APPLIED INDUSTRIAL TECHNOLOGIES INC
Form 10-K
August 26, 2015
Table of Contents

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2015, 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	34-0117420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

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

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

Table of Contents

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 X	Accelerated filer __
Non-accelerated filer __	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 x No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (December 31, 2014): $1,848,864,000.

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

Class	Outstanding at August 14, 2015
Common Stock, without par value	39,677,969

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Applied's proxy statement for the annual meeting of shareholders to be held October 27, 2015, are incorporated by reference into Parts II, III, and IV of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

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

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

Applied believes its primary risk factors include, but are not limited to, those identified in the following sections of this annual report on Form 10-K: “Risk Factors” in Item 1A; “Narrative Description of Business,” in Item 1, section (c); and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in Item 7. PLEASE READ THOSE DISCLOSURES CAREFULLY.

Table of Contents

PART I

ITEM 1. BUSINESS.

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

We are a leading industrial distributor in North America, Australia, and New Zealand, serving MRO (maintenance, repair, and operations) and OEM (original equipment manufacturing) customers in virtually every industry. In addition, the company provides engineering, design, and systems integration for industrial and fluid power applications, as well as customized mechanical, fabricated rubber, and fluid power shop services. We also offer maintenance training and inventory management solutions that provide added value to our customers.

We offer technical application support for our products and provide solutions to help customers minimize their production downtime, improve machine performance, and reduce overall procurement and maintenance costs.

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

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

- Applied's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, together with Section 16 insider beneficial stock ownership reports - these documents are posted as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission
- Applied's Code of Business Ethics
- Applied's Board of Directors Governance Principles and Practices
- Applied's Director Independence Standards
- Charters for the Audit, Corporate Governance, and Executive Organization & Compensation Committees of Applied's Board of Directors

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

(a) General Development of Business.

Information regarding developments in our business can be found in Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information is incorporated here by reference.

(b) Financial Information about Segments.

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

The service center-based distribution segment provides customers with a wide range of industrial products primarily through a network of service centers. The fluid power businesses segment consists of specialized regional companies that distribute fluid power components and operate shops to assemble fluid power systems and perform equipment repair. The fluid power businesses primarily sell products and services directly to customers rather than through the service centers.

Segment financial information can be found in note 12 to the consolidated financial statements, included in Item 8 under the caption "Financial Statements and Supplementary Data." That information is incorporated here by reference.

Table of Contents

(c) Narrative Description of Business.

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

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

The service center-based distribution business accounts for a substantial majority of our field operations and 81.9% of our 2015 sales dollars.

The service center-based distribution segment includes operations specialized in serving customers in the upstream oil and gas industry; the Applied Maintenance Supplies & Solutions service offering; regional fabricated rubber shops, which modify and repair conveyor belts and make hose assemblies in accordance with customer requirements; and rubber service field crews, which install and repair conveyor belts and rubber linings at customer locations.

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

Products. We are a leading distributor of products including bearings, power transmission components, fluid power components and systems, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies. Fluid power products include hydraulic, pneumatic, lubrication, and filtration components and systems.

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

Our product suppliers typically confine their direct sales activities to large-volume transactions, mainly with large original equipment manufacturers. The suppliers generally do not sell maintenance and repair products directly to the customer, but instead refer the customer to us or another distributor.

Net sales by product category for the most recent three fiscal years is detailed in note 12 to the consolidated financial statements, included in Item 8 under the caption “Financial Statements and Supplementary Data.”

That information is incorporated here by reference.

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

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

We maintain product inventory levels at each service center tailored to the local market. These inventories consist of standard items as well as other items specific to local customer demand. Distribution centers replenish service center

Table of Contents

inventories and also may ship products directly to customers. Having product in stock helps us satisfy customers' immediate needs.

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

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

In addition to our electronic capabilities, we serve customers with our paper catalog, a comprehensive purchasing tool and resource guide for industrial and maintenance products (also available in a mobile-friendly digital version).

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

The Applied Maintenance Supplies & Solutions service offering provides inventory management services, at customer sites, for industrial and maintenance supplies, including fasteners, cutting tools, paints and chemicals, fluid flow, safety, and janitorial products.

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

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

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

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

Markets. We purchase from thousands of product manufacturers and resell the products to thousands of customers in a wide variety of industries, including agriculture and food processing, automotive, chemicals and petrochemicals, fabricated metals, forest products, industrial machinery and equipment, mining, oil and gas, primary metals, transportation, and utilities, as well as to government entities. Customers range from very large businesses, with which we may have multiple-location relationships, to very small ones. We are not significantly dependent on a single customer or group of customers, the loss of which would have a material adverse effect on our business as a whole, and no single customer accounts for more than 3% of our net sales.

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

Table of Contents

Our principal competitors are other bearing, power transmission, industrial rubber, fluid power, linear motion, tools, and safety product distributors, as well as specialized oilfield supply distributors and distributors of other industrial and maintenance supplies and catalog companies. These competitors include local, regional, national, and multinational operations. We also compete with original equipment manufacturers and their distributors in the sale of maintenance and replacement components. Some competitors have greater financial resources than we do.

The identity and number of our competitors vary throughout the geographic, industry, and product markets we serve. Although we are one of the leading distributors in North America, Australia, and New Zealand for the primary categories of products we provide in those areas, our market share for those products in a given geographic market may be relatively small compared to the portion of the market served by original equipment manufacturers and other distributors.

Backlog Orders and Seasonality. Because of the type of industrial distribution we provide, backlog orders are not material to our business as a whole, although they are a more important factor for our fluid power businesses.

Our business has exhibited minor seasonality - in particular, sales per day during the first half of our fiscal year have tended in the past to be slightly lower compared with the second half due, in part, to the impact of customer plant shutdowns, summer vacations and holidays.

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

Raw Materials and General Business Conditions. Our operations are dependent on general industrial and economic conditions. We would be adversely affected by the unavailability of raw materials to our suppliers, prolonged labor disputes experienced by suppliers or customers, or by events or conditions that have an adverse effect on industrial activity generally in the markets we serve or on key customer industries.

Number of Employees. At June 30, 2015, we had 5,839 employees.

Working Capital. Our working capital position is discussed in Item 7 under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations.” This information is incorporated here by reference.

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

We believe these practices are generally consistent among companies in our industry.

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

(d) Financial Information about Geographic Areas.

Information regarding our foreign operations, including information about revenues and long-lived assets, is included in note 12 to the consolidated financial statements, included in Item 8 under the caption “Financial Statements and Supplementary Data,” as well as in Item 7A under the caption “Quantitative and Qualitative Disclosures about Market Risk.” That information is incorporated here by reference.

ITEM 1A. RISK FACTORS.

In addition to other information set forth in this report, you should carefully consider the following factors that could materially affect our business, financial condition, or results of operations. The risks described below are not the only risks facing our company. Certain risks are identified below in Item 7 under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations.” This information is incorporated here by reference. Additional risks not currently known to us, risks that could apply broadly to issuers, or risks that we currently deem immaterial, may also impact our business and operations.

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

5

Table of Contents

When customers or prospective customers reduce production levels because of lower demand, increased supply, higher costs, tight credit conditions, unfavorable currency exchange rates, foreign competition, other competitive disadvantage, offshoring of production or other reasons, their need for our products and services diminishes. Selling prices and terms of sale come under pressure, adversely affecting the profitability and the durability of customer relationships, and credit losses may increase. Inventory management becomes more difficult in times of economic uncertainty. Volatile economic and credit conditions also make it more difficult for us, as well as our customers and suppliers, to forecast and plan future business activities.

Consolidation in our customers' and suppliers' industries could adversely affect our business and financial results. In recent years, we have witnessed consolidation among our product suppliers and customers. As customers industries consolidate, a greater proportion of our sales could be derived from higher volume contracts, which could adversely impact margins. Consolidation among customers can trigger changes in their purchasing strategies, potentially moving large blocks of business among competing distributors and contributing to volatility in our sales and pressure on prices. Similarly, continued consolidation among our suppliers could reduce our ability to negotiate favorable pricing and other commercial terms for our inventory purchases. There can be no assurance we will be able to adequately take advantage of the consolidation trend.

Loss of key supplier authorizations, lack of product availability, or changes in supplier distribution programs could adversely affect our sales and earnings. Our business depends on maintaining an immediately available supply of various products to meet customer demand. Many of our relationships with key product suppliers are longstanding, but are terminable by either party. The loss of key supplier authorizations, or a substantial decrease in the availability of their products, could put us at a competitive disadvantage and have a material adverse effect on our business. Supply interruptions could arise from raw materials shortages, inadequate manufacturing capacity or utilization to meet demand, financial problems, labor disputes or weather conditions affecting suppliers' production, transportation disruptions, or other reasons beyond our control.

