APPLIED INDUSTRIAL TECHNOLOGIES INC
Form DEF 14A
September 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

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

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

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

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

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

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

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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1 APPLIED PLAZA

CLEVELAND, OHIO 44115

(216) 426-4000

www.applied.com

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Tuesday, October 25, 2016

10:00 a.m. Eastern Time

Dear Shareholder:

We are pleased to invite you to the 2016 annual meeting of the shareholders of Applied Industrial Technologies, Inc. The meeting will be at our headquarters, 1 Applied Plaza, East 36th Street and Euclid Avenue, Cleveland, Ohio, 44115 on Tuesday, October 25, 2016, at 10:00 a.m. Eastern Time. The meeting will be held for the following purposes:

1. To elect three directors;

2. To approve, through a nonbinding advisory vote, the compensation of Applied s named executive officers as disclosed in the attached proxy statement; and

3. To ratify the Audit Committee s appointment of independent auditors for the fiscal year ending June 30, 2017.

Shareholders of record at the close of business on August 26, 2016, are entitled to vote at the meeting. The transfer books will not be closed. A list of shareholders as of the record date will be available for examination at the meeting.

The attached proxy statement describes the business of the meeting and provides information about our corporate governance.

Fred D. Bauer

Vice President-General Counsel

& Secretary

September 9, 2016

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

Important Notice Regarding the Availability of Proxy Materials for the

Shareholder Meeting to be Held on October 25, 2016.

The Proxy Statement and 2016 Annual Report to Shareholders are available at

www.applied.com/proxy

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PROXY STATEMENT

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INTRODUCTION AND VOTING INFORMATION

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

What is the proxy statement s purpose?

The proxy statement summarizes information you need to vote at our 2016 annual meeting of shareholders to be held on Tuesday, October 25, 2016, at 10:00 a.m. Eastern Time, at our headquarters, and any adjournment of the meeting. We are sending the proxy statement to you because Applied s Board of Directors is soliciting your proxy to vote your shares at the meeting. The proxy statement and accompanying proxy card are being sent to record date shareholders on or about September 9, 2016.

On what matters are shareholders voting?

1. To elect three directors;

2. To approve, through a nonbinding advisory vote, the compensation of Applied s named executive officers as disclosed in the proxy statement; and

3. To ratify the Audit Committee s appointment of independent auditors for the fiscal year ending June 30, 2017.

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

Only shareholders of record at the close of business on August 26, 2016, may vote. As of that date, there were 39,090,055 outstanding shares of Applied common stock, without par value. The holders of a majority of those shares will constitute a quorum. A quorum is necessary for valid action to be taken at the meeting.

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

How many votes do I have?

Each shareholder is entitled to one vote per share.

How do I vote?

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

Shareholder of record. If your shares are registered in your name with our registrar, Computershare Trust Company, N.A., you are the shareholder of record and these proxy materials have been sent directly to you. You may vote in person at the meeting. You may also grant us your proxy to vote your shares by telephone, via the Internet, or by mailing your signed proxy card in the postage-paid envelope provided. The card provides voting instructions.

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

Beneficial owner of shares held in Applied s Retirement Savings Plan. If you own shares in this company plan, you may provide the plan trustee with instructions on how to vote your shares by telephone, via the Internet, or by mailing in your signed voting instructions card.

Votes submitted by telephone or online for shares held in the Retirement Savings Plan must be received by Thursday, October 20, 2016; votes by telephone or online for other shares must be received by Monday, October 24, 2016.

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

What if I don t indicate my voting choices?

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

What effect do abstentions and broker non-votes have?

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

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

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

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

Item 3. The affirmative vote of a majority of the votes cast at the meeting is required to approve Item 3. In determining votes cast on the item, abstentions will not count as votes cast and, accordingly, will not affect the outcome. Brokers have discretionary authority to vote on Item 3, so there will be no broker non-votes on that item.

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

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

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

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

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

May I revoke my proxy?

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

Who pays the costs of soliciting proxies?

Applied pays these costs. We will also pay the standard charges and expenses of brokers or other nominees for forwarding these materials to, and obtaining proxies from, beneficial owners. Directors, officers, and other employees, acting on our behalf, may solicit proxies. We have also retained Morrow & Co., LLC, at an estimated fee of $7,500 plus expenses, to aid in soliciting proxies from brokers and institutional holders. In addition to using the mail, proxies may be solicited personally and by telephone, facsimile, or other electronic means.

Who counts the votes?

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

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ITEM 1 ELECTION OF DIRECTORS

Applied s Code of Regulations divides our Board into three classes. The directors in each class are elected for three-year terms so that the term of one class expires at each annual meeting. At the 2016 annual meeting, the shareholders will elect directors for a three-year term expiring in 2019 or until their successors have been elected and qualified. Pursuant to Ohio law, the properly nominated candidates receiving the greatest number of votes will be elected.

The Corporate Governance Committee recommended, and the Board nominated, three incumbents for election as directors: L. Thomas Hiltz, Edith Kelly-Green, and Dan P. Komnenovich. They were most recently elected at the 2013 annual meeting and their terms expire this year. The Board renominated them following the Corporate Governance Committee s review and evaluation of their performance. Directors serving for terms expiring in 2017 and 2018 will continue in office.

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

The Board of Directors recommends you vote FOR the director nominees.

