring in December 2020. This agreement provides for a \$125.0 million unsecured term loan and a \$250.0 million unsecured revolving credit facility. Fees on

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

this facility range from 0.09% to 0.175% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At September 30, 2016 and June 30, 2016, the Company had \$122.7 million and \$123.4 million, respectively, outstanding under the term loan, and \$11.0 million and \$33.0 million, respectively, outstanding under the revolver. Unused lines under this facility, net of outstanding letters of credit of \$2.7 million and \$2.7 million to secure certain insurance obligations, totaled \$236.3 million and \$214.3 million at September 30, 2016 and June 30, 2016, respectively and are available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan was 1.56% as of September 30, 2016 and 1.50% as of June 30, 2016. The weighted-average interest rate on the revolving credit facility outstanding was 1.63% as of September 30, 2016 and 1.44% as of June 30, 2016.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$2.7 million as of September 30, 2016 and June 30, 2016, in order to secure certain insurance obligations.

In April 2014 the Company assumed \$2.4 million of debt as a part of the headquarters facility acquisition. The 1.5% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At September 30, 2016 and June 30, 2016, \$1.8 million and \$1.9 million was outstanding, respectively.

At September 30, 2016 and June 30, 2016, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$170.0 million. The "Series C" notes have a principal amount of \$120.0 million and carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of \$50.0 million and carry a fixed interest rate of 3.21%, and are due in equal principal payments in October 2019 and 2023. As of September 30, 2016, \$50.0 million in additional financing was available under this facility.

The revolving credit facility and unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At September 30, 2016, the most restrictive of these covenants required that the Company have net indebtedness less than 3.25 times consolidated income before interest, taxes, depreciation and amortization. At September 30, 2016, the Company's indebtedness was less than two times consolidated income before interest, taxes, depreciation and amortization. The Company was in compliance with all covenants at September 30, 2016.

Accounts Receivable Analysis

The following table is included to aid in analysis of accounts receivable and the associated provision for losses on accounts receivable:

	September 30, 2016	June 30, 2015
Accounts receivable, gross	\$ 358,914	\$ 358,891
Allowance for doubtful accounts	11,628	11,034
Accounts receivable, net	\$ 347,286	\$ 347,857
Allowance for doubtful accounts, % of gross receivables	3.2%	3.1%

	Three Months Ended September 30, 2016	2015
Provision for losses on accounts receivable	\$ 862	\$ 1,747
Provision as a % of net sales	0.14%	0.27%

Accounts receivable are reported at net realizable value and consist of trade receivables from customers. Management monitors accounts receivable by reviewing Days Sales Outstanding (DSO) and the aging of receivables for each of the Company's locations.

On a consolidated basis, DSO was 50.0 at September 30, 2016 compared to 49.4 June 30, 2016. Accounts receivable decreased 0.2% this year, compared to a 2.7% decrease in sales in the three months ended September 30, 2016.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Approximately 2.5% of our accounts receivable balances are more than 90 days past due, a decrease from 2.7% at June 30, 2016 . On an overall basis, our provision for losses from uncollected receivables represents 0.14% of our sales in the three months ended September 30, 2016 . Historically, this percentage is around 0.10% to 0.15%. The decrease in the provision as a percentage of sales for the first quarter relates to reserves required in the prior year period for our subsidiaries focused on upstream oil and gas customers due to the downturn in the energy markets. Management believes the overall receivables aging and provision for losses on uncollected receivables are at reasonable levels, and that past due balances will decline in the remainder of fiscal 2017.

Inventory Analysis

Inventories are valued at the average cost method, using the last-in, first-out (LIFO) method for U.S. inventories and the average cost method for foreign inventories. Management uses an inventory turnover ratio to monitor and evaluate inventory. Management calculates this ratio on an annual as well as a quarterly basis, and believes that using average costs to determine the inventory turnover ratio instead of LIFO costs provides a more useful analysis. The annualized inventory turnover based on average costs for the period ended September 30, 2016 and June 30, 2016 was 3.6. We believe our inventory turnover ratio at the end of the year will be similar or slightly better than the ratio at September 30, 2016.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Cautionary Statement Under Private Securities Litigation Reform Act

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

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

Important risk factors include, but are not limited to, the following: risks relating to the operations levels of our customers and the economic factors that affect them; changes in the prices for products and services relative to the cost of providing them; reduction in supplier inventory purchase incentives; loss of key supplier authorizations, lack of product availability, or changes in supplier distribution programs; the cost of products and energy and other operating costs; changes in customer preferences for products and services of the nature and brands sold by us; changes in customer procurement policies and practices; competitive pressures; our reliance on information systems and risks relating to the security of those systems and the data stored in or transmitted through them; the impact of economic conditions on the collectability of trade receivables; reduced demand for our products in targeted markets due to reasons including consolidation in customer industries; our ability to retain and attract qualified sales and customer service personnel and other skilled executives, managers and professionals; our ability to identify and complete acquisitions, integrate them effectively, and realize their anticipated benefits; the variability, timing and nature of new business opportunities including acquisitions, alliances, customer relationships, and supplier authorizations; the incurrence of debt and contingent liabilities in connection with acquisitions; our ability to access capital markets as needed on reasonable terms; disruption of operations at our headquarters or distribution centers; risks and uncertainties associated with our foreign operations, including volatile economic conditions, political instability, cultural and legal differences, and currency exchange fluctuations; the potential for goodwill and intangible asset impairment; changes in accounting policies and practices; our ability to maintain effective internal control over financial reporting; organizational changes within the Company; the volatility of our stock price and the resulting impact on our consolidated financial statements; risks related to legal proceedings to which we are a party; adverse regulation and legislation, both enacted and under consideration, including with respect to federal tax policy (e.g., affecting the use of the LIFO inventory accounting method and the taxation of foreign-sourced income); and the occurrence of extraordinary events (including prolonged labor disputes, power outages, telecommunication outages, terrorist acts, earthquakes, extreme weather events, other natural disasters, fires, floods, and accidents). Other factors and unanticipated events could also adversely affect our business, financial condition or results of operations.