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

An increase in competition could decrease sales or earnings. We operate in a highly competitive industry. Our competitors include local, regional, national, and multinational distributors of industrial machinery parts, equipment, and supplies. Competition is largely focused in the local service area and is generally based on product line breadth, product availability, service capabilities, and price. Some existing competitors have, and potential market entrants may have, greater financial or other resources than we do, broader product or service offerings, greater market presence, or better name recognition. If existing or future competitors seek to gain or to retain market share by aggressive pricing strategies and sales methods, we may need to lower our prices for products or services, or increase our spending, thereby adversely affecting financial results. Our success will also be affected by our ability to continue to provide competitive offerings as customer preferences or demands evolve, for example with respect to our product portfolio or our e-commerce and inventory management solutions.

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

Changes in customer or product mix and downward pressure on sales prices could cause our gross profit percentage to fluctuate or decline. Because we serve thousands of customers in many end markets, and offer millions of products, with varying profitability levels, changes in our customer or product mix could cause our gross profit percentage to fluctuate or decline. Downward pressure on sales prices could also cause our gross profit percentage to fluctuate or decline. We can experience downward pressure on sales prices as a result of deflation, pressure from customers to reduce costs, or increased competition.

Our ability to transact business is highly reliant on information systems. A disruption or security breach could materially affect our business, financial condition, or results of operation. We depend on information systems to process customer orders, manage inventory and accounts receivable collections, purchase products, manage accounts payable processes, ship products to customers on a timely basis, maintain cost-effective operations, provide superior service to customers, and accumulate financial results. A serious, prolonged disruption of our information systems, due to manmade or natural causes, or breach in security, could materially impair fundamental business processes and increase expenses, decrease sales, or otherwise reduce earnings.

Because of our reliance on information systems, we may be vulnerable to the growing threat of damage or intrusion from computer viruses or other cyber-attacks on our systems. Despite precautions taken to prevent or mitigate the risks of such incidents, an attack on our systems could not only cause business disruption, but could also result in the theft or disclosure of proprietary or confidential information, or a breach of customers, supplier, or employee information. Such an incident could negatively impact our sales, damage our reputation, and cause us to incur unanticipated legal liability and costs.

We recently replaced multiple legacy applications in our service center-based distribution business with an SAP software platform, to enhance our business information and transaction systems to support future growth. Our ability to achieve anticipated operational benefits from the new platform is not assured.

Volatility in product and energy costs can affect our profitability. Changes in costs of raw materials and energy can lead product manufacturers to adjust the prices of products we distribute. In addition, a portion of our own distribution costs is comprised of fuel for our sales and delivery vehicles, freight, and utility expenses for our facilities. Our ability to pass along increases in our product and distribution costs to our customers depends on market conditions. Raising our prices could result in decreased sales volume, which could significantly reduce our profitability. While increases in the cost of energy or products could be damaging to us, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit margin to deteriorate. Changes in energy or raw materials costs can also adversely affect customers; for example, recent declines in oil and gas prices have negatively impacted customers operating in those industries and, consequently, our sales to those customers.

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

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

Further, even if we successfully integrate the acquisitions with our operations, we may not be able to realize cost savings, sales, profit levels, or other benefits that we anticipate from these acquisitions, either as to amount or in the time frame we expect. Our ability to realize anticipated benefits may be affected by a number of factors, including the following: our ability to achieve planned operating results, to reduce duplicative expenses and inventory effectively, and to consolidate facilities; economic and market factors; the incurrence of significant integration costs or charges in order to achieve those benefits; our ability to retain key product supplier authorizations, customer relationships, and employees; and our ability to address competitive, distribution, and regulatory challenges arising from entering into new markets, especially those in which we may have limited or no direct experience. In addition, acquisitions could place significant demand on administrative, operational, and financial resources.

Goodwill and other intangible assets recorded as a result of our acquisitions could become impaired. We review long-lived assets, including property, plant and equipment and identifiable amortizing intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, a significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life.

As of June 30, 2015, we had $254.4 million of goodwill. We assess all existing goodwill at least annually for impairment on a reporting unit basis. The techniques used in our qualitative assessment and goodwill impairment tests incorporate a number of estimates and assumptions that are subject to change. Although we believe these estimates and assumptions are reasonable and reflect market conditions forecast at the assessment date, any changes to these assumptions and estimates due to market conditions or otherwise may lead to an outcome where impairment charges would be required in future periods.

Tight credit markets could impact our ability to obtain financing on reasonable terms or increase the cost of future financing. Although the credit market turmoil of several years ago did not have a significant adverse impact on our liquidity or borrowing costs, the availability of funds tightened and credit spreads on corporate debt increased. If credit market volatility were to return, then obtaining additional or replacement financing could be more difficult and the cost of issuing new debt or replacing a credit facility could be higher than under our current facilities. Tight credit conditions could limit our ability to finance acquisitions on terms acceptable to us.

For more information relating to borrowing and interest rates, see the following sections below: “Liquidity and Capital Resources” in Item 7 under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations;” Item 7A under the caption “Quantitative and Qualitative Disclosures about Market Risk;” and note 5 to the consolidated financial statements, included below in Item 8 under the caption “Financial Statements and Supplementary Data.” That information is incorporated here by reference.

Our ability to maintain effective internal control over financial reporting may be insufficient to allow us to accurately report our financial results or prevent fraud, and this could cause our financial statements to become materially misleading and adversely affect the trading price of our common stock. We require effective internal control over financial reporting in order to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial statements and effectively prevent fraud, our financial statements could become materially misleading, which could adversely affect the trading price of our common stock.

If we are not able to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, financial condition and operating results could be harmed. Any material weakness could affect investor confidence in the accuracy and completeness of our financial statements. As a result, our ability to obtain any additional financing, or additional financing on favorable terms, could be materially and adversely affected. This, in turn, could materially and adversely affect our business, financial condition, and the market value of our stock and require us to incur additional costs to improve our internal control systems and procedures. In addition, perceptions of the company among customers, suppliers, lenders, investors, securities analysts, and others could also be adversely affected.

We can give no assurances that any material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting. In addition, although we have been successful historically in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or ensure the fair presentation of our financial statements included in our periodic reports filed with the SEC.

There is no assurance that we will continue to pay dividends on our common stock, and our indebtedness could limit our ability to pay dividends. The timing, declaration, amount, and payment of dividends to our shareholders fall within the discretion of our Board of Directors and depend on many factors, including our financial condition and results of operations, as well as applicable law and business considerations that our Board of Directors considers relevant. There can be no assurance that we will continue to pay a quarterly dividend.

Additionally, if we cannot generate sufficient cash flow from operations to meet our debt payment obligations, then our ability to pay dividends, if so determined by the Board of Directors, will be impaired and we may be required to attempt to restructure or refinance our debt, raise additional capital, or take other actions such as selling assets, reducing, or delaying capital expenditures, or reducing our dividend. There can be no assurance, however, that any such actions could be effected on satisfactory terms, if at all, or would be permitted by the terms of our debt or our other credit and contractual arrangements.

Our growth outside the United States increases our exposure to global economic and political conditions and currency exchange volatility. Foreign operations contributed 18.7% of our sales in 2015. If we continue to grow outside the

U.S., the risks associated with exposure to more volatile economic conditions, political instability, cultural and legal differences in conducting business, and currency exchange fluctuations will increase.

Table of Contents

Our foreign operations' results are reported in the local currency and then translated into U.S. dollars at applicable exchange rates for inclusion in our consolidated financial statements. Fluctuations in currency exchange rates affect our operating results and financial position and affect the comparability of results between financial periods.

Our business depends on our ability to attract, develop, motivate, and retain qualified employees. Our success depends on hiring, developing, motivating, and retaining key employees, including executive, managerial, sales, professional, and other personnel. We may have difficulty identifying and hiring qualified personnel. In addition, we may have difficulty retaining such personnel once hired, and key people may leave and compete against us. With respect to sales and customer service positions in particular, we greatly benefit from having employees who are familiar with the products we sell and their applications, as well as with our customer and supplier relationships. The loss of key employees or our failure to attract and retain other qualified workers could disrupt or adversely affect our business. In addition, our operating results could be adversely affected by increased competition for employees, shortages of qualified workers, higher employee turnover (including through retirement as the workforce ages), or increased employee compensation or benefit costs.

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

We are subject to litigation and regulatory risk due to the nature of our business, which may have a material adverse effect on our business. From time to time, we are involved in lawsuits or other legal proceedings that arise from our business. These may, for example, relate to product liability claims, commercial disputes, personal injuries, or employment-related matters. In addition, we could face claims over other matters, such as claims arising from our status as a public company or government contractor, or otherwise relating to our compliance with a wide array of laws and regulations to which we are subject. The defense and ultimate outcome of lawsuits or other legal proceedings or inquiries may result in higher operating expenses, which could have a material adverse effect on our business, financial condition, or results of operations.