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

Nominees for Election as Directors with Terms Expiring in 2019

L. Thomas Hiltz

Director since 1981, member of Corporate Governance and Executive Committees

Business Experience. Mr. Hiltz, age 70, is an attorney in Covington, Kentucky and is one of five trustees of the H.C.S. Foundation, a charitable trust which has sole voting and dispositive power with respect to 500,000 shares (as of June 30, 2016) of Applied stock.

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

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Edith Kelly-Green

Director since 2002, member of Audit and Corporate Governance Committees

Business Experience. Until retiring in 2003, Ms. Kelly-Green, age 63, was Vice President and Chief Sourcing Officer of FedEx Express, the world s largest express transportation company and a subsidiary of FedEx Corporation (NYSE: FDX).

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

Dan P. Komnenovich

Director since 2012, member of Audit and Corporate Governance Committees

Business Experience. Until his retirement in August 2013, Mr. Komnenovich, age 64, was President and Chief Executive Officer of Aviall, Inc., a wholly owned subsidiary of The Boeing Company (NYSE: BA). Aviall is one of the world s largest providers of new aviation parts and related aftermarket operations. It also provides maintenance for aviation batteries, wheels, and brakes, as well as hose assembly, kitting, and paint-mixing services, and offers a complete set of supply chain and logistics services, including order processing, stocking and fulfillment, automated inventory management, and reverse logistics to OEMs and customers.

Qualifications. Mr. Komnenovich led a global multi-billion dollar distribution company which grew significantly during his service as a senior executive. He brings to our Board extensive experience with distribution sales, marketing, operations, supply chain management, and logistics. Earlier in his career, Mr. Komnenovich was a Certified Public Accountant and served in finance and accounting roles with various companies.

Continuing Directors with Terms Expiring in 2017

John F. Meier

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

Business Experience. Until retiring in 2011, Mr. Meier, age 68, was Chairman and Chief Executive Officer of Libbey Inc. (NYSE Amex: LBY), a leading supplier of glass tableware products in the U.S., Canada, and Mexico, in addition to supplying to other key international markets. From December 2011 through October 2014 he served as Applied s Board Chairman.

Other Directorship in Previous 5 Years. Cooper Tire & Rubber Company (NYSE: CTB)

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

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Neil A. Schrimsher

Director since 2011, member of Executive Committee

Business Experience. Mr. Schrimsher, age 52, joined Applied as our Chief Executive Officer in October 2011 and was also elected President in August 2013. From 2010 to 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 President of Cooper Lighting, Inc. throughout the period from 2006 to 2010.

Other Directorship in Previous 5 Years. Patterson Companies, Inc. (NASDAQ: PDCO; since 2014)

Qualifications. Mr. Schrimsher is the only Applied executive to serve on the Board. Since joining Applied, he has acquired a deep understanding of the company s businesses, markets, and competitive landscape. From his prior employment, Mr. Schrimsher has brought to Applied and its Board broad leadership experience, including management of worldwide operations, distribution management, strategic planning and analysis, manufacturing, engineering, supply chain management, and sourcing.

Peter C. Wallace

Director since 2005, Board Chairman since October 2014, member of Executive Organization & Compensation and Executive Committees

Business Experience. Mr. Wallace, age 62, most recently was Chief Executive Officer of Gardner Denver, Inc. from June 2014 until retiring in December 2015. Gardner Denver is a privately owned worldwide manufacturer of highly engineered products, including compressors, liquid ring pumps, and blowers for various industrial, medical, environmental, transportation, and process applications, pumps used in the petroleum and industrial market segments, and other fluid transfer equipment. Prior to joining Gardner Denver, Mr. Wallace was President and Chief Executive Officer, and a director, of Robbins & Myers, Inc. (formerly NYSE: RBN), from 2004 until it was acquired in February 2013 by National Oilwell Varco, Inc. Robbins & Myers was a leading designer, manufacturer, and marketer of highly engineered, application-critical equipment and systems for energy, chemical, pharmaceutical, and industrial markets worldwide.

Other Directorships in Previous 5 Years. Curtiss-Wright Corporation (NYSE: CW; since 2016), Rogers Corporation (NYSE: ROG), Robbins & Myers, Inc. (until 2013), Parker Drilling Company (NYSE: PKD; from 2013 to 2014)

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

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Continuing Directors with Terms Expiring in 2018

Peter A. Dorsman

Director since 2002, member of Executive Organization & Compensation and Executive Committees

Business Experience. Mr. Dorsman, age 61, retired from NCR Corporation (NYSE: NCR) in April 2014. NCR is a global technology company providing assisted and self-service solutions and comprehensive support services that address the needs of retail, financial, hospitality, technology, and telecommunication organizations throughout the world. As Executive Vice President, Services since July 2012, Mr. Dorsman led NCR Services, a leading global provider of outsourced and managed service offerings. He was also responsible for customer experience, continuous improvement, and quality throughout NCR, serving as Chief Quality Officer during this period. He served as NCR s Executive Vice President, Industry Solutions Group and Global Operations from November 2011 to July 2012, and, before then, Senior Vice President, Global Operations.

Qualifications. Mr. Dorsman has broad experience in marketing, sales, strategy, and operations. At NCR, a $6 billion dollar company, he led 11,000 service professionals serving customers in over 90 countries. He also led NCR s efforts to provide consistent, world-class service delivery, products, and solutions. With his diverse background and expertise, he contributes insights about many aspects of our business operations and initiatives.