We discuss certain of these matters and other risk factors more fully throughout this Form 10-Q as well as other of our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended June 30, 2016 .

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk, see Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended June 30, 2016 .

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in internal control over financial reporting during the three months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of common stock in the quarter ended September 30, 2016 were as follows:

Period	(a) Total Number of Shares (1)	(b) Average Price Paid per Share (\$)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1, 2016 to July 31, 2016	357	\$46.30	0	296,200
August 1, 2016 to August 31, 2016	12,500	\$47.40	12,500	283,700
September 1, 2016 to September 30, 2016	52,500	\$46.77	52,500	231,200
Total	65,357	\$46.89	65,000	231,200

- (1) During the quarter the Company purchased 357 shares in connection with the Deferred Compensation Plan. These purchases are not counted in the authorization in note (2).
- (2) On April 28, 2015, the Board of Directors authorized the repurchase of up to 1.5 million shares of the Company's common stock. We publicly announced the authorization on April 30, 2015. Purchases could be made in the open market or in privately negotiated transactions.

On October 24, 2016, the Board of Directors authorized the repurchase of up to 1.5 million shares of the Company's common stock, replacing the prior authorization. We publicly announced the new authorization on October 26, 2016. Purchases can be made in the open market or in privately negotiated transactions.

The authorization is in effect until all shares are purchased, or the Board revokes or amends the authorization.

ITEM 4. Mine Safety Disclosures

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of the SEC Regulation S-K is included in Exhibit 95 to this quarterly report on Form 10-Q.

ITEM 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Applied Industrial Technologies, Inc., as amended on October 25, 2005 (filed as Exhibit 3(a) to the Company's Form 10-Q for the quarter ended December 31, 2005, SEC File No. 1-2299, and incorporated here by reference).
3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to the Company's Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) (now named Applied Industrial Technologies, Inc.) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to the Company's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Private Shelf Agreement dated as of November 27, 1996, as amended through December 23, 2015, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (assignee of The Prudential Insurance Company of America), conformed to show all amendments (filed as Exhibit 4.2 to the Company's Form 10-Q for the quarter ended December 31, 2015, SEC File No. 1-2299, and incorporated here by reference).
4.3	Request for Purchase dated May 30, 2014 and 3.19% Series C Notes dated July 1, 2014, under Private Shelf Agreement dated November 27, 1996, as amended, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K dated July 1, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.4	Request for Purchase dated October 22, 2014 and 3.21% Series D Notes dated October 30, 2014, under Private Shelf Agreement dated November 27, 1996, as amended, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (filed as Exhibit 4.5 to the Company's Form 10-Q for the quarter ended September 30, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.5	Credit Agreement dated as of December 22, 2015, among Applied Industrial Technologies, Inc., KeyBank National Association as Agent, and various financial institutions (filed as Exhibit 10.1 to the Company's Form 8-K dated December 28, 2015, SEC File No. 1-2299, and incorporated here by reference).
10.1	Management Incentive Plan General Terms
10.2	Stock Appreciation Rights Award Terms and Conditions
10.3	Restricted Stock Units Terms and Conditions
10.4	Performance Shares Terms and Conditions
15	Independent Registered Public Accounting Firm's Awareness Letter
31	Rule 13a-14(a)/15d-14(a) certifications
32	Section 1350 certifications
95	Mine safety and health disclosure
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

Certain instruments with respect to long-term debt have not been filed as exhibits because the total amount of securities authorized under any one of the instruments does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish to the Securities and Exchange Commission, upon request, a copy of each such instrument.

SIGNATURES

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

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
(Company)

Date: October 27, 2016

By: /s/ Neil A. Schrimsher
Neil A. Schrimsher
President & Chief Executive Officer

Date: October 27, 2016

By: /s/ Mark O. Eisele
Mark O. Eisele
Vice President-Chief Financial Officer & Treasurer

Management Incentive Plan General Terms

Authority

The annual Management Incentive Plan (the “Plan”) is established by the Board’s Executive Organization & Compensation Committee (the “Committee”) under the 2015 Long-Term Performance Plan (the “2015 LTPP”).

Objective

The Plan’s objective is to reward eligible participants for their contributions toward the achievement of Applied’s fiscal year business goals.

Participation

The Plan’s participants are those key employees of Applied who are designated as Plan participants by the Committee.

Plan Goals

The Committee shall establish the Plan’s goals. Notwithstanding the foregoing, in the event of (i) a merger, a consolidation, an acquisition or divestiture, the issuance or repurchase of a substantial amount of capital stock, a reorganization or restructuring, or any other transaction or series of transactions, or (ii) asset write-downs, or litigation or claim judgments or settlements, or foreign exchange gains or losses, or (iii) changes in tax laws, accounting principles, or other laws or provisions affecting reported results, or (iv) other extraordinary nonrecurring items, then the Committee, in its sole discretion, may adjust the Plan goals, in order to prevent diminution or enlargement of the benefits intended to be conferred, in such manner as the Committee determines is equitably required by the changes or events.

Eligibility for Awards

If Plan goals are met, to be eligible for an award under the Plan, a participant must comply with the 2015 LTPP. In addition, except as provided in the 2015 LTPP, the participant must be actively employed by Applied on the last day of the fiscal year, except that,

- Participants retiring at age 55 or older under an Applied retirement plan shall be eligible for a prorated award based on date of retirement (calculated using number of days’ participation in the Plan).
 - Participants who incur a separation from service due to death or disability shall be eligible for a prorated award based on date of separation from service (calculated using number of days’ participation in the Plan).
-

Plan awards are intended to create an incentive for participants to act in Applied's best interests. Notwithstanding anything in these terms to the contrary,

- An award may be terminated or rescinded, and, if applicable, the participant may be required immediately to repay an award issued within the previous twelve months, if the Committee determines, in good faith, that during the participant's employment with Applied or during the period ending twelve months following the participant's separation from service, the participant has committed an act inimical to Applied's interests. Acts inimical to Applied's interest shall include willful inattention to duty; willful violation of Applied's published policies; acts of fraud or dishonesty involving Applied's business; solicitation of Applied's employees, customers or vendors to terminate or alter their relationship with Applied to Applied's detriment; unauthorized use or disclosure of information regarding Applied's business, employees, customers, or vendors; and competition with Applied. All determinations by the Committee shall be effective at the time of the participant's act.
- The Committee may, in its sole discretion, require a participant immediately to repay cash issued pursuant to the award within the previous 36 months (or any proceeds thereof) if (1) Applied restates its historical consolidated financial statements and (2) the Committee determines, in good faith, that (a) the restatement is a result of the participant's, or another executive officer's, willful misconduct that is unethical or illegal, and (b) the participant's earnings pursuant to the award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

The provisions of this section are fundamental terms of the award.