Our business is subject to risks, some for which we maintain third-party insurance and some for which we self-insure. We may incur losses and be subject to liability claims that could have a material adverse effect on our financial condition, results of operations, or cash flows. We maintain insurance policies that provide limited coverage for some, but not all, of the potential risks and liabilities associated with our business. The policies are subject to deductibles and exclusions that result in our retention of a level of risk on a self-insured basis. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. Even where insurance coverage applies, insurers may contest their obligations to make payments. Our financial condition, results of operations, and cash flows could be materially and adversely affected by losses and liabilities from uninsured or under-insured events, as well as by delays in the payment of insurance proceeds, or the failure by insurers to make payments.

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

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

changes in customer procurement policies and practices;

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

changes in operating expenses;

organizational changes within the company;

adverse regulation and legislation, both enacted and under consideration, including with respect to federal tax policy (e.g., affecting the use of the LIFO inventory accounting method and the taxation of

foreign-sourced income);
the variability and timing of new business opportunities including acquisitions, alliances, customer relationships, and supplier authorizations;
the incurrence of debt and contingent liabilities in connection with acquisitions;
volatility of our stock price and the resulting impact on our consolidated financial statements; and

Table of Contents

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We believe having a local presence is important to serving our customers, so we maintain service centers and other operations in local markets throughout the countries in which we operate. At June 30, 2015, we owned real properties at 122 locations and leased 409 locations. Certain properties house more than one operation.

The following were our principal owned real properties (each of which has more than 30,000 square feet of floor space) at June 30, 2015.

Location of Principal Owned Real Property	Type of Facility
Cleveland, Ohio	Corporate headquarters
Atlanta, Georgia	Distribution center and service center
Florence, Kentucky	Distribution center
Carlisle, Pennsylvania	Distribution center
Fort Worth, Texas	Distribution center and rubber shop
Clairmont, Alberta	Service center

Our principal leased real properties (each of which has more than 30,000 square feet of floor space) at June 30, 2015 were:

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

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

We consider our properties generally sufficient to meet our requirements for office space and inventory stocking.

A service center's size is primarily influenced by the amount and types of inventory the service center requires to meet customers' needs.

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

Table of Contents

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

Additional information regarding our properties can be found in note 11 to the consolidated financial statements, included below in Item 8 under the caption "Financial Statements and Supplementary Data." That information is incorporated here by reference.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT.

Applied's executive officers are elected by the Board of Directors for a term of one year, or until their successors are chosen and qualified, at the Board's organizational meeting held following the annual meeting of shareholders.

The following is a list of the executive officers and a description of their business experience during the past five years. Except as otherwise stated, the positions and offices indicated are with Applied, and the persons were elected to their current positions on October 28, 2014:

Name	Positions and Experience	Age
Neil A. Schrimsher	President (since August 2013) and Chief Executive Officer (since October 2011). From February 2010 to August 2011, Mr. Schrimsher was Executive Vice President of Cooper Industries plc (formerly NYSE: CBE), a global electrical products manufacturer, where he led Cooper's Electrical Products Group and headed numerous domestic and international growth initiatives. He was also President of Cooper Lighting, Inc. throughout the period from 2006 to December 2010.	51
Thomas E. Armold	Vice President-Sales since February 2015. Prior to that, he had served as Vice President-Marketing and Strategic Accounts since 2008.	60
Todd A. Barlett	Vice President-Acquisitions and Global Business Development since 2004.	60
Fred D. Bauer	Vice President-General Counsel & Secretary since 2002.	49
Mark O. Eisele	Vice President-Chief Financial Officer & Treasurer since 2004.	58
Kurt W. Loring	Vice President-Chief Human Resources Officer since July 2014. From October 2011 to July 2014 he was Vice President, Human Resources for the Forged Products segment of Precision Castparts Corporation (NYSE: PCP). The $4.3 billion segment, with greater than 5,000 employees, is a world-leading producer of complex forgings and high-performance nickel-based alloys and super alloys for aerospace, power generation, and general industrial applications. Prior to that he served with Danaher Corporation (NYSE: DHR), most recently (from 2008 to September 2011) as the Vice President, Human Resources for its Fluke Corporation subsidiary, a leader in the manufacture, distribution, and service of electronic test tools and software worldwide.	46

Table of Contents

PART II

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

Applied's common stock, without par value, is listed for trading on the New York Stock Exchange with the ticker symbol "AIT." Information concerning the quarterly stock dividends for the fiscal years ended June 30, 2015, 2014, and 2013 and the number of shareholders of record as of August 14, 2015 are set forth in Item 8, "Financial Statements and Supplementary Data," in the "Quarterly Operating Results" table. That information is incorporated here by reference.

Set forth below is market information on Applied's common stock.

	Shares Traded	Average Daily Volume	Price Range High	Price Range Low
2015				
First Quarter	9,932,400	155,200	$52.62	$45.54
Second Quarter	11,023,400	172,200	50.00	42.92
Third Quarter	17,181,400	281,700	46.05	39.76
Fourth Quarter	16,892,300	268,100	45.22	39.54
2014				
First Quarter	9,157,400	143,100	$53.57	$47.21
Second Quarter	12,634,700	197,400	53.45	45.62
Third Quarter	10,107,300	165,700	52.27	45.74
Fourth Quarter	12,799,900	203,200	51.44	45.62
2013				
First Quarter	12,149,000	196,000	$44.86	$34.67
Second Quarter	12,434,700	201,600	42.54	36.52
Third Quarter	11,238,700	187,300	45.67	42.02
Fourth Quarter	11,295,800	176,500	49.44	40.39

The following table summarizes Applied's repurchases of its common stock in the quarter ended June 30, 2015.

Period	(a) Total Number of Shares (1)	(b) Average Price Paid per Share ($)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1, 2015 to April 30, 2015	156,714	42.70	153,300	1,500,000
May 1, 2015 to May 31, 2015	127,700	42.51	127,700	1,372,300
June 1, 2015 to June 30, 2015	125,000	42.44	125,000	1,247,300
Total	409,414	42.56	406,000	1,247,300

(1) During the quarter ended June 30, 2015, Applied purchased 3,414 shares in connection with an employee deferred compensation program. This purchase is not counted in the authorization in note (2).

(2) On April 28, 2015, the Board of Directors authorized the purchase of up to 1.5 million shares of Applied's common stock. We publicly announced the authorization on April 30, 2015. 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.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

Set forth below is selected financial data for each of the last five fiscal years.
(In thousands, except per share amounts and statistical data)
(UNAUDITED)

	2015	2014	2013	2012	2011
Consolidated Operations — Year Ended June 30					
Net sales	$2,751,561	$2,459,878	$2,462,171	$2,375,445	$2,212,849
Depreciation and amortization of property	16,578	13,977	12,501	11,236	11,234
Amortization:					
Intangible assets	25,797	14,023	13,233	11,465	11,382
SARs and stock options	1,610	1,808	2,317	2,058	2,473
Operating income	184,619	164,358	176,399	168,395	150,763
Net income	115,484	112,821	118,149	108,779	96,759
Per share data:					
Net income:					
Basic	2.82	2.69	2.81	2.58	2.28
Diluted	2.80	2.67	2.78	2.54	2.24
Cash dividend	1.04	0.96	0.88	0.80	0.70
Year-End Position — June 30					
Working capital	$549,233	$545,193	$491,380	$435,593	$404,226
Long-term debt (including portion classified as current)	320,995	170,712	—	—	—
Total assets	1,434,968	1,334,169	1,058,706	962,183	914,931
Shareholders’ equity	741,328	800,308	759,615	672,131	633,563
Year-End Statistics — June 30					
Current ratio	2.8	2.9	3.0	2.9	2.9
Operating facilities	565	538	522	476	474
Shareholders of record (a)	6,016	6,330	6,319	6,225	6,208
Return on assets (b)	7.9 %	10.2 %	11.6 %	11.8 %	11.1 %
Return on equity (c)	15.0 %	14.5 %	16.5 %	16.7 %	16.3 %
Capital expenditures (d)	$14,933	$20,190	$12,214	$26,021	$20,431
Cash Returned to Shareholders During the Year					
Dividends Paid	$42,663	$40,410	$37,194	$33,800	$29,751
Purchases of Treasury Shares	76,515	36,732	53	31,032	6,085
Total	$119,178	$77,142	$37,247	$64,832	$35,836

(a) Includes participant-shareholders in the Applied Industrial Technologies, Inc. Retirement Savings Plan and shareholders in the Company's direct stock purchase program.

(b) Return on assets is calculated as net income divided by monthly average assets.

(c) Return on equity is calculated as net income divided by the average shareholders’ equity (beginning of the year plus end of the year divided by 2).

(d) Capital expenditures for fiscal 2014 included the purchase of our headquarters facility which used $10.0 million of cash.

Capital expenditures for 2013, 2012 and 2011 include $5.6 million, $16.7 million and $12.5 million related to Applied's Enterprise Resource Planning (ERP) system (SAP) project, respectively. See Item 7 under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations” for further description of the ERP (SAP) project.

Table of Contents

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

OVERVIEW

With more than 5,800 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. At June 30, 2015, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia and New Zealand from 565 facilities.