Vincent K. Petrella

Director since 2012, member of Audit, Executive Organization & Compensation, and Executive Committees

Business Experience. Mr. Petrella, age 56, is Executive Vice President, Chief Financial Officer and Treasurer of Lincoln Electric Holdings, Inc. (NASDAQ: LECO). Lincoln Electric engages in the design, manufacture, and sale of welding, cutting, and brazing products worldwide.

Qualifications. As one of Lincoln Electric s top executives, Mr. Petrella has helped lead the company s global expansion over the last decade. His leadership and operating experience, and his knowledge of industrial distribution in North America and abroad, make him a key contributor to discussions about Applied s strategy. In addition, Mr. Petrella s finance and accounting background (before joining Lincoln Electric he was a Certified Public Accountant with an international public accounting firm) and his service as Chief Financial Officer for a multi-billion dollar public company make him a valued member of the Board and chairman of the Audit Committee.

Dr. Jerry Sue Thornton

Director since 1994, member of Corporate Governance Committee

Business Experience. Dr. Thornton, age 69, retired in June 2013 after serving as President of Cuyahoga Community College, the largest multi-campus community college in Ohio, for more than 20 years. Upon her retirement, Cuyahoga Community College honored her with the title of President Emeritus.

Other Directorships in Previous 5 Years. Barnes & Noble Education, Inc. (NYSE: BNED; since 2015); FirstEnergy Corp. (NYSE: FE; since 2015), RPM, Inc. (NYSE: RPM), American Greetings Corporation (formerly NYSE: AM; until 2013)

Qualifications. Dr. Thornton is a preeminent educator with significant experience in career training. Our workforce is our most important resource, and her background and skills help the Board monitor Applied s efforts to maximize our associates potential. Having served as Cuyahoga Community College s longtime President, overseeing a budget of over $330 million, she also contributes broad general management skills to Applied s Board. In addition, Dr. Thornton has extensive service as a director of other NYSE-listed companies, including participation on numerous key board committees.

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CORPORATE GOVERNANCE

Corporate Governance Documents

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

- Code of Business Ethics,
- Board of Directors Governance Principles and Practices,
- Director Independence Standards, and
- Charters for the Audit, Corporate Governance, and Executive Organization & Compensation Committees of our Board.

Director Independence

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

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

Director Attendance at Meetings

During the fiscal year ended June 30, 2016, the Board held five meetings. Each director attended at least 75% of the total number of meetings of the Board and the committees on which he or she served.

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

Meetings of Non-Management Directors

At the Board s regular meetings, the non-management directors meet in executive sessions without management. Mr. Wallace, the Board s independent Chairman, calls and presides at the sessions. On the independent directors behalf, the Chairman provides feedback to management from the sessions, collaborates with management in developing Board meeting schedules and agendas, and performs other duties as determined by the Board or the Corporate Governance Committee.

Board Leadership Structure

The Board periodically evaluates its leadership structure under circumstances existing at the time. In 2012, the Board concluded it would be in the best interests of Applied and its shareholders to separate the positions of Chairman of the Board and Chief Executive Officer and to have an independent director serve as Chairman. Mr. Wallace currently serves as Chairman.

The Board believes its current leadership structure best serves the Board s oversight of management, the Board s carrying out of its responsibilities on the shareholders behalf, and Applied s overall corporate governance. The Board also believes the separation of the roles allows the Chief Executive Officer to focus his efforts on operating and managing the company.

Committees

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

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The committee members names and number of meetings held in fiscal 2016 follow:

Audit Committee (4 meetings)	Corporate Governance Committee (4 meetings)	Executive Organization & Compensation Committee (6 meetings)
Vincent K. Petrella, Chair	L. Thomas Hiltz, Chair	Peter A. Dorsman, Chair
Edith Kelly-Green	Edith Kelly-Green	John F. Meier
Dan P. Komnenovich	Dan P. Komnenovich	Vincent K. Petrella
John F. Meier	Dr. Jerry Sue Thornton	Peter C. Wallace

We describe the committees below. Their charters, posted via hyperlink from the investor relations area of Applied s website, contain more detailed descriptions. The Board also has a standing Executive Committee which, during intervals between Board meetings and subject to the Board s control and direction, possesses and may exercise the Board s powers. The Executive Committee, whose members include the Chairman, the Chief Executive Officer, and the committee chairs, met twice in fiscal 2016.

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

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

The Audit Committee s report is on page 45 of this proxy statement.

Corporate Governance Committee. The Corporate Governance Committee assists the Board by reviewing and evaluating potential director nominees, Board and CEO performance, Board governance, director compensation, compliance with laws, public policy matters, and other issues. The committee also administers long-term incentive awards to directors under the 2015 Long-Term Performance Plan.

Executive Organization & Compensation Committee. The Executive Organization & Compensation Committee monitors and oversees Applied s management succession planning and leadership development processes, nominates candidates for the slate of officers to be elected by the Board, and reviews, evaluates, and approves executive officers compensation and benefits. The committee also administers incentive awards to executives under the 2015 Long-Term Performance Plan, including the annual Management Incentive Plan. Pay Governance LLC serves as the committee s independent executive compensation consultant.