Change in Control

Notwithstanding the foregoing, in the event the participant's employment with Applied is terminated during the fiscal year, following any Change in Control of Applied, either by the participant for Good Reason or by Applied without Cause, then the award shall be deemed to be fully earned at the target incentive value.

In addition, following a Change in Control of Applied, no provision hereof shall operate to limit any economic benefit to which the participant is entitled under this award or the Plan.

Other

These General Terms, together with the 2015 LTPP, govern the Plan. The Committee has the authority to construe the Plan, to establish, amend, and rescind rules and regulations relating to the Plan, and to make all other determinations, in the Committee's judgment, necessary or desirable for the Plan's administration. In the event of any conflict between the provisions of the 2015 LTPP and the General Terms, the provisions of the 2015 LTPP shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in these General Terms shall have the same meanings as set forth in the 2015 LTPP.

The Committee may correct any defect or supply any omission or reconcile any inconsistency with respect to the Plan in the manner and to the extent it shall deem expedient to carry the Plan into effect. All Committee action under these provisions shall be conclusive for all purposes.

The provisions of these terms and conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

The validity, construction, interpretation, and enforceability of these terms and conditions shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

Applied has made no warranties or representations to the participant with respect to the tax consequences (including but not limited to income tax consequences) related to the Plan, and the participant has been advised to consult with the participant's attorney, accountant and/or tax advisor regarding the Plan. Moreover, the participant acknowledges that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the participant.

Stock Appreciation Rights Award Terms and Conditions

Your Stock Appreciation Rights Award (the “SARs” or the “Award”) is made by Applied Industrial Technologies, Inc., an Ohio corporation (“Applied”). For purposes of these terms and conditions, employment by a parent, subsidiary, or an affiliate of Applied shall be considered employment by Applied.

1. Grant of SARs; Exercisability. The Award is governed by Applied’s 2015 Long-Term Performance Plan (the “Plan”), including the policies adopted by the Executive Organization & Compensation Committee of Applied’s Board of Directors (the “Committee”) under the Plan, and these terms and conditions. Upon valid exercise, the Award entitles you to receive such number of shares of Applied common stock (“Shares”) that have a fair market value equal to the difference (if positive) between the fair market value of (a) a Share on the date of exercise over (b) the Base Price, multiplied by (c) the number of Shares with respect to which the Award is exercised, subject to the following conditions:

- (a) Except as otherwise provided in Sections 2 and 7, below, your Award will be exercisable only if and after you have remained in Applied’s continuous employ from the Award’s grant date (the “Grant Date”) to the vesting date of all or the specified portion of your Award. Your Award vests with respect to only 25% of the aggregate number of Shares to which it relates after one year of continuous employment from the Grant Date, which percentage increases to 50% after two years, to 75% after three years, and to 100% after four years of continuous employment from the Grant Date.
- (b) Except as otherwise provided, your Award shall expire at the end of the 10-year period commencing with the Grant Date (the “Term”), or upon such earlier expiration or your separation from service date as may be provided by Sections 2 and 7 below. The SARs shall not be exercisable thereafter.

2. Termination of SARs. If, during the Term, you incur a separation from service from Applied for any reason, you may exercise your SARs, to the extent you were entitled to exercise them immediately prior to your separation from service, at any time within three months after your separation from service (but only during the Term); *provided, however*, that (i) if you Retire, then the SARs shall become fully exercisable and, at any time within three years after your retirement (but only during the Term), you may exercise the SARs; (ii) if you incur a separation from service due to your permanent and total disability, then the SARs shall become fully exercisable and, at any time within one year after your separation from service (but only during the Term), you may exercise the SARs; and (iii) if you die while employed by Applied, then the SARs shall become fully exercisable and, at any time within one year after your death (but only during the Term), the person entitled by will or applicable law to exercise the SARs may do so.

Awards are intended to create an incentive for recipients to act in Applied’s best interests.
Notwithstanding anything in these terms to the contrary,

- (a) Your Award may be terminated or rescinded, and if applicable, you may be required to immediately repay all Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous twelve months (or any proceeds thereof), if the Committee determines, in good faith, that during your employment with Applied or during the period ending twelve months following your separation from service, you have committed an act inimical to Applied’s interests. Acts inimical to Applied’s interest shall include willful inattention to duty; willful violation of Applied’s published policies; acts of fraud or dishonesty involving Applied’s business; solicitation of Applied’s employees, customers or vendors to terminate or alter their relationship with Applied to Applied’s detriment; unauthorized use or disclosure of information regarding Applied’s business, employees, customers, or vendors; and competition with Applied. All determinations by the Committee shall be effective at the time of your act.

(b) The Committee may, in its sole discretion, require you immediately to repay Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous 36 months (or any proceeds thereof) if (x) Applied restates its historical consolidated financial statements and (y) the Committee determines, in good faith, that (I) the restatement is a result of your, or another executive officer's, willful misconduct that is unethical or illegal, and (II) your earnings pursuant to the Award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

The provisions of this section are a fundamental term of the Award.

3. Method of Exercise; Rights of Holder. During your life, your Award may be exercised only by you, your guardian, or legal representative. Upon your death, your Award may be exercised by the person entitled by will or by the laws of descent and distribution.