The following is Management's Discussion and Analysis of significant factors that have affected our financial condition, results of operations and cash flows during the periods included in the accompanying consolidated balance sheets, statements of consolidated income, consolidated comprehensive income and consolidated cash flows in Item 8 under the caption "Financial Statements and Supplementary Data". When reviewing the discussion and analysis set forth below, please note that the majority of SKUs (Stock Keeping Units) we sell in any given year were not 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.

Our fiscal 2015 consolidated sales were $2.75 billion, an increase of $291.7 million or 11.9% compared to the prior year, with acquisitions contributing $280.2 million or 11.4% and an unfavorable foreign currency translation of $43.3 million decreasing sales by 1.8%. Gross margin was 28.0% compared to 27.9% in the prior year. Our operating margin remained stable at 6.7% each year. Our earnings per share was $2.80 versus $2.67 in fiscal year 2014, an increase of 4.9%.

During fiscal 2015, the Company acquired Knox Oil Field Supply Inc., Rodamientos y Derivados del Norte S.A. de C.V., Great Southern Bearings / Northam Bearings and Ira Pump and Supply Inc. See the Business Combinations note to the consolidated financial statements in Item 8 under the caption "Financial Statements and Supplementary Data" for further information.

Our consolidated balance sheet remains strong. Shareholders' equity was $741.3 million, down from $800.3 million at June 30, 2014. Working capital increased $4.0 million from June 30, 2014 to $549.2 million at June 30, 2015. Our current ratio remains strong at 2.8 to 1, compared to 2.9 to 1 at June 30, 2014.

Applied monitors several economic indices that have been key indicators for industrial economic activity in the United States. These include the Industrial Production 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.

Industrial production increased 0.3% in June but fell at an annual rate of 1.4% for the second calendar quarter of 2015. In June, capacity utilization for manufacturing moved down 0.1% to 77.2% compared to May. The ISM PMI registered 53.5 in June 2015, a decrease from 55.3 in June 2014, but still above 50 (its expansionary threshold).

YEAR ENDED JUNE 30, 2015 vs. 2014

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

	Year Ended June 30, As a % of Net Sales		Change in $'s Versus Prior Period
	2015	2014	% Increase

Net Sales	100.0	%	100.0	%	11.9	%
Gross Profit Margin	28.0	%	27.9	%	12.1	%
Selling, Distribution & Administrative	21.3	%	21.2	%	12.0	%
Operating Income	6.7	%	6.7	%	12.3	%
Net Income	4.2	%	4.6	%	2.4	%

Table of Contents

Sales in fiscal 2015 were $2.75 billion, which was $291.7 million or 11.9% above the prior year, with acquisitions accounting for $280.2 million or 11.4%. Unfavorable foreign currency translation decreased sales by $43.3 million or 1.8%. Excluding the impact of businesses acquired and prior to the impact of currency translation, sales were up $54.8 million or 2.3% during the year. We had 252.5 selling days in both fiscal 2015 and fiscal 2014.

Sales of our Service Center Based Distribution segment, which operates primarily in MRO markets, increased $281.4 million, or 14.3%. Acquisitions within this segment increased sales by $280.2 million or 14.2%. Unfavorable foreign currency translation decreased sales by $36.5 million or 1.8%. Excluding the impact of businesses acquired and unfavorable currency translation impact, sales increased $37.7 million or 1.9%.

Sales of our Fluid Power Businesses segment, which operates primarily in OEM markets, increased $10.3 million or 2.1%, primarily attributed to strong sales growth at several of our U.S. based Fluid Power businesses which added $17.1 million or 3.5%, while unfavorable foreign currency translation decreased sales by $6.8 million or 1.4%.

Sales in our U.S. operations were up $207.1 million or 10.2%, with acquisitions adding $175.8 million or 8.7%. Sales from our Canadian operations increased $67.5 million or 23.2%, with acquisitions adding $86.4 million or 29.7%. Unfavorable foreign currency translation decreased Canadian sales by $30.4 million or 10.4%. Excluding the impact of businesses acquired and prior to the impact of currency translation, sales were up $11.5 million or 3.9% during the year. Consolidated sales from our other country operations, which include Mexico, Australia and New Zealand, were $17.1 million or 12.4% above the prior year, with acquisitions adding sales of $18.0 million or 13.1%. Unfavorable foreign currency translation decreased other country sales by $12.9 million or 9.4%. Excluding the impact of businesses acquired and prior to the impact of currency translation, sales were up $12.0 million or 8.7% during the year.

The sales product mix for fiscal 2015 was 73.2% industrial products and 26.8% fluid power products compared to 70.7% industrial and 29.3% fluid power in the prior year. These changes in product mix relate entirely to the product mix of our recent acquisitions being primarily industrial products.

Our gross profit margin was 28.0% in fiscal 2015 versus 27.9% in fiscal 2014. The increased margins are attributable to the impact of relatively higher gross margins from acquired operations.

Selling, distribution and administrative expenses (SD&A) consist of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management, and providing marketing and distribution of the Company’s products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, legal, facility related expenses and expenses incurred with acquiring businesses. SD&A increased $62.6 million or 12.0% during fiscal 2015 compared to the prior year, and as a percent of sales increased to 21.3% from 21.2% in fiscal 2014. The acquired businesses added an incremental $69.4 million of SD&A expenses, which includes an additional $13.4 million associated with acquired identifiable intangibles amortization. Excluding the $11.0 million decline in SD&A from foreign currency translation, the remaining SD&A amounts were similar to the prior year. The increase in SD&A as a percentage of sales, was driven by additional intangible asset amortization from businesses acquired.

Operating income increased $20.3 million, or 12.3%, to $184.6 million during fiscal 2015 from $164.4 million during 2014, and as a percent of sales, remained stable at 6.7%. The increase in operating income dollars is primarily attributable to our acquired businesses.

Operating income as a percentage of sales for the Service Center Based Distribution segment increased to 6.2% in fiscal 2015 from 6.0% in fiscal 2014. This increase is primarily attributable to an increase in gross profit as a percentage of sales, as a result of our recent acquisitions which operate at higher gross profit margins, representing an increase of 0.1%, along with a decrease in SD&A as a percentage of sales of 0.1%.

Operating income as a percentage of sales for the Fluid Power Businesses segment increased to 9.8% in fiscal 2015 from 9.2% in fiscal 2014. This increase is primarily attributable to the leveraging of organic sales growth in our U.S. based Fluid Power Businesses, without a commensurate increase in SD&A expenses.

Segment operating income is impacted by changes in the amounts and levels of expenses allocated to the segments. The expense allocations include corporate charges for working capital, logistics support and other items and impact segment gross profit and operating expense.

Interest expense, net, increased to $7.9 million in fiscal 2015 entirely due to acquisition related borrowing.

Other expense (income), net, represents certain non-operating items of income and expense. This was $0.9 million of expense in fiscal 2015 compared to $2.2 million of income in fiscal 2014. Current year expense primarily consists of foreign currency transaction losses of $1.3 million offset by unrealized gains on investments held by non-qualified

Table of Contents

deferred compensation trusts of $0.4 million. Fiscal 2014 consisted primarily of unrealized gains on investments held by non-qualified deferred compensation trusts of $1.7 million as well as $1.3 million of income associated with the elimination of the one-month Canadian and Mexican reporting lags (see note 1 in Item 8 under the caption "Financial Statements and Supplementary Data"), offset by foreign currency transaction losses of $0.8 million.

Income tax expense as a percent of income before taxes was 34.3% for fiscal 2015 and 32.1% for fiscal 2014. This increase in the effective rate is due to recording of valuation allowances against certain deferred tax assets for foreign jurisdictions in fiscal 2015 as well as the non-recurrence of a one-time favorable tax benefit in fiscal 2014 in accounting for undistributed earnings of non-U.S. subsidiaries. All undistributed earnings of our foreign subsidiaries are considered to be permanently reinvested at June 30, 2015 and 2014.

We expect our income tax rate for fiscal 2016 to be in the range of 34.0% to 34.5%.

As a result of the factors addressed above, net income for fiscal 2015 increased $2.7 million or 2.4% from the prior year. Net income per share increased at a slightly higher rate of 4.9% due to lower weighted-average shares outstanding in fiscal 2015.

At June 30, 2015, we had a total of 565 operating facilities in the United States, Puerto Rico, Canada, Mexico, Australia and New Zealand, versus 538 at June 30, 2014.

The number of Company employees was 5,839 at June 30, 2015 and 5,472 at June 30, 2014.

YEAR ENDED JUNE 30, 2014 vs. 2013

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

	Year Ended June 30, As a % of Net Sales		Change in $'s Versus Prior Period % Increase
	2014	2013	
Net Sales	100.0 %	100.0 %	(0.1)%
Gross Profit Margin	27.9 %	27.7 %	0.6 %
Selling, Distribution & Administrative	21.2 %	20.6 %	3.2 %
Operating Income	6.7 %	7.2 %	(6.8)%
Net Income	4.6 %	4.8 %	(4.5)%

Sales in fiscal 2014 were $2.46 billion, which was $2.3 million or 0.1% below the 2013 fiscal year. We experienced overall declines in sales from our businesses not acquired in fiscal year 2014 of approximately $34.3 million or 1.4%. There was one additional selling day in fiscal 2014 as compared to fiscal 2013. Currency translation decreased fiscal year sales by approximately $26.2 million or 1.1%. Incremental sales from companies acquired since the 2013 fiscal year contributed $58.2 million or 2.4%.