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

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

Board s Role in Risk Oversight

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

The Board believes that robust communication with management is essential for risk management oversight. Senior management attends quarterly Board meetings and responds to directors questions or concerns about risk management and

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other matters. At these meetings, management regularly presents to the Board on strategic matters involving our operations, and the directors and management engage in dialogue about the company s strategies, challenges, risks, and opportunities. Each year, management reports more broadly on the company s enterprise risk management process. The non-management directors also meet regularly in executive session without management to discuss a variety of topics, including risk.

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

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

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

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

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

Communications with Board of Directors

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

Director Nominations

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

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

Transactions with Related Persons

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

The related party transaction policy applies to a proposed transaction in which Applied is a participant, the aggregate amount involved exceeds $50,000 in a fiscal year, and a director, executive officer or significant shareholder, or an immediate family member of such a person, has a direct or indirect material interest. The policy provides that the Corporate

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Governance Committee will consider, among other things, whether the transaction is on terms no less favorable than those provided to unaffiliated third parties under similar circumstances, and the extent of the related person s interest. No director may participate in discussion or approval of a transaction for which he or she is a related person.

In October 2015, the Board designated Warren E. Hoffner, our Vice President-General Manager, Fluid Power, as an executive officer. Mr. Hoffner joined Applied in 1996 when we acquired a distribution business owned by him and his father. Two related party lease arrangements have survived from the time of the acquisition and been renewed from time to time: (1) we lease a building from a company owned 50% by Mr. Hoffner s father (who retired at the time of the acquisition), at a current rental rate of $150,591 per year, with a term expiring in 2019; and (2) we lease a second building from Mr. Hoffner s father at a current rental rate of $124,760 per year, with a term expiring in 2019. Applied management, using a third-party broker, negotiates the rental rates and other lease terms and we consider them to be market competitive. Following a review, the Corporate Governance Committee ratified the lease transactions.

DIRECTOR COMPENSATION

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

Compensation Review

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

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

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

Components of Compensation Program

The director compensation program s primary components follow:

Quarterly Retainers.

Position	Quarterly Retainer ($)
Each Non-Employee Director	20,000
Board Chairman	Additional 7,500
Audit Committee Chair	Additional 3,750
Corporate Governance Committee Chair	Additional 1,875
Executive Org. & Comp. Committee Chair	Additional 2,500

Meeting Fees. Directors are not paid meeting fees for the first 17 meetings, including actions taken by unanimous written consent, attended each calendar year. For each meeting attended beyond the 17, directors earn (i) $1,500 for the first Board or committee meeting attended per day, and $500 for each additional meeting attended on the same day, up to a maximum of $2,500 per day, and (ii) $500 for an action taken by unanimous written consent. Directors may be similarly compensated if they attend other meetings or telephone conferences at the request of the Chairman or a committee chair.

Long-Term Incentives. Annually, the Corporate Governance Committee considers long-term incentive awards to directors. In 2016, the committee awarded each director 2,114 restricted shares under the 2015 Long-Term Performance Plan. The shares vest one year after the grant date, subject to conditions as to forfeiture and acceleration of vesting.

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Other Benefits. Applied reimburses directors for travel expenses for attending meetings, as well as for attending director education seminars and conferences. The directors also participate in our travel accident insurance plan. Contributory health care coverage, through a third-party plan, is available to directors who joined the Board before 2011; no directors currently participate.

Stock Ownership Guideline

Applied expects each non-employee director to own, within five years after joining the Board, Applied shares valued at a minimum of five times the annual retainer fees, or $400,000. Directors may hold the shares directly or indirectly, but not including unexercised stock options. At June 30, 2016, each director, except one who joined the Board in 2012, owned shares valued in excess of the $400,000 guideline.

Director Compensation Fiscal Year 2016

The following table shows information about non-employee director compensation in 2016.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($) (2)	All Other Compensation ($)	Total ($)
Peter A. Dorsman	85,000	80,332	0	0	165,332
L. Thomas Hiltz	87,500	80,332	0	0	167,832
Edith Kelly-Green	80,000	80,332	0	0	160,332
Dan P. Komnenovich	80,000	80,332	0	0	160,332
John F. Meier	80,000	80,332	0	0	160,332
J. Michael Moore (3)	40,000	0	0	0	40,000
Vincent K. Petrella	95,000	80,332	0	0	175,332
Dr. Jerry Sue Thornton	80,000	80,332	0	0	160,332
Peter C. Wallace	115,000	80,332	0	0	195,332

(1) At June 30, 2016, each current non-employee director held 2,114 restricted shares. These shares will vest in January 2017. Applied pays dividends on restricted stock at the same rate paid to all shareholders and the directors hold voting rights for the shares. The amounts in the table represent the aggregate grant date fair value of the 2016 awards computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation (FASB ASC Topic 718).

(2) At June 30, 2016, the current directors held the corresponding numbers of stock options: Mr. Dorsman, 22,431; Mr. Hiltz, 27,223; Ms. Kelly-Green, 27,223; Mr. Komnenovich, 9,510; Mr. Meier, 27,223; Mr. Petrella, 9,510; Dr. Thornton, 27,223; and Mr. Wallace, 20,546.

(3) Mr. Moore retired from the Board in October 2015.

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HOLDINGS OF MAJOR SHAREHOLDERS, OFFICERS, AND DIRECTORS

The following table shows beneficial ownership of Applied common stock, at June 30, 2016, by (i) persons believed by us to own beneficially more than 5% of Applied s outstanding shares, based on our review of SEC filings, (ii) all directors and nominees, (iii) the named executive officers included in the Summary Compensation Table on page 27, and (iv) all directors, nominees, and executive officers (at June 30, 2016) as a group.