Your SARs may be exercised by delivering to Applied at its principal executive offices (directed to the attention of the Chief Financial Officer or Corporate Secretary) a written notice (which may include facsimile transmission or electronic mail), signed by you or such other person entitled to exercise the SARs, of the election to exercise the SARs and stating the number of Shares as to which the SARs are being exercised. The SARs shall be deemed exercised as of the date Applied receives the notice. If the SARs are exercised, as provided herein, by any person other than you, the notice shall be accompanied by appropriate evidence of that person's right to exercise the SARs. As a condition to your valid exercise of the SARs, you hereby consent to Applied withholding from the Shares issuable upon exercise (if any), such number of Shares the fair market value of which Applied determines to be equal to the amount required to be withheld pursuant to applicable federal, state or local law, including tax withholding requirements. Promptly following the proper exercise of the SARs, Applied shall issue in the name of the person exercising the SARs, a certificate representing the Shares due hereunder. Your SARs may be exercised only with respect to a whole number of Shares, and may not be exercised in fractional amounts.

Notwithstanding the foregoing and the restrictions on exercise contained in Section 2, if, in the event your employment with Applied is terminated within the three-year period immediately following any Change in Control of Applied either by you for Good Reason or by Applied without Cause, then your SARs then outstanding shall become fully exercisable as of the date immediately prior to the date of termination of your employment.

In addition, following a Change in Control of Applied, no provision hereof shall operate to reduce any time frame or to limit any economic benefit to which you are entitled under this Award or the Plan, including the occurrence of any of the transactions described in Section 7(a) through (c) below. In the event of the occurrence of any of the transactions described in Section 7(a) through (c), the provisions in Section 7 purporting to terminate your SARs shall not apply and you shall have the option either to exercise your rights under Section 7 or to deem the SARs assumed by the successor within the meaning of Section 424(a) of the Internal Revenue Code, whichever is more favorable to you.

As an SAR holder, you shall have absolutely no rights as a shareholder, whether before or after vesting of all or any portion of your Award.

4. Limitations on Exercise. Your SARs shall not be exercisable if such exercise or the issuance of Shares pursuant to your Award would violate:

- (a) Any state securities law;
 - (b) Any registration or other requirements under the Securities Act of 1933, as amended (the "Act"), the Securities Exchange Act of 1934, as amended, or any stock exchange's listing requirements; or
 - (c) Any other legal requirement of any governmental authority.
-

If your exercise of SARs is prevented by the terms of any of the foregoing subsections, and the Term of the SARs expires, then you may, within 30 days after Applied notifies you that your exercise is no longer prevented by this Section 4, exercise the SARs to the extent they would have been exercisable but for the operation of this Section 4.

Furthermore, if a registration statement with respect to Shares issuable upon exercise of the SARs is not in effect or if Applied's counsel otherwise deems it necessary or desirable in order to avoid possible violations of the Act, Applied may require, as a condition to its issuance and delivery of certificates for the Shares, the delivery to Applied of a commitment in writing by the person exercising the SARs that (i) at the time of the exercise it is his intention to acquire the Shares for his own account for investment only and not with a view to, or for resale in connection with, the distribution thereof; (ii) the person understands that the Shares may be "restricted securities" as defined in Rule 144 issued under the Act; and (iii) any resale, transfer or other disposition of the Shares will be accomplished only in compliance with Rule 144, the Act, or other or subsequent rules and regulations thereunder. Applied may place on the certificates representing the Shares a legend reflecting that commitment and Applied may refuse to permit transfer of the Shares until it has been furnished evidence satisfactory to it that no violation of the Act or the rules and regulations thereunder would be involved in the transfer.

5. No Guaranty of Employment. The Award is not a guaranty of employment or commitment by Applied of continued employment. Nothing in the Award or these terms and conditions alters, limits or restricts any right Applied would otherwise have to terminate or modify the terms of your employment.

6. Nonassignability. The Award is not assignable or transferable, in whole or in part, and may not be otherwise disposed of by you, other than by will or by the laws of descent and distribution or with the prior written consent of Applied.

7. Liquidation, Dissolution, Merger, Sale of Substantially All Assets. If (a) Applied is to be merged, consolidated or reorganized into or with another entity so that Applied is not the surviving corporation and, immediately after such event, the holders of Shares immediately prior to the event hold, in the aggregate, less than a majority of the combined voting power of the then outstanding securities of the new entity, (b) Applied is to be dissolved or liquidated, or (c) substantially all of Applied's assets are to be sold, then the Committee shall give you 30 days' prior written notice. Upon the giving of that notice, if you are employed by Applied, then the SARs shall become fully vested and exercisable. Within the 30-day period (but only during the Term), you shall have the right to exercise your SARs. Thereafter, notwithstanding any other provision of these terms and conditions, the SARs shall expire, unless "assumed" by another corporation within the meaning of Section 424(a) of the Internal Revenue Code.

8. Adjustments. In the event (a) of a stock dividend or stock split or (b) the Shares are changed into or exchanged for a different number or kind of securities of Applied or another entity, then the Shares purchasable or the Base Price hereunder shall be equitably adjusted so that the SARs represent the right to acquire Shares or the number and kind of other securities that are economically equivalent to what the Shares would have represented had the SARs been fully exercised immediately preceding such event.

In the event other changes or events relating to the Shares fundamentally change the value of the Shares or securities for which the SARs are exercisable, then the Committee may make, in its sole discretion, such adjustments in the terms of the SARs as the Committee may determine is equitably required by the change or event.

9. Committee Authority. The Committee shall have authority, subject to the Plan's express provisions, to construe these terms and conditions and the Plan, to establish, amend and rescind rules and regulations relating to the Plan, and to make all other determinations in the Committee's judgment necessary or desirable for the Plan's administration. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or these terms and conditions in the manner and to the extent it shall deem expedient to carry the Plan into effect. All Committee action under this Section shall be conclusive for all purposes.

10. Relationship to the Plan. In the event of any inconsistency between these terms and conditions and any provision of the Plan or the Committee's policies, the Plan or the policies shall govern. Terms used but not

otherwise defined in these terms and conditions shall have the meaning ascribed them in the Plan. Notwithstanding any provisions hereof, these terms and conditions and the SARs granted shall be subject to all of the Plan's provisions in effect from time to time, which are incorporated herein by reference.