Sales of our Service Center Based Distribution segment, which operates primarily in MRO markets, decreased $30.1 million, or 1.5%. This decline was due to decreases in sales from businesses not acquired in fiscal year 2014 of $62.5 million or 3.1% coupled with an unfavorable impact of foreign currency translation of $23.1 million or 1.2%. Offseting these decreases was acquisitions, which added $55.5 million or 2.8%.

Sales of our Fluid Power Businesses segment, which operates primarily in OEM markets, increased $27.8 million or 6.1%. We experienced sales growth at several of our Fluid Power businesses which added $29.9 million or 6.6% along with acquisitions within this segment which added $2.8 million or 0.6%, while unfavorable foreign currency translation losses decreased sales by $4.9 million or 1.1%.

Sales in our U.S. operations were up $14.0 million or 0.7% with acquisitions adding $32.8 million or 1.6% offsetting declines in sales from our businesses not acquired in fiscal year 2014 of $18.8 million or 0.9%. Sales from our Canadian operations decreased $7.2 million or 2.4%. Acquisitions added $19.3 million or 6.5%, offset by unfavorable foreign currency translation losses which reduced sales by $17.5 million or 5.9% coupled with declines in sales from our businesses not acquired in fiscal year 2014 of $9.0 million or 3.0%, mostly as a result of weakness within the Canadian mining sector. Consolidated sales from our other country operations, which include Mexico, Australia and

New Zealand, were $9.1 million or 6.2% below the 2013 fiscal year. This decrease is primarily the result of unfavorable foreign currency translation losses of $8.7 million or 5.9%, coupled with declines in sales of $6.5 million or 4.4%, mostly within the mining sector, from our businesses not acquired in fiscal year 2014, while acquisitions added $6.1 million or 4.2% in fiscal 2014.

Table of Contents

The sales product mix for fiscal 2014 was 70.7% industrial products and 29.3% fluid power products compared to 72.1% industrial and 27.9% fluid power in fiscal year 2013. The change in our product mix in fiscal year 2014 was due to sales growth within our Fluid Power Businesses segment coupled with sales declines in our Service Center Based Distribution segment.

Our gross profit margin was 27.9% in fiscal 2014 versus 27.7% in fiscal 2013. The increased margins were attributable to the impact of relatively higher gross margins from acquired operations.

Selling, distribution and administrative expenses (SD&A) consist of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management, and providing marketing and distribution of the Company’s products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, legal, facility related expenses and expenses incurred with acquiring businesses. SD&A increased $16.0 million or 3.2% during fiscal 2014 compared to fiscal 2013, and as a percent of sales increased to 21.2% from 20.6% in fiscal 2013. The acquired businesses added $19.3 million of SD&A expenses, which included an additional $2.5 million associated with acquired identifiable intangibles amortization. The increase in SD&A as a percentage of sales, was driven by relatively higher SD&A levels from businesses acquired in fiscal year 2014.

Operating income decreased $12.0 million, or 6.8%, to $164.4 million during fiscal 2014 from $176.4 million during 2013. As a percent of sales, operating income decreased to 6.7% in fiscal 2014 from 7.2% in 2013. The decrease in operating income was primarily attributable to relatively flat gross profit levels coupled with added levels of SD&A from businesses acquired in the 2014 fiscal year. The decrease in operating margin percentage was driven by the negative leverage resulting from decreasing sales from businesses not acquired in fiscal year 2014 without a similar level of SD&A reductions, which resulted in an increase in SD&A as a percentage of sales to 21.2% from 20.6% in fiscal year 2013, slightly offset by an increase in gross profit as a percentage of sales to 27.9% from 27.7%.

Operating income as a percentage of sales for the Service Center Based Distribution segment decreased to 6.0% in fiscal 2014 from 6.9% in fiscal 2013. This decrease was attributable to the negative leverage resulting from decreasing sales in businesses not acquired in fiscal year 2014 without a similar level of SD&A reductions, which resulted in an increase in SD&A as a percentage of sales. In addition, SD&A for acquisitions in fiscal year 2014 operated at a relatively higher SD&A level. The SD&A impacts represented an approximate 1.0% reduction in operating income as a percentage of sales and were slightly offset by an increase in gross profit margins also due to acquisitions in fiscal year 2014 (representing an increase of approximately 0.1%) representing the total net change in operating income as a percentage of sales.

Operating income as a percentage of sales for the Fluid Power Businesses segment increased to 9.2% in fiscal 2014 from 9.0% in fiscal 2013. This increase was due to the positive leverage provided by an increase in sales without a commensurate increase in SD&A levels at several of our Fluid Power Businesses (representing a 0.5% increase in operating income as a percentage of sales), offset by a slight decrease in gross profit margins (representing a 0.3 decrease in operating income as a percentage of sales).

Segment operating income was impacted by changes in the amounts and levels of expenses allocated to the segments. The expense allocations included corporate charges for working capital, logistics support and other items and impact segment gross profit and operating expense.

Interest expense, net, remained relatively stable as compared to fiscal year 2013.

Other expense (income), net, represented certain non-operating items of income and expense. This was $2.2 million of income in fiscal 2014 compared to $1.4 million of income in fiscal 2013. Fiscal year 2014 income primarily consisted of unrealized gains on investments held by non-qualified deferred compensation trusts of $1.7 million as well as $1.3 million of income associated with the elimination of the one-month Canadian and Mexican reporting lags (see note 1 in Item 8 under the caption "Financial Statements and Supplementary Data"), offset by foreign currency transaction losses of $0.8 million. Fiscal 2013 consisted primarily of unrealized gains on investments held by non-qualified deferred compensation trusts of $1.3 million.

Income tax expense as a percent of income before taxes was 32.1% for fiscal 2014 and 33.5% for fiscal 2013. The impact of lower effective tax rates in foreign jurisdictions favorably reduced our rate when compared to the U.S. federal statutory rate by 2.6%. Further reducing our rate compared to the U.S. federal statutory rate by 1.6% was the reversal of a deferred tax liability recorded in the years prior to fiscal 2014 on a portion of the undistributed earnings in Canada. All undistributed earnings of our foreign subsidiaries were considered to be permanently reinvested at June 30, 2014. The effective tax rate for fiscal 2014 was further reduced by 1.1% due to a favorable permanent dividend deduction along with other items. These reductions compared to the U.S. federal statutory rate were offset by the impact of state and local taxes which increased the rate by 2.4%.

Table of Contents

As a result of the factors addressed above, net income for fiscal 2014 decreased $5.3 million or 4.5% from fiscal year 2013. Net income per share decreased at a slightly lower rate of 4.0% due to lower weighted-average shares outstanding in fiscal 2014.

At June 30, 2014, we had a total of 538 operating facilities in the United States, Puerto Rico, Canada, Mexico, Australia and New Zealand, versus 522 at June 30, 2013.

The number of Company employees was 5,472 at June 30, 2014 and 5,109 at June 30, 2013.

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 June 30, 2015 we had total debt obligations outstanding of $321.0 million compared to $170.7 million at June 30, 2014. Management expects that our existing cash, cash equivalents, funds available under the revolving credit and uncommitted shelf facilities, cash provided from operations, and the use of operating leases will be sufficient to finance normal working capital needs in each of the countries we operate in, 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.

The Company holds, from time to time, relatively significant cash and cash equivalent balances outside of the United States of America. The following table shows the Company's total cash as of June 30, 2015 by geographic location; all amounts are in thousands.

Country	Amount
United Sates	$17,256
Canada	40,325
Other Countries	11,889
Total	$69,470

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 June 30, 2015, all foreign earnings are considered permanently reinvested.

The Company’s working capital at June 30, 2015 was $549.2 million compared to $545.2 million at June 30, 2014. The current ratio was 2.8 to 1 at June 30, 2015 and 2.9 to 1 at June 30, 2014.

Net Cash Flows

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

	Year Ended June 30,		
	2015	2014	2013
Net Cash Provided by (Used in):			
Operating Activities	$154,538	$110,110	$111,397
Investing Activities	(173,621)	(203,637)	(78,825)
Financing Activities	24,689	92,142	(38,025)
Exchange Rate Effect	(7,325)	(590)	175
Decrease in Cash and Cash Equivalents	$(1,719)	$(1,975)	$(5,278)

The increase in cash provided by operating activities resulted from the operations of newly acquired businesses along with improved cash collections on accounts receivable within our U.S. based businesses.