Name of Beneficial Owner	Shares Beneficially Owned on June 30, 2016 (1)	Percent of Class (%) (2)
BlackRock, Inc. 55 East 52nd Street, New York, New York 10022	4,010,300 (3)	10.3
The Vanguard Group, Inc. P.O. Box 2600, Valley Forge, Pennsylvania 19482-2600	3,012,124 (4)	7.7
Thomas E. Armold	51,684	
Todd A. Barlett	66,989 (5)	
Fred D. Bauer	142,972	
Peter A. Dorsman	63,552	
Mark O. Eisele	252,447	
L. Thomas Hiltz	559,559 (6)	1.4
Edith Kelly-Green	65,420	
Dan P. Komnenovich	20,730	
John F. Meier	58,528	
Vincent K. Petrella	18,261	
Neil A. Schrimsher	240,331	
Dr. Jerry Sue Thornton	88,441	
Peter C. Wallace	54,106	
All Directors, Nominees, and Executive Officers as a Group (15 Individuals)	1,755,493 (7)	4.4

(1) We determined beneficial ownership in accordance with SEC rules; however, the holders may disclaim beneficial ownership. Except as otherwise indicated, the beneficial owner has sole voting and dispositive power over the shares. The directors and named executive officers totals include shares that could be acquired within 60 days after June 30, 2016, by exercising vested stock options and stock-settled stock appreciation rights (SARs): Mr. Armold, 20,575; Mr. Barlett, 41,075; Mr. Bauer, 66,250; Mr. Dorsman, 22,431; Mr. Eisele, 93,850; Mr. Hiltz, 27,223; Ms. Kelly-Green, 27,223; Mr. Komnenovich, 9,510; Mr. Meier, 27,223; Mr. Petrella, 9,510; Mr. Schrimsher, 183,200; Dr. Thornton, 27,223; and Mr. Wallace, 20,546. The totals also include shares held in nonqualified deferred compensation plan accounts for which the beneficial owner has voting, but not dispositive power: Mr. Barlett, 10,792; Mr. Dorsman, 35,629; Mr. Eisele, 7,576; Ms. Kelly-Green, 1,857; Mr. Meier, 8,796; Dr. Thornton, 7,019; and Mr. Wallace, 16,012. Each non-employee director s total also includes 2,114 restricted shares, for which the director has voting but not dispositive power. The executive officers totals do not include unvested restricted stock unit holdings.

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

(3) BlackRock, Inc. reported its ownership, including shares beneficially owned by affiliated entities, in a Schedule 13G filed with the SEC on January 8, 2016, indicating it had sole voting power for 3,915,857 shares and no voting power for the remaining shares.

(4) The Vanguard Group, Inc. reported its ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 10, 2016, indicating it had sole voting and dispositive power for 1,861 shares, sole voting and shared dispositive power for 59,970 shares, shared voting and dispositive power for 4,139 shares, and no voting but sole dispositive power for 2,946,154 shares.

(5) Includes 100 shares owned by Mr. Barlett s wife, who has sole voting and dispositive power.

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

(7) Includes 642,039 shares that could be acquired by the individuals within 60 days after June 30, 2016, by exercising vested stock options and SARs. In determining ownership percentage, these stock option and SAR shares are added to both the denominator and the numerator.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis section provides details about the compensation program for Applied s executive officers. It describes the company s compensation philosophy and objectives, roles and responsibilities in making compensation decisions, the components of compensation, and the reasons for compensation adjustments, incentive payments, and long-term incentive grants made in fiscal year 2016.

It focuses in particular on compensation arrangements for the following executive officers (the named executive officers):

- **Neil A. Schrimsher**, President & Chief Executive Officer
- **Mark O. Eisele**, Vice President-Chief Financial Officer & Treasurer
- **Fred D. Bauer**, Vice President-General Counsel & Secretary
- **Todd A. Barlett**, Vice President-Acquisitions and Global Business Development
- **Thomas E. Armold**, Vice President-Sales

This discussion and analysis should be read in conjunction with the Summary Compensation Table on page 27 and the additional tables and narrative disclosure that follow it.

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

2016 Compensation Program Highlights

The Board s Executive Organization & Compensation Committee (the Committee) seeks to align overall compensation with performance in order to maximize Applied s long-term shareholder return. With this objective, in 2016, focusing on the primary pay elements, the Committee took the following actions:

- **Base salary and annual incentive pay**. After considering competitive market data and subjective factors, the Committee made routine annual adjustments to the executive officers base salaries and annual incentive target values.

- **Long-term incentives**. Emphasizing performance in Applied s incentive plans, the Committee awarded approximately half of each executive officer s targeted long-term incentive value in performance shares, tied to key company performance metrics. Stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs) each represented about one-quarter of the targeted long-term incentive value. Accordingly, all long-term incentive awards were equity-based.