11. Severability . The provisions of these terms and conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

12. Applicable Law . The validity, construction, interpretation and enforceability of these terms and conditions shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

13. Tax Matters . Applied has made no warranties or representations to you with respect to the tax consequences (including but not limited to income tax consequences) related to the Award or the issuance, transfer or disposition of Shares pursuant to the Award, and you have been advised to consult with your attorney, accountant and/or tax advisor regarding this Award. Moreover, you acknowledge that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for you.

Restricted Stock Units Terms and Conditions

1. Award of Restricted Stock Units . The Executive Organization & Compensation Committee (the “Committee”) of the Board of Directors of Applied Industrial Technologies, Inc. (“Applied”) on the Grant Date awarded you a certain number of restricted stock units (the “RSUs”). Such award represents your right to receive an equal number of shares of Applied common stock (“Shares”), issuable from Applied’s available treasury shares, upon the expiration of the Restriction Period (as defined in Section 3 hereof). The terms and conditions of the RSUs as set forth herein (the “Terms”) together with the Applied Industrial Technologies, Inc. 2015 Long-Term Performance Plan (the “Plan”) govern your rights with respect to the RSUs. Notwithstanding the foregoing, however, in the event of any conflict between the provisions of the Plan and the Terms, the provisions of the Plan shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in the Terms shall have the same meanings as set forth in the Plan.

2. Rights during Restriction Period . You shall not have the right to sell, exchange, transfer, pledge, hypothecate, or otherwise encumber or dispose of the RSUs until all conditions with respect to vesting and distribution have been met. Nevertheless, during the Restriction Period and so long as no forfeiture has occurred, you shall be entitled to receive cash payments equal to the dividends and cash distributions paid on Shares underlying the RSUs (“Dividend Equivalents”) to the same extent and on the same date as if each RSU were a Share; provided, however, that no Dividend Equivalents shall be payable to you with respect to dividends or distributions the record date for which occurs on or after (i) the date on which a forfeiture of the RSUs has occurred, (ii) the date on which the Restriction Period has expired, or (iii) the date on which issuance of Shares to you has occurred. You shall not have voting rights with respect to the RSUs and, until the issuance of Shares in settlement of the RSUs, you shall not be treated as a shareholder with respect to the Shares.

3. Restriction Period . The term “Restriction Period” means the period from the Grant Date until the 3rd anniversary of the Grant Date.

4. Vesting . Except as specifically provided otherwise in Sections 5 and 6, you will be 100% vested in the RSUs as of the end of the Restriction Period; provided, however, that in the event you incur a Separation from Service during the Restriction Period after attaining age 55 and completing at least ten years of service with Applied, you will be vested at the end of the Restriction Period in a pro rata portion of the RSUs equal to a fraction the numerator of which is the number of days elapsed in the Restriction Period prior to the date of such Separation from Service and the denominator of which is the full number of days in the Restriction Period.

5. Separation from Service . Notwithstanding the provisions of Section 4, but subject to the provisions of paragraphs (a) and (b) hereunder, if, during the Restriction Period, you incur a Separation from Service (as defined in Section 409A) from Applied due to death or Disability (as defined under Section 409A) then (i) you (or your beneficiary designated to Applied in writing) shall be vested in a pro rata portion of the RSUs equal to a fraction the numerator of which is the number of days elapsed in the Restriction Period prior to the date of such Separation from Service and the denominator of which is the full number of days in the Restriction Period, and (ii) the remaining RSUs shall be deemed forfeited. In the event, however, that you, during the Restriction Period, incur a Separation from Service from Applied for any reason other than (i) those specifically set forth above or in Section 6, or (ii) termination after attaining age 55 and completing at least ten years of service with Applied, then the entire award of RSUs shall be forfeited and no amount shall be due or payable to you under the Terms.

Because awards of RSUs are intended to create an incentive for recipients to act in Applied’s best interests, notwithstanding anything in the Terms to the contrary:

(a) Your award of RSUs may be terminated or rescinded, and if applicable, you may be required immediately to repay all Shares (and any dividends, distributions, and Dividend Equivalents thereon) issued pursuant to the award of RSUs hereunder within the previous twelve months (or any proceeds thereof), if the Committee determines, in good faith, that during your employment with Applied or during the period ending twelve months following your Separation from Service, you committed an act inimical to Applied's interests. Acts inimical to Applied's interest shall include willful inattention to duty; willful violation of Applied's published policies; acts of fraud or dishonesty involving Applied's business; solicitation of Applied's employees, customers, or vendors to terminate or alter their relationship with Applied to Applied's detriment; unauthorized use or disclosure of information regarding Applied's business, employees, customers, or vendors; and competition with Applied. All determinations by the Committee shall be effective as of the time of your act.

(b) The Committee may, in its sole discretion, require you immediately to repay all Shares (and any dividends, distributions, and Dividend Equivalents thereon) issued pursuant to the award of RSUs hereunder within the previous 36 months (or any proceeds thereof) if (I) Applied restates its historical consolidated financial statements and (II) the Committee determines, in good faith, that (x) the restatement is a result of your, or another executive officer's, willful misconduct that is unethical or illegal, and (y) your earnings pursuant to the award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

6. Change in Control . Notwithstanding the provisions of Sections 4 and 5, in the event your employment with Applied is terminated during the Restriction Period and within the three-year period immediately following any Change in Control of Applied either by you for Good Reason or by Applied without Cause, then all of the RSUs awarded hereunder to you shall be 100% vested.

In addition, following a Change in Control of Applied, no provision hereof shall operate to reduce any time frame or to limit any economic benefit to which you are entitled with respect to the RSUs or under the Plan.