Net cash used in investing activities in fiscal 2015 included $14.9 million for capital expenditures and $160.6 million used for acquisitions. Net cash used in investing activities in fiscal 2014 included $20.2 million for capital expenditures, $10.0 million of which was used for the purchase of our headquarters facility, and $184.3 million for acquisitions. Capital expenditures for fiscal 2014 included an insignificant amount related to the ERP project as the portion of that project pertaining to capital spending primarily ended in fiscal 2013. Fiscal 2013 investing cash

Table of Contents

activities included the use of $12.2 million for capital expenditures ($5.6 million related to the ERP project), and $67.6 million for acquisitions.

Net cash provided by financing activities in fiscal 2015 included $170.0 million from borrowings under long term debt facilities used for the financing of acquisitions, offset by $17.0 million of repayments under our revolving credit facility and $2.7 million of long term debt repayments. Further uses of cash were $42.7 million for dividend payments, $76.5 million used to repurchase 1,740,100 shares of treasury stock and $7.7 million of acquisition holdback payments. Net cash provided by financing activities in fiscal 2014 included $100.0 million from borrowings under long term debt facilities as well as $69.0 million in borrowings under our revolving credit facility, both of which were utilized for the financing of acquisitions. These sources of cash were offset by $40.4 million for dividend payments and $36.7 million used to repurchase 759,900 shares of treasury stock. Net cash used in financing activities in fiscal 2013 included $37.2 million for dividend payments and $3.8 million related to acquisition holdback payments, partially offset by $2.6 million of excess tax benefits from share-based compensation.

The increase in dividends over the last three fiscal years is the result of regular increases in our dividend payout rates. We paid dividends of $1.04, $0.96 and $0.88 per share in fiscal 2015, 2014 and 2013, respectively.

Capital Expenditures

We expect capital expenditures for fiscal 2016 to be in the $13.0 million to $15.0 million range, primarily consisting of capital associated with additional information technology equipment and infrastructure investments. Depreciation for fiscal 2016 is expected to be in the range of $16.0 million to $17.0 million.

ERP Project

In fiscal 2011 Applied commenced its ERP (SAP) project to transform the Company's technology platforms and enhance its business information and technology systems for future growth. We have deployed our solution in our Western Canadian operating locations and our traditional U.S. Service Center Based Businesses, excluding recent acquisitions. In fiscal 2014, the Company initiated the conversion to SAP of its related financial and accounting systems, including the receivables, payables, treasury, inventory, fixed assets, general ledger and consolidation systems. All of these underlying financial and accounting systems, except for the consolidation process/system, have been transitioned to SAP during fiscal 2015. The Company expects to convert to a new consolidation process and system at the beginning of fiscal 2016. The Company will continue to evaluate and determine an appropriate deployment schedule for operations in Eastern Canada as well as other operations not on SAP.

Share Repurchases

The Board of Directors has authorized the repurchase of shares of the Company's stock. These purchases may be made in open market and negotiated transactions, from time to time, depending upon market conditions.

At June 30, 2015, we had authorization to purchase an additional 1,247,300 shares.

In fiscal 2015, 2014 and 2013, we repurchased 1,740,100, 759,900 and 1,300 shares of the Company's common stock, respectively, at an average price per share of $43.97, $48.34 and $40.96, respectively.

Borrowing Arrangements

The Company has a revolving credit facility with a group of banks expiring in May 2017. This agreement provides for unsecured borrowings of up to $150.0 million. 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, prime, or the bank's cost of funds at the Company's discretion. This agreement also enables the Company to refinance this debt on a long term basis. As of June 30, 2015 and 2014, the Company had $52.0 million and $69.0 million in borrowings outstanding under this credit facility, respectively. Unused lines under this facility at June 30, 2015, net of outstanding letters of credit of $3.8 million, totaled $94.2 million and are available to fund future acquisitions or other capital and operating requirements. The weighted-average interest rate on the revolving credit facility borrowings as of June 30, 2015 was 1.15%.

Additionally at June 30, 2015, the Company had letters of credit outstanding with a separate bank, in the amount of $1.8 million, in order to secure certain insurance obligations.

In April 2014 the Company entered into a $100.0 million unsecured five-year term loan with a group of banks with a final maturity date in April 2019. Borrowings under this agreement carry a variable interest rate tied to LIBOR, which at June 30, 2015 was 1.19%. The term loan had $96.9 million outstanding at June 30, 2015.

Also in April 2014, the Company assumed $2.4 million of debt as a part of the acquisition of our headquarters facility. The 1.5% fixed interest rate note is held by the State of Ohio Development Services Agency and matures in May 2024. We had $2.1 million outstanding under this note at June 30, 2015.

Table of Contents

At June 30, 2015 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%; the principal is due in equal 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%; the principal is due in equal payments in October 2019 and 2023. As of June 30, 2015, $50.0 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 June 30, 2015, the most restrictive of these covenants required that the Company have net indebtedness less than three times consolidated income before interest, taxes, depreciation and amortization. At June 30, 2015, 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 June 30, 2015 and expects to remain in compliance during the terms of the agreements.

Accounts Receivable Analysis

The following table is included to aid in analysis of accounts receivable and the associated provision for losses on accounts receivable (all dollar amounts are in thousands):

June 30,	2015	2014
Accounts receivable, gross	$386,926	$386,117
Allowance for doubtful accounts	10,621	10,385
Accounts receivable, net	$376,305	$375,732
Allowance for doubtful accounts, % of gross receivables	2.7 %	2.7 %

Year Ended June 30,	2015	2014
Provision for losses on accounts receivable	$2,597	$3,970
Provision as a % of net sales	0.09 %	0.16 %

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 June 30, 2015 versus 51.4 at June 30, 2014. Accounts receivable increased 0.2% this year, compared to an increase of 11.9% in sales in the twelve months ended June 30, 2015. Acquisitions added $29.3 million, or 7.8%, of accounts receivable, changes in foreign currency rates decreased receivables by $15.6 million and improved collections led to a decrease in receivables of $13.1 million. We primarily attribute the decrease in DSO to the improved timing of collections within our traditional U.S. Service Center Based Distribution Businesses. DSO and past due balances have declined now that all traditional U.S. Service Center Based Distribution Businesses have been fully operational on the new ERP system for all of fiscal 2015.

Approximately 4.2% of our accounts receivable balances are more than 90 days past due at June 30, 2015 compared to 5.7% at June 30, 2014. This improvement relates to our U.S. Service Center Based Businesses. On an overall basis, our provision for losses from uncollected receivables represents 0.09% of our sales in the year ended June 30, 2015. Historically, this percentage is around 0.10% to 0.15%. Our experience with losses on accounts which have uncollected receivables was better than our historical averages in fiscal 2015. Management believes the overall receivables aging and provision for losses on uncollected receivables are at reasonable levels, and that past due balances will continue to decline in fiscal 2016.

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 uses inventory valued at average costs. The annualized inventory turnover (using average costs) for the period ended June 30, 2015 was 3.7 versus 3.8 at June 30, 2014. This decrease is due to the impact of recent acquisitions which historically have had lower inventory turnover rates, coupled with strategic inventory investments that we believe will assist with future sales growth. We believe our inventory turnover ratio in fiscal 2016 will be slightly better than our fiscal 2015 levels.

Table of Contents

CONTRACTUAL OBLIGATIONS

The following table shows the approximate value of the Company's contractual obligations and other commitments to make future payments as of June 30, 2015 (in thousands):

	Total	Period Less Than 1 yr	Period 2-3 yrs	Period 4-5 yrs	Period Over 5 yrs	Other
Operating leases	$82,400	$24,900	$34,300	$16,700	$6,500	
Planned funding of post-retirement obligations	27,200	5,400	3,800	6,700	11,300	
Unrecognized income tax benefit liabilities, including interest and penalties	3,100					3,100
Long term debt obligations	321,000	3,300	63,100	108,600	146,000	
Interest on long term debt obligations (1)	37,100	6,600	13,000	11,000	6,500	
Acquisition holdback payments	29,600	19,200	10,400			
Total Contractual Cash Obligations	$500,400	$59,400	$124,600	$143,000	$170,300	$3,100

(1) Amounts represent estimated contractual interest payments on outstanding long-term debt obligations. Rates in effect as of June 30, 2015 are used for variable rate debt.

Purchase orders for inventory and other goods and services are not included in our estimates as we are unable to aggregate the amount of such purchase orders that represent enforceable and legally binding agreements specifying all significant terms. The previous table includes the gross liability for unrecognized income tax benefits including interest and penalties as well as the balance outstanding under our revolving credit facility in the "Other" column as the Company is unable to make a reasonable estimate regarding the timing of cash settlements, if any, with the respective taxing authorities or lenders.