Goal-setting is critical to aligning incentive pay with performance, and Applied s 2016 incentive payouts reflect the Committee s discipline in this regard. With continued weak demand in many industrial sectors of the economy, particularly oil-and-gas, metals, and mining, company operating performance largely fell short of goals set at the beginning of the year, as shown below:

	2016 Actual	2016 Goal	2015
Sales	**$2.52 billion**		$2.75 billion
Net Income	**$29.6 million**	$118.3 million	$115.5 million
Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA)	**$196.7 million**	$233.4 million	$228.6 million
Cash Provided by Operating Activities	**$161.0 million**	$127.9 million	$154.5 million
After-Tax Return on Assets (ROA)	**2.2%**	8.3%	7.9%

Results were impacted by a $64.8 million non-cash goodwill impairment charge ($63.8 million after tax). Of this amount, $56.0 million related to our Canadian operations, primarily as a result of the sustained decline in oil and gas drilling activity. The remainder was for our Australian operations, due to the condition of the Australian industrial economy, especially mining. We also recorded $8.8 million of restructuring charges primarily relating to our upstream oil and gas focused operations.

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As a result, the named executive officers earned annual incentive pay at an average of 53% of their individual target values. In addition, shares banked for 2016 under each of the three-year performance share programs were below target values, as shown below:

Performance Shares Program	Banked Award as % of Target Performance Shares for 2016
2014-2016	0%
2015-2017	0%
2016-2018	68.8%

Nevertheless, with gains in our stock price and reinvested dividends, shareholders earned a 17% total return in 2016. The company returned $80.8 million of cash to shareholders through dividends and share repurchases during the year.

The Committee revised the executive officers annual incentive plan in 2016 after reviewing an analysis by the Committee s independent consultant and considering market practices. The Committee adopted an annual cash incentive bonus pool, equal to 2% of EBITDA, under the 2016 Management Incentive Plan and assigned each executive officer a maximum participation percentage of the pool, more closely tying total annual incentive compensation for the officer group to company-wide performance. The change is intended to preserve the tax deductibility of the annual incentive awards, including portions tied to individual performance, without limiting the Committee s ability to appropriately recognize management s results and the underlying conditions that influenced them.

We believe that our compensation decisions, as described in this Compensation Discussion and Analysis, reflect a balanced and responsible pay approach. We also value shareholder opinion and, in performing its duties, the Committee considers the outcome of the annual advisory vote to approve the named executive officers compensation. This vote is intended to provide an overall assessment of our executive compensation program rather than to focus on specific compensation items. We are pleased to have earned the shareholders affirmation in 2015, with 98% of the shares cast voting in favor.

Compensation Practices Highlights

We regularly review evolving best practices in executive compensation. Below are some of the more significant best practices we have adopted and practices we avoid:

	What We Do		What We Don t Do
þ	Pay for performance: in 2016, an average of 69% of the targeted primary compensation for the named executive officers (77% for our CEO) was tied to performance.	x	No payment of dividend equivalents on performance shares until earned.
þ	Committee members meet independence requirements under SEC rules and NYSE listing standards.	x	No granting of stock options or SARs with an exercise price less than fair market value at grant.
þ	The Committee uses an independent compensation consultant.	x	No repricing or replacing of underwater stock options or SARs.
þ	Balanced approach to compensation, combining fixed and variable, short-term and long-term, and cash and equity.	x	No hedging of Applied stock is permitted.
þ	Pay philosophy targets market median compensation among distribution industry companies.	x	No payment of guaranteed, above-market, or preferential interest or earnings on deferred compensation.
þ	Diverse incentive goals without steep payout cliffs. Equity award vesting periods encourage consistent behavior and reward long-term, sustained performance.	x	No excise tax gross-up provisions in change in control agreements entered into after 2011.
þ	Change in control agreements and equity plan include double trigger provisions for cash payment and equity vesting.	x	No change in control agreements other than those with six executive officers.
þ	Limited perquisites and other benefits.	x	No defined benefit pension plan, except for a legacy SERP frozen in 2012.
þ	Significant stock ownership guidelines for executive officers and directors.	x	No excessive risk-taking, based on annual compensation risk assessment.

Compensation Philosophy and Objectives

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

- Attract and retain qualified and motivated executives by providing compensation that, at target performance, is competitive with a peer group of distribution industry companies,
- Incent executives to achieve goals, and to take appropriate risks, consistent with Applied s business strategies, and
- Reward executives for results they influence that contribute to long-term shareholder value.

Applied is an industrial distributor in a mature market, with many companies offering the same or substantially similar products and services. In this environment, attracting and retaining talented key employees is critical to success. For this reason, while we aim to design the executive compensation program to support the successful execution of our strategy, we also examine our program s competitiveness with other distributors programs. In addition, we consider trends and practices outside the industry to understand best practices and their potential implications for Applied.

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

Roles and Responsibilities

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

- Setting compensation components and levels for the Chief Executive Officer and the other executive officers,
- Overseeing Applied s executive compensation and benefit plans, including approving incentive awards, and
- Approving incentive plan goals that use performance metrics and evaluating performance to determine whether goals have been achieved.

The Committee routinely receives tally sheets displaying updated data with respect to material components of each executive s compensation and benefits, and share retention analyses. These help the Committee make decisions with respect to each component in the context of total compensation.

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

- Establishing the executive compensation program s components,
- Analyzing the program s competitiveness as well as alignment with the company s performance, and
- Setting executive officers annual target compensation levels, overall and by pay component.

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

Except for a director compensation review project for the Board s Corporate Governance Committee, Pay Governance performed no other work for Applied during the year and received no other compensation from Applied outside its engagement by the Committee. The Committee concluded, following a review of existing facts and circumstances, including factors specified in the NYSE s listing standards, that Pay Governance and its representative are independent from Applied s management and directors.