7. Adjustment of RSUs for Certain Events . In the event of a stock split, stock dividend, combination, reclassification, recapitalization, merger, consolidation, exchange, spin-off, spin-out, or other distribution of assets to shareholders, or other similar event or change in capitalization such that shares of Applied common stock are changed into or become exchangeable for a different number of shares, thereafter the number of RSUs will be increased or decreased, as the case may be, in direct proportion to the increase or decrease in the number of shares of common stock by reason of such change in corporate structure; provided, however, that the number of RSUs shall always be a whole number. If there occurs any other change in the number or kind of outstanding shares of common stock or other Applied securities, or of any shares of stock or other securities into which such shares of common stock shall have been changed or for which they shall have been exchanged, then Applied may adjust the number or kind of RSUs or other securities into which the RSUs may be settled, as the Committee, in its sole discretion, may determine is equitable, and such adjustment so made shall be effective and binding for all purposes.

8. Settlement of Award and Distribution of Shares . Your award of RSUs hereunder shall be settled in whole Shares. Fractional Shares shall not be issuable hereunder and any fractional Share shall be disregarded. Except as specifically provided otherwise in this Section 8, Shares subject to an award of RSUs hereunder shall only be issued and distributed to you in a single sum of whole Shares within the 75-day period after the end of the Restriction Period. Notwithstanding the foregoing, in the event that your RSUs become vested due to death, Disability or a Change in Control, the award of RSUs hereunder shall be settled in a single sum of whole Shares within the 75-day period after such vesting. In the event that any such 75-day period begins in one calendar year and ends in another, you (or your beneficiary as the case may be) shall not have the right to designate the calendar year of payment. Moreover, notwithstanding the foregoing, if you are a Specified Employee, a distribution of Shares may not be made until within the 30-day period commencing with the first day of the seventh month

following the month of any Separation from Service for reasons other than Disability or a Change in Control, or, if earlier, your death, except as maybe otherwise permitted under Section 409A.

9. Payment of Taxes . Upon the vesting of the RSUs, Applied shall withhold Shares from your award for any federal, state or local taxes of any kind required by law to be withheld by Applied attributable to the award.

10. Section 409A Compliance . To the extent applicable, it is intended the Terms and the award of RSUs shall comply with or be exempt from the provisions of Section 409A and any interpretations of these terms shall be consistent with such intent.

11. Administration of the Plan . The Committee shall have conclusive authority, subject to the express provisions of the Plan as in effect from time to time and the Terms, to construe the Terms and the Plan, and to establish, amend, and rescind rules and regulations for the Plan's administration. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Terms in the manner and to the extent it shall deem expedient to carry the Plan into effect, and it shall be the sole and final judge of such expediency. Applied's Board of Directors (the "Board") may from time to time grant to the Committee such further powers and authority as the Board shall determine to be necessary or desirable. Notwithstanding any other provision of these terms, any amendment, construction, establishment, rescission or correction of the type referred to above which is made or adopted following a Change in Control, and which amendment, construction, establishment or correction adversely affects your rights hereunder, shall be in writing and shall be effective only with your express and prior written consent.

12. Relationship to the Plan . The Terms are subject to the provisions of the Plan and any administrative policies adopted by the Committee. If there is any inconsistency between the Terms and the Plan or such policies, the Plan and the policies, in that order, shall govern. References in the Terms to Applied shall include Applied's subsidiaries.

13. Severability . The provisions of the Terms are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

14. No Guarantee of Employment . The Terms and your award shall not confer upon you any rights whatsoever other than those expressly set forth herein, in the Plan or in policies adopted by the Committee. Nothing in the Terms shall (i) interfere with or limit in any way Applied's right to terminate your employment at any time, (ii) confer upon you any right to continued employment with Applied, or (iii) create any contractual or other right to receive additional awards or other Plan benefits in the future.

15. Requirements of Law . The granting of the RSUs hereunder shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agency, national securities exchange, or automated quotation system may be required. Notwithstanding any other provision of the Plan or the Terms, Applied shall not be obligated to issue, deliver or transfer any Shares, make any distribution of benefits under the Plan or the Terms, or take any other action, unless such delivery, distribution, or action, unless such delivery, distribution, or action is in compliance with all applicable laws, rules and regulations (including, but not limited to, the requirements of the Securities Act and Section 409A).

16. Successors . All obligations of Applied under the Terms with respect to the RSUs shall be binding upon any successor to Applied, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all, or substantially all, of the business and/or assets of Applied. Notwithstanding the provisions of Section 4, in the event any such successor does not agree to be bound by the Terms, the RSUs granted hereunder shall immediately become vested.

17. Applicable Law . The validity, construction, interpretation and enforceability of these Terms shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

18. Tax Matters . Applied has made no warranties or representations to you with respect to the tax consequences (including but not limited to income tax consequences) related to the RSUs or the issuance, transfer or disposition of Shares pursuant to the RSUs, and you have been advised to consult with your attorney, accountant and/or tax advisor regarding the RSUs. Moreover, you acknowledge that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for you.

Performance Shares Terms and Conditions

1. Award of Performance Shares . The Executive Organization & Compensation Committee (the “Committee”) of the Board of Directors of Applied Industrial Technologies, Inc. (“Applied”) may award Performance Shares (the “Award”) to key senior officers of Applied who have broad policy-making functions and who directly contribute to the long-term success and profitability of Applied. The Committee has awarded you an Award with an Effective Date. The terms and conditions are set forth herein (the “Terms”) and together with the Applied Industrial Technologies, Inc. 2015 Long-Term Performance Plan (the “Plan”) govern your rights with respect to the Award. Notwithstanding the foregoing, however, in the event of any conflict between the provisions of the Plan and the Terms, the provisions of the Plan shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in the Terms shall have the same meanings as set forth in the Plan.

2. Rights during Performance Period . You shall not have the right to sell, exchange, transfer, pledge, hypothecate, or otherwise encumber your Award until all conditions with respect to vesting and distribution have been met. Until the issuance of shares of Applied common stock (“Shares”) to you in settlement of your Award has occurred, you shall not be treated as a shareholder with respect to the Shares.

3. Performance Period . The term “Performance Period” shall mean, for purposes of the Terms, the period from the Effective Date until the third year anniversary of the Effective Date.

4. Vesting . Subject to the provisions of Section 6, your Award will be 100% vested at the end of the Performance Period, in whole or in part based upon the achievement of the performance goals set by the Committee.