SUBSEQUENT EVENTS

On August 3, 2015, the Company acquired all of the net assets of Atlantic Fasteners, located in Agawam, MA, for a purchase price of approximately $12.5 million. The Company funded this acquisition from borrowings under the revolving credit facility at a variable interest rate. As a a distributor of fasteners and industrial supplies, this business will be included in the Service Center Based Distribution Segment from August 3, 2015.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates at a specific point in time that affect the amounts reported in the consolidated financial statements and disclosed in the accompanying notes. The Business and Accounting Policies note to the consolidated financial statements describes the significant accounting policies and methods used in preparation of the consolidated financial statements. Estimates are used for, but not limited to, determining the net carrying value of trade accounts receivable, inventories, recording self-insurance liabilities and other accrued liabilities. Estimates are also used in establishing opening balances in relation to purchase accounting. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

LIFO Inventory Valuation and Methodology

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. We adopted the link chain dollar value LIFO method for accounting for U.S. inventories in fiscal 1974. Approximately 22.1% of our domestic inventory dollars relate to LIFO layers added in the 1970s. The excess of average cost over LIFO cost is $151.8 million as reflected in our consolidated balance sheet at June 30, 2015. The Company maintains five LIFO pools based on the following product groupings: bearings, power transmission products, rubber products, fluid power products and other products.

LIFO layers and/or liquidations are determined consistently year-to-year. See the Inventories note to the consolidated financial statements in Item 8 under the caption "Financial Statements and Supplementary Data, for further information.

Allowances for Slow-Moving and Obsolete Inventories

We evaluate the recoverability of our slow-moving or obsolete inventories at least quarterly. We estimate the recoverable cost of such inventory by product type while considering factors such as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. Our ability to recover our cost for slow moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand and relationships with suppliers.

A significant portion of the products we hold in inventory have long shelf lives, are not highly susceptible to obsolescence and are eligible for return under various supplier return programs.

Allowances for Doubtful Accounts

We evaluate the collectibility of trade accounts receivable based on a combination of factors. Initially, we estimate an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This initial estimate is adjusted based on recent trends of certain customers and industries estimated to be a greater credit risk, trends within the entire customer pool and changes in the overall aging of accounts receivable. While we have a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which we operate could result in higher than expected defaults, and therefore, the need to revise estimates for bad debts. Accounts are written off against the allowance when it becomes evident that collection will not occur.

As of June 30, 2015 and 2014, our allowance for doubtful accounts was 2.7% of gross receivables, for each period. Our provision for losses on accounts receivable was \$2.6 million, \$4.0 million and \$2.3 million in fiscal 2015, 2014 and 2013, respectively.

Goodwill and Intangibles

Goodwill is recognized as the amount by which the cost of an acquired entity exceeds the net amount assigned to assets acquired and liabilities assumed. Goodwill for acquired businesses is accounted for using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective estimated fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired, as well as the estimated life of each asset, can materially impact the net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances through impairment charges, if the asset becomes impaired in the future. As part of acquisition accounting, we also recognize acquired identifiable intangible assets such as customer relationships, vendor relationships, trade names, and non-competition agreements apart from goodwill. Finite-lived identifiable intangibles are evaluated for impairment when changes in conditions indicate carrying value may not be recoverable.

We evaluate goodwill for impairment at the reporting unit level annually as of January 1, and whenever an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Events or circumstances that may result in an impairment review include changes in macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, specific events affecting the reporting unit or sustained decrease in share price. Each year, the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If impairment is indicated in the qualitative assessment, or, if management elects to initially perform a quantitative assessment of goodwill, the impairment test uses a two-step approach. Step one compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired, and the second step of goodwill impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss (if any). Step two compares the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, meaning, the reporting unit's fair value is allocated to all the assets and liabilities of the reporting unit (including unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit is the price paid to acquire the reporting unit. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess.

Goodwill on our consolidated financial statements is related to both the Service Center Based Distribution segment and the Fluid Power Businesses segment. The Company has seven reporting units, which are U.S. Service Centers, MSS, Canada Service Centers, Mexico Service Centers, Australia and New Zealand, Puerto Rico, and Fluid Power. For the goodwill impairment test as of January 1, 2015, the Company performed a quantitative analysis and estimated the fair value of each of the reporting units using a combination of the income approach (also known as the discounted cash flow ("DCF") method, which utilizes the present value of cash flows to estimate fair value) and the market approach, which measures fair value through the analysis of publicly traded companies ("guideline company analysis"), giving equal weight to both methods. The Company concluded that five of the reporting units had material excesses of fair value compared to their carrying amounts. The Company concluded that two reporting

Table of Contents

units (Canada service center and Australia / New Zealand) had excess fair value of approximately $39.0 million and $4.0 million, or fifteen and fourteen percent, respectively when compared to the carrying amounts of approximately $258.0 million and $28.0 million, respectively. 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 market conditions forecast at the assessment date. Assumptions in estimating future cash flows are subject to a high degree of judgment. The Company makes all efforts to forecast future cash flows as accurately as possible with the information available at the time the forecast is made. To this end, the Company evaluates the appropriateness of its assumptions as well as its overall forecasts by comparing projected results of upcoming years with actual results of preceding years and validating that differences therein are reasonable. Key assumptions, all of which are Level 3 inputs, relate to pricing trends, inventory costs, discount rate, customer demand, and the long-term growth and foreign exchange rates. A number of benchmarks from independent industry and other economic publications were also used. Changes in future actual results, assumptions and estimates after the assessment 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.

Self-Insurance Liabilities

We maintain business insurance programs with significant self-insured retention covering workers’ compensation, business, automobile, general product liability and other claims. We accrue estimated losses using actuarial calculations, models and assumptions based on historical loss experience. We also maintain a partially self-insured health benefits plan, which provides medical benefits to U.S. based employees electing coverage. We maintain a reserve for all unpaid medical claims including those incurred but not reported based on historical experience and other assumptions. Although management believes that the estimated liabilities for self-insurance are adequate, the estimates described above may not be indicative of current and future losses. In addition, the actuarial calculations used to estimate self-insurance liabilities are based on numerous assumptions, some of which are subjective. We will continue to adjust our estimated liabilities for self-insurance, as deemed necessary, in the event that future loss experience differs from historical loss patterns.

Pension and Other Post-employment Benefit Plans

The measurement of liabilities related to pension plans and other post-employment benefit plans is based on management’s assumptions related to future events including interest rates, return on pension plan assets, and health care cost trend rates. We evaluate these assumptions and adjust them as necessary. Changes to these assumptions could result in a material change to the Company’s pension obligation causing a related increase or decrease in reported net operating results in the period of change in the estimate. At June 30, 2015, a 1% point change would have the following effects (in thousands):

	One-Percentage Point	
Effect of change in:	Increase	Decrease
Discount rate on liability	$(1,803)	$2,172
Discount rate on net periodic benefit cost	(86)	102

A 1% change in the return on assets is not material as most of the plans are non-qualified and unfunded.

Income Taxes

Deferred income taxes are recorded for estimated future tax effects of differences between the bases of assets and liabilities for financial reporting and income tax purposes, giving consideration to enacted tax laws. As of June 30, 2015, the Company had recognized $6.8 million of net deferred tax liabilities. Valuation allowances are provided against deferred tax assets where it is considered more-likely-than-not that the Company will not realize the benefit of such assets. The remaining net deferred tax asset is the amount management believes is more-likely-than-not of being realized. The realization of these deferred tax assets can be impacted by changes to tax laws, statutory rates and future taxable income levels.

Income taxes on undistributed earnings of non-U.S. subsidiaries are not accrued for the portion of such earnings that management considers to be permanently reinvested. At June 30, 2015, management considered all undistributed earnings of non-U.S. subsidiaries to be permanently reinvested. Undistributed earnings of non-U.S. subsidiaries totaled $139.0 million for which no provision for U.S. income tax had been made.

Table of Contents

CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

This Form 10-K, including 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”, “estimat “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; 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 health care and 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 our Form 10-K, as well as other of our filings with the Securities and Exchange Commission.

Table of Contents

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

Our market risk is impacted by changes in foreign currency exchange rates as well as changes in interest rates.

We occasionally utilize derivative instruments as part of our overall financial risk management policy, but do not use derivative instruments for speculative or trading purposes. We do not currently have any outstanding derivative instruments.

Foreign Currency Exchange Rate Risk

Because we operate throughout North America, Australia and New Zealand and approximately 18.7% of our fiscal year 2015 net sales were generated outside the United States, foreign currency exchange rates can impact our financial position, results of operations and competitive position. The financial statements of foreign subsidiaries are translated into their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities, while income and expenses are translated at average monthly exchange rates. Translation gains and losses are components of other comprehensive income (loss) as reported in the statements of consolidated comprehensive income. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the statements of consolidated income as a component of other expense (income), net. Applied does not currently hedge the net investments in our foreign operations.