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

Key executives attend portions of Committee meetings at its invitation. They prepare and present analyses at the Committee s request, and regularly report on Applied s performance. Our Chief Executive Officer also reports on the other

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executive officers individual performance and offers recommendations regarding their pay. The Committee sets the executive officers pay in executive session without management present.

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

Executive Compensation Program Overview

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

- Base salary,
- Annual incentives,
- Long-term incentives,
- Qualified, nonqualified, and welfare plan benefits, and
- Change in control and termination benefits.

Base salary, annual incentives, and long-term incentives are the primary components. The Committee sets base salaries to be competitive with market medians for similar positions in peer distribution companies. Annual incentive pay rewards the achievement of annual earnings and cash flow goals, and incorporates an assessment of individual performance. Longer-term financial goals (including EBITDA and ROA), stock price appreciation, and executive retention are promoted through long-term incentive awards including performance shares, SARs, and RSUs. Target annual and long-term incentives aim to reflect market median practices of peers in order to deliver total target compensation in line with the medians of distribution peers. Actual incentive pay depends in large part on how Applied performs relative to its target performance goals and how its stock price performs in response. As a result, actual compensation from annual and long-term incentives can vary significantly based on the company s financial and stock price performance.

Applied s compensation practices reflect a pay-for-performance philosophy. A majority of the named executive officers compensation is at risk and tied to company-wide performance. Moreover, incentive pay generally makes up a greater share of the overall opportunity for executives in more senior positions.

Applied also believes programs leading to equity ownership help align executives interests with shareholders . However, the long-term incentive program is structured to avoid excessive dilution, with annual share utilization targeted below 1% of shares outstanding. The Committee periodically reviews share utilization in relation to market practices.

The Committee generally determines each executive officer s base salary, annual incentive target compensation (expressed as a percentage of base salary), and long-term incentive target compensation independently from the other primary components of compensation. Nevertheless, the Committee also reviews data regarding total target cash compensation (salary plus annual incentive target compensation) and total target compensation (salary plus annual incentive target compensation plus long-term incentive target compensation) and considers the information contextually, with the company s pay philosophy and desired pay position, when evaluating each component.

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

The charts below show the percentage allocation of opportunities provided in 2016 to Mr. Schrimsher and the other named executive officers in the forms of base salary, annual incentive target opportunity, and long-term incentive target opportunity (awarded in equity-based instruments).

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Mr. Schrimsher, our Chief Executive Officer, earns higher pay than the other officers, reflecting his role in establishing and achieving the company s strategic goals, as well as market practices for his role. His overall compensation is, however, weighted more toward incentive pay, particularly long-term incentives. This distinction is appropriate considering his responsibility and influence over Applied s performance and is typical among companies in the peer group described below.

Competitive Pay Review in 2016. To help evaluate Applied s executive compensation, the Committee created a peer group of distribution companies, primarily industrial distributors, believing this group reflects the company s principal market for senior executives. Distributor comparisons provide the Committee insight into executive pay and benefits at companies in similar market environments.

With assistance from Pay Governance, the Committee selected 20 companies with calendar year 2014 sales ranging from $1.13 billion to $6.90 billion, and median sales of $2.96 billion, compared with Applied s fiscal 2015 sales of $2.75 billion. Each peer group company disclosed compensation for top officers in SEC filings. Management did not participate in selecting the companies.

The companies included the components of the previous year s peer group, plus five additional companies selected based on various factors, including industry and size. Following acquisitions and going-private transactions, the peer group had shrunk in recent years; accordingly, Pay Governance recommended making the five additions.

The 2016 peer group (the Peer Group) included the following companies, with the new components shown in **bold**:

2016 Peer Group

AAR Corp.	**KLX Inc.**	Park-Ohio Holdings Corp.
A. M. Castle & Co.	Kaman Corporation	**Patterson Companies, Inc.**
Airgas, Inc.	LKQ Corporation	ScanSource, Inc.
Anixter International Inc.	**MRC Global Inc.**	WESCO International, Inc.
DXP Enterprises, Inc.	MSC Industrial Direct Co., Inc.	Watsco, Inc.
Fastenal Company	**NOW Inc.**	**Wesco Aircraft Holdings, Inc.**
H&E Equipment Services, Inc.	Olympic Steel, Inc.	

After the Peer Group was selected, Pay Governance prepared a compensation review and assessment, analyzing the competitiveness of target compensation for Applied s Chief Executive Officer and Chief Financial Officer relative to comparable Peer Group data. Pay Governance did not analyze Peer Group data for other officer positions in 2016 (although it had done so most recently in 2014), but reported on broader compensation trends to assist the Committee in evaluating target pay levels.

The study identified Peer Group pay for each position at the 25th, 50th, and 75th percentile levels. The 50th percentile is referred to here as the market median and represents Applied s target pay objective.

Beyond the Peer Group data, Pay Governance presented other pay data from broad multi-industry surveys, produced by several leading compensation consulting firms. The Committee requested this supplemental data as a secondary resource to help confirm the reliability of the Peer Group data.

Pay Governance analyzed CEO and CFO base salary, annual incentive target compensation, total cash target compensation (base salary plus annual incentive target compensation), actual total cash compensation, long-term incentive target compensation, and total direct target compensation (total cash target compensation plus long-term incentive target compensation).