5. Separation from Service or Termination of Officer Status . If, during the Performance Period, you incur a Separation from Service (as defined in Section 409A) from Applied due to death or Disability (as defined in Section 409A) or termination after attaining age 55 and completing at least ten years of service with Applied, then, promptly following the availability of audited financial statements for the final year of the Performance Period, you (or your beneficiary whom you have designated to Applied in writing) shall be entitled to vesting of a portion of the Award (partial years shall be prorated by days) based on Applied’s actual performance relative to the performance goals for the individual years in the Performance Period that elapsed prior to your Separation from Service. In the event, however, that during the Performance Period, you incur a Separation from Service from Applied for any reason other than those specifically set forth above or in Section 6 hereof, then your Award will be forfeited and no amount shall be due or payable to you pursuant to the Award. In addition, if, during the Performance Period, you cease to be an officer of Applied (but remain an employee of Applied), then your Award shall be forfeited and no amount shall be due or payable to you pursuant to the Award.

Because Awards are intended to create an incentive for recipients to act in Applied’s best interests, notwithstanding anything in the Terms to the contrary:

- (a) Your Award may be terminated or rescinded, and if applicable, you may be required immediately to repay all Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous twelve months (or any proceeds thereof), if the Committee determines, in good faith, that during your employment with Applied or during the period ending twelve months following your Separation from Service, you have committed an act inimical to Applied’s interests. Acts inimical to Applied’s interest shall include willful inattention to duty; willful violation of Applied’s published policies; acts of fraud or dishonesty involving Applied’s business; solicitation of Applied’s employees, customers or vendors to terminate or alter their relationship with Applied to Applied’s detriment; unauthorized use or disclosure of information regarding Applied’s business, employees, customers, and vendors; and competition with Applied. All determinations by the Committee shall be effective at the time of your act.
-

(b) The Committee may, in its sole discretion, require you immediately to repay Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous 36 months (or any proceeds thereof) if (I) Applied restates its historical consolidated financial statements and (II) the Committee determines, in good faith, that (x) the restatement is a result of your, or another executive officer's, willful misconduct that is unethical or illegal, and (y) your earnings pursuant to the Award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

6. Change in Control. Notwithstanding the provisions of Section 5, in the event your employment with Applied is terminated during the Performance Period and following any Change in Control of Applied either by you for Good Reason or by Applied without Cause, then you shall be entitled to vesting of a portion of the Award based on Applied's actual performance relative to the performance goals for the individual years (partial years shall be prorated by days) in the Performance Period that elapsed prior to your Separation from Service.

In addition, following a Change in Control of Applied, no provision hereof shall operate to reduce any time frame or to limit any economic benefit to which you are entitled under this Award or the Plan.

7. Settlement of Award. Your Award shall be settled, based upon achieved performance goals, in Shares. Except as specifically provided otherwise in this Section 7, any Shares payable with respect to your Award shall be settled within the 75-day period after the end of the Performance Period. Notwithstanding the foregoing, in the event that your Award becomes vested due to a Change in Control, your Award shall be settled in Shares within the 75-day period after such vesting. In the event that any such 75-day period begins in one calendar year and ends in another, you shall not have the right to designate the calendar year of payment. Moreover, notwithstanding the foregoing, if you are a Specified Employee, a distribution of Shares, but only to the extent that such distribution is deemed to be deferred compensation under Section 409A, may not be made until within the 30-day period commencing with the first day of the seventh month following the month of any Separation from Service for reasons other than Change in Control, or if earlier, your death, except as may be otherwise permitted under Section 409A.

8. Payments of Taxes. Upon the vesting of the Award, Applied shall withhold Shares from your award for any federal, state or local taxes of any kind required by law to be withheld by Applied attributable to the Award.

9. Discretionary Adjustment Following Certain Events. In the event, during the Performance Period, of (i) a merger, a consolidation, an acquisition or divestiture, the issuance or repurchase of a substantial amount of capital stock, a reorganization or restructuring, or any other transaction or series of transactions, or (ii) asset write-downs, or litigation or claim judgments or settlements, or foreign exchange gains or losses, or (iii) changes in tax laws, accounting principles, or other laws or provisions affecting reported results, or (iv) other extraordinary nonrecurring items, then the Committee, in its sole discretion, may adjust the performance goals upon which the vesting of an Award is conditioned, in order to prevent diminution or enlargement of the benefits intended to be conferred by the Award in such manner as the Committee may determine is equitably required by the changes or events. In the event (a) of a stock dividend or stock split or (b) Shares are changed into or exchanged for a different number or kind of securities of Applied or another entity, then the target Award opportunity shall be equitably adjusted. In the event other changes or events relating to the Shares fundamentally change the value of the Shares, then the Committee may make, in its sole discretion, such adjustments in the terms of the Award as the Committee may determine is equitably required by the change or event.

10. Limitation on Rights. The Award shall not confer upon you any rights whatsoever other than those expressly set forth herein, in the Plan or in policies adopted by the Committee, including without limitation any rights as a shareholder in respect of Shares that may become issuable pursuant to the Award until and unless Applied has issued a certificate or certificates for the Shares. Nothing in the Terms shall (i) interfere with or limit in any way Applied's right to terminate your employment at any time, (ii) confer upon you any right to continued

employment with Applied, or (iii) create any contractual or other right to receive additional awards or other Plan benefits in the future.

11. Nonassignability . The Award and the rights granted thereunder are not assignable or transferable, in whole or in part, and may not be otherwise disposed of by you, other than by will or by the laws of descent and distribution.

12. Section 409A Compliance . It is intended that payments under the Award are “short-term deferrals” (as is defined under Section 409A) and, therefore, exempted from coverage under Section 409A, and any interpretations of these Terms shall be consistent with this intent. Notwithstanding such intention, in the event that the Terms, or any portion thereof, and the Award, or any portion thereof, shall be deemed to be governed by Section 409A, such Terms and Award, or portion thereof, shall be interpreted, to the extent applicable, as complying with the provisions of Section 409A.