During the course of the fiscal year, the Canadian, Australian, Mexican and New Zealand foreign exchange rates decreased in relation to the U.S. dollar by 13.7%, 18.9%, 17.0% and 22.3%, respectively. In the twelve months ended June 30, 2015, we experienced net foreign currency translation losses totaling $58.2 million, which were included in other comprehensive income (loss). We utilize a sensitivity analysis to measure the potential impact on earnings based on a hypothetical 10% change in foreign currency rates. A 10% strengthening from the levels experienced during the year ended June 30, 2015 of the U.S. dollar relative to foreign currencies that affect the Company would have resulted in a $1.4 million decrease in net income for the year ended June 30, 2015. A 10% weakening from the levels experienced during the year ended June 30, 2015 of the U.S. dollar relative to foreign currencies that affect the Company would have resulted in a $1.4 million increase in net income for the year ended June 30, 2015.

Interest Rate Risk

Our primary exposure to interest rate risk results from our outstanding debt obligations with variable interest rates. The levels of fees and interest charged on our various debt facilities are based upon leverage levels and market interest rates.

Our debt facilities outstanding include our revolving credit facility, with a capacity of up to $150.0 million in borrowings and $52.0 million outstanding at June 30, 2015, our $100.0 million five year term loan facility, $96.9 million of which was outstanding at June 30, 2015, $170.0 million outstanding under our unsecured shelf facility agreement, as well as $2.1 million of assumed debt from the purchase of our headquarters facility. We had total average bank borrowings of $191.4 million during fiscal 2015. The impact of a hypothetical 1.0% increase in the interest rates on our average bank borrowings would have resulted in a $1.9 million increase in interest expense. Changes in market interest rates would also impact interest rates on these facilities.

We monitor depository institutions that hold our cash and cash equivalents, primarily for safety of principal and secondarily for maximizing yield on those funds. We diversify our cash and cash equivalents among counterparties to minimize exposure to any of these entities.

For more information relating to borrowing and interest rates, see the “Liquidity and Capital Resources” section of “Management's Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and note 5 to the consolidated financial statements in Item 8. That information is also incorporated here by reference. In addition, see Item 1A, “Risk Factors,” for additional risk factors relating to our business.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Applied Industrial Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2015 and 2014, and the related statements of consolidated income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2015, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 26, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Cleveland, Ohio

August 26, 2015

Table of Contents

STATEMENTS OF CONSOLIDATED INCOME
(In thousands, except per share amounts)

Year Ended June 30,	2015	2014	2013
Net Sales	$2,751,561	$2,459,878	$2,462,171
Cost of Sales	1,981,747	1,772,952	1,779,209
Gross Profit	769,814	686,926	682,962
Selling, Distribution and Administrative, including depreciation	585,195	522,568	506,563
Operating Income	184,619	164,358	176,399
Interest Expense	8,121	900	621
Interest Income	(252)	(651)	(456)
Other Expense (Income), net	879	(2,153)	(1,431)
Income Before Income Taxes	175,871	166,262	177,665
Income Tax Expense	60,387	53,441	59,516
Net Income	$115,484	$112,821	$118,149
Net Income Per Share — Basic	$2.82	$2.69	$2.81
Net Income Per Share — Diluted	$2.80	$2.67	$2.78

See notes to consolidated financial statements.

Table of Contents

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(In thousands)

Year Ended June 30,	2015	2014	2013
Net income per the statements of consolidated income	$115,484	$112,821	$118,149
Other comprehensive (loss) income, before tax:			
Foreign currency translation adjustments	(58,233)	629	(1,358)
Postemployment benefits:			
Actuarial (loss) gain on remeasurement	(776)	1,402	3,153
Reclassification of actuarial losses and prior service cost into SD&A expense and included in net periodic pension costs	286	382	872
Unrealized (loss) gain on investment securities available for sale	(38)	112	10
Total other comprehensive (loss) income, before tax	(58,761)	2,525	2,677
Income tax (benefit) expense related to items of other comprehensive income (loss)	(205)	719	1,529
Other comprehensive (loss) income, net of tax	(58,556)	1,806	1,148
Comprehensive income	$56,928	$114,627	$119,297

See notes to consolidated financial statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS
(In thousands)

June 30,	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$69,470	$71,189
Accounts receivable, less allowances of $10,621 and $10,385	376,305	375,732
Inventories	362,419	335,747
Other current assets	51,111	53,480
Total current assets	859,305	836,148
Property — at cost		
Land	12,950	13,212
Buildings	89,325	89,886
Equipment, including computers and software	166,515	157,370
Total property — at cost	268,790	260,468
Less accumulated depreciation	164,343	156,872
Property — net	104,447	103,596
Identifiable intangibles, net	198,828	159,508
Goodwill	254,406	193,494
Deferred tax assets	97	21,166
Other assets	17,885	20,257
Total Assets	$1,434,968	$1,334,169
Liabilities		
Current liabilities		
Accounts payable	$179,825	$172,401
Current portion of long term debt	3,349	2,720
Compensation and related benefits	63,780	55,760
Other current liabilities	63,118	60,074
Total current liabilities	310,072	290,955
Long-term debt	317,646	167,992
Post-employment benefits	19,627	23,611
Other liabilities	46,295	51,303
Total Liabilities	693,640	533,861
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	10,000	10,000
Additional paid-in capital	160,072	156,999
Retained earnings	969,548	896,776
Treasury shares — at cost (14,308 and 12,650 shares)	(338,121)	(261,852)
Accumulated other comprehensive income (loss)	(60,171)	(1,615)
Total Shareholders' Equity	741,328	800,308
Total Liabilities and Shareholders' Equity	$1,434,968	$1,334,169

See notes to consolidated financial statements.

Table of Contents

STATEMENTS OF CONSOLIDATED CASH FLOWS
(In thousands)

Year Ended June 30,	2015	2014	2013
Cash Flows from Operating Activities			
Net income	$115,484	$112,821	$118,149
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property	16,578	13,977	12,501
Amortization of intangibles	25,797	14,023	13,233
Amortization of stock appreciation rights and options	1,610	1,808	2,317
Deferred income taxes	(4,961)	(8,209)	10,179
Provision for losses on accounts receivable	2,597	3,970	2,267
Unrealized foreign exchange transaction losses (gains)	(727)	204	(1,410)
Other share-based compensation expense	2,851	2,703	3,444
Shares issued for deferred compensation plans	45	161	241
Gain on sale of property	(1,291)	(53)	(321)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	13,129	(29,089)	(15,721)
Inventories	(15,704)	(29,171)	(26,745)
Other operating assets	797	17,966	(7,857)
Accounts payable	1,040	21,369	12,206
Other operating liabilities	(2,707)	(12,370)	(11,086)
Cash provided by Operating Activities	154,538	110,110	111,397
Cash Flows from Investing Activities			
Property purchases	(14,933)	(20,190)	(12,214)
Proceeds from property sales	1,932	877	979
Net cash paid for acquisition of businesses, net of cash acquired of $0, $1,369, and $0 in 2015, 2014 and 2013, respectively	(160,620)	(184,324)	(67,590)
Cash used in Investing Activities	(173,621)	(203,637)	(78,825)
Cash Flows from Financing Activities			
Net (repayments) borrowings under revolving credit facility, classified as long term	(17,000)	69,000	—
Borrowings under long term debt facilities	170,000	100,000	—
Long term debt repayments	(2,717)	(647)	—
Purchases of treasury shares	(76,515)	(36,732)	(53)
Dividends paid	(42,663)	(40,410)	(37,194)
Excess tax benefits from share-based compensation	1,042	2,674	2,566
Acquisition holdback payments	(7,693)	(1,839)	(3,843)
Exercise of stock appreciation rights and options	235	96	499
Cash provided by (used in) Financing Activities	24,689	92,142	(38,025)
Effect of exchange rate changes on cash	(7,325)	(590)	175
Decrease in cash and cash equivalents	(1,719)	(1,975)	(5,278)
Cash and cash equivalents at beginning of year	71,189	73,164	78,442
Cash and Cash Equivalents at End of Year	$69,470	$71,189	$73,164
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	$69,272	$51,548	$51,816
Interest	5,851	1,026	501

See notes to consolidated financial statements.

Table of Contents

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY
(In thousands)

For the Years Ended June 30, 2015, 2014 and 2013	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares-at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2012	41,967	$10,000	$150,070	$743,360	$(226,730)	$ (4,569)	$ 672,131
Net income				118,149			118,149
Other comprehensive income (loss)						1,148	1,148
Cash dividends — $0.88 per share				(37,194)			(37,194)
Purchases of common stock for treasury	(1)				(53)		(53)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	129		(175)		1,086		911
Performance share awards	53		(1,675)		74		(1,601)
Deferred compensation plans	5		131		110		241
Compensation expense — stock appreciation rights and options			2,317				2,317
Other share-based compensation expense			3,444				3,444
Other	16		(219)	47	294		122
Balance at June 30, 2013	42,169	10,000	153,893	824,362	(225,219)	(3,421)	759,615
Net income				112,821			112,821
Other comprehensive income (loss)						1,806	1,806
Cash dividends — $0.96 per share				(40,410)			(40,410)
Purchases of common stock for treasury	(760)				(36,732)		(36,732)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	76		849		324		1,173
Performance share awards	36		(1,062)		(21)		(1,083)
Restricted stock units	31		(1,110)		(247)		(1,357