13. Committee Authority . The Committee shall have conclusive authority, subject to the express provisions of the Plan as in effect from time to time and the Terms, to construe the Terms and the Plan, to establish, amend and rescind rules and regulations relating to the Plan, and to make all other determinations in the Committee’s judgment necessary or desirable for the Plan’s administration. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or the Terms in the manner and to the extent it deems expedient to carry the Plan into effect. Notwithstanding any provisions hereof, the Terms and the Award shall be subject to all of the Plan’s provisions in effect from time to time, which are incorporated herein by reference.

14. Relationship to the Plan . The Terms are subject to the provisions of the Plan and any administrative policies adopted by the Committee. If there is any inconsistency between the Terms and the Plan or such policies, the Plan and the policies, in that order, shall govern. Reference in the Terms to Applied shall include Applied’s subsidiaries.

15. Severability . The provisions of the Terms are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

16. Requirements of Law . The granting of the Award hereunder shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agency, national securities exchange, or automated quotation system as may be required. Notwithstanding any other provision of the Plan or the Terms, Applied shall not be obligated to issue, deliver or transfer any Shares, make any distribution of benefits under the Plan or the Terms, or take any other action, unless such delivery, distribution, or action, unless such delivery, distribution, or action is in compliance with all applicable laws, rules and regulations (including, but not limited to, the requirements of the Securities Act and Section 409A).

17. Successors . All obligations of Applied under the Terms with respect to the Award shall be binding upon any successor to Applied, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all, or substantially all, of the business and/or assets of Applied. Notwithstanding the provisions of Section 4, in the event any such successor does not agree to be bound by the Terms, the Award granted hereunder shall immediately become vested.

18. Applicable Law . The validity, construction, interpretation and enforceability of these terms and conditions shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

19. Tax Matters . Applied has made no warranties or representations to you with respect to the tax consequences (including but not limited to income tax consequences) related to the Award or the issuance, transfer or disposition of Shares pursuant to the Award, and you have been advised to consult with your attorney, accountant

and/or tax advisor regarding this Award. Moreover, you acknowledge that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for you.

October 27, 2016

Applied Industrial Technologies, Inc.
One Applied Plaza
Euclid Avenue at East 36th Street
Cleveland, Ohio 44115

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Applied Industrial Technologies, Inc. and subsidiaries for the periods ended September 30, 2016 and 2015, as indicated in our report dated October 27, 2016; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, is incorporated by reference in Registration Statement Nos. 33-53401, 33-53361, 33-65509, 33-65513, 333-83809, 333-69002, 333-124574, 333-138053, 333-138054, 333-149183, 333-179354 and 333-207922 on Forms S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Cleveland, Ohio

Certifications of Disclosure in Quarterly Report on Form 10-Q

I, Neil A. Schrimsher, President & Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applied Industrial Technologies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2016

By: /s/ Neil A. Schrimsher
Neil A. Schrimsher
President & Chief Executive Officer

I, Mark O. Eisele, Vice President-Chief Financial Officer & Treasurer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applied Industrial Technologies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2016

By: /s/ Mark O. Eisele

Mark O. Eisele

Vice President-Chief Financial Officer & Treasurer

[The following certification accompanies Applied Industrial Technologies' Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, and is not filed, as provided in applicable SEC releases.]

**Certification of Principal Executive Officer and
Principal Financial Officer Pursuant to
18 U.S.C. 1350**

In connection with the Form 10-Q (the "Report") of Applied Industrial Technologies, Inc. (the "Company") for the period ending September 30, 2016, we, Neil A. Schrimsher, President & Chief Executive Officer, and Mark O. Eisele, Vice President-Chief Financial Officer & Treasurer of the Company, certify that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Neil A. Schrimsher

Neil A. Schrimsher
President & Chief Executive Officer

/s/ Mark O. Eisele

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

Date: October 27, 2016

[A signed original of this written statement required by Section 906 has been provided to Applied Industrial Technologies, Inc. and will be retained by Applied Industrial Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

Mine Safety and Health Disclosure
Mine Safety and Health Administration Contractor Identification Number 9EI

The operation of domestic mines is subject to regulation by the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). Under the Mine Act, an “independent contractor” who provides onsite services to the mine industry is deemed to be a “mine operator.” Applied supplies MRO parts and related services to mine operators, and as such we are providing this report pursuant to section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K.

MSHA inspects mines on a regular basis and issues citations and orders when it believes a violation has occurred under the Mine Act. The table below sets forth, by mining complex, the total number of citations and/or orders issued, that required disclosure, to Applied during the quarter ended September 30, 2016 by MSHA under the indicated provisions of the Mine Act, together with the total dollar value of proposed MSHA assessments.

Mine or Operating Name / MSHA Identification Number	(#) Section 104 S&S Citations	(#) Section 104(b) Orders	(#) Section 104(d) Citations and Orders	(#) Section 110(b)(2) Violations	(#) Section 107(a) Orders	(\$) Total Dollar Value of MSHA Assessments Proposed	(#) Total Number of Mining Related Fatalities	(yes/no) Received Notice of Pattern of Violations Under Section 104(e)	(yes/no) Received Notice of Potential to Have Pattern Under Section 104(e)	(#) Legal Actions Pending as of 9/30/2016	(#) Legal Actions Initiated During Period	(#) Legal Actions Resolved During the Period
(1)	(2)	(3)	(4)	(5)	(6)							
Louisville Plant Quarry & Mill #2500002	0	0	0	0	0	0	0	No	No	0	0	1

In evaluating this information, note that citations and orders can be contested and appealed, and in that process, are often reduced in severity and amount, and are sometimes dismissed.

- (1) United States mines.
- (2) Total number of citations received from MSHA under section 104 of the Mine Act for health or safety standards that could significantly and substantially contribute to a serious injury if left unabated.
- (3) Total number of orders under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA.
- (4) Total number of citations and orders for unwarrantable failure to comply with mandatory health or safety standards under section 104(d) of the Mine Act.
- (5) Total number of flagrant violations under section 110(b)(2) of the Mine Act.
- (6) Total number of imminent danger orders issued under section 107(a) of the Mine Act.