Using Pay Governance s study, the Committee evaluated each primary compensation component. In most years, including 2016, the Committee seeks to compensate executives near the market median if Applied s performance targets are met. Sustained performance below target levels should result in realized total compensation below market medians, and performance that exceeds target levels should result in realized total compensation above market medians.

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

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Components of Compensation

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

In 2016, after considering the Peer Group data, executive pay trends in the broader market, and the more subjective factors referenced above, the Committee made small adjustments to the named executive officers base salaries, with Mr. Schrimsher s salary remaining the same as in 2015. The Committee s actions maintained the officers competitive pay positions and reflected a discipline of managing base salaries within the framework of Applied s pay philosophy and competitive data.

Annual Incentives. With the annual Management Incentive Plan, the Committee seeks to reward the executive officers, in cash, for achieving fiscal year goals. In general, the Committee seeks to pay total cash compensation near the market median when Applied meets its performance goals, and to pay substantially above (or below) the median when Applied substantially exceeds (or falls short of) its goals.

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

In 2016, consistent with historical practice, the Committee established performance goals based on company-wide performance measures. In addition, for the first time, the Committee provided that Management Incentive Plan payouts be funded from a maximum aggregate cash bonus pool equal to 2% of EBITDA. EBITDA is calculated from our financial statements by starting with operating income, as shown in the statements of consolidated income, and adding the following items from the statements of consolidated cash flows: depreciation and amortization of property, amortization of intangibles, amortization of stock option and appreciation rights, and goodwill or intangibles impairment (if any). Our 2016 EBITDA was $196.7 million.

The Committee then assigned each executive officer a maximum participation percentage of the bonus pool. The Committee assigned the following maximum participation percentages to the named executive officers: Mr. Schrimsher, 40.32%; Mr. Eisele, 13.74%; Mr. Bauer, 10.25%; Mr. Barlett, 9.72%; and Mr. Armold, 9.41%.

For 2016, consistent with previous years, the Committee adopted goals tied to the following company-wide weighted performance measures, which it considers to be key indicators of shareholder value creation:

Net Income bottom-line profitability; and

Cash Provided by Operating Activities a cash-based measure of company performance.

Sixty percent of each executive officer s Management Incentive Plan payout was determined based on the level of achievement of Net Income and 20% was determined based on the level of achievement of Cash Provided by Operating Activities, as well as each executive officer s target incentive award value. The Committee sets goals for these performance measures that it believes are attainable, but that require executives to perform at a consistently high level to achieve target award values. The target and maximum incentive objectives for 2016 are shown in the table below:

Net Income (weighted 60%)	**Under $100.56 million**	**$100.56 million**	**$118.30 million**	**$147.88 million**
% of Prorated Portion of Target Award	0%	50%	100%	200%
Cash Provided by Operating Activities (weighted 20%)	**Under $108.72 million**	**$108.72 million**	**$127.90 million**	**$159.88 million**
% of Prorated Portion of Target Award	0%	50%	100%	200%

The payouts for these components could have ranged from 0% to 200% of the executive officers target award values. The Committee established this range, consistent with prior years, after considering Pay Governance s report on market practices. Payouts for each performance measure are prorated on a straight-line basis for results falling between the threshold 50%, 100%, and maximum 200% payout levels.

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The Committee assigned an annual incentive target, expressed as a percentage of salary, to each executive officer. The Committee assigned target percentages for 2016 to approximate market practices, as shown in Pay Governance s review. Several named executive officers target percentages were increased modestly from 2015, including Mr. Schrimsher s (from 100% to 105%), although he did not receive a base salary increase. The 2016 targets for the named executive officers follow:

Name	Base Salary ($)	Incentive Target (%)	Target Award Value ($)
N. Schrimsher	820,000	105	861,000
M. Eisele	451,500	65	293,475
F. Bauer	398,000	55	218,900
T. Barlett	346,000	60	207,600
T. Armold	335,000	60	201,000

As a result of Applied s 2016 performance, the Management Incentive Plan payouts for the Net Income and Cash Provided by Operating Activities components were as follows:

Goal	2016 Achievement ($)	Payout as % of Prorated Portion of Target Award
Net Income (weighted 60%)	29.58 million	0%
Cash Provided by Operating Activities (weighted 20%)	160.99 million	200%

The remaining 20% of each executive officer s Management Incentive Plan payout was determined based on Applied s EBITDA, the aggregate size of the bonus pool remaining following deductions for the Net Income and Cash Provided by Operating Activities component payouts described above, the participant s maximum portion of the bonus pool, and individual performance. After the Committee determined the dollar value of each participant s maximum payout for this remaining component, the Committee could exercise discretion to reduce (but not increase) this portion of the incentive based on the Committee s subjective evaluation of the participant s individual performance during 2016, taking into account individual performance relative to strategic objectives.

Following the Committee s evaluation of the named executive officers individual performance, their payouts in relation to this final component were as follows: Mr. Schrimsher, $172,200; Mr. Eisele, $29,348; Mr. Bauer, $32,835; Mr. Barlett, $20,760; and Mr. Armold, $20,100.

Shown below are the total 2016 Management Incentive Plan payouts for the named executive officers:

Name	Annual Incentive Payout ($)
N. Schrimsher	516,600
M. Eisele	146,738
F. Bauer	120,395
T. Barlett	103,800
T. Armold	100,500

The average payout for the named executive officers, as a percentage of the target awards, was 53%. Management Incentive Plan payouts in 2015 and 2014, as a percentage of the target awards, were 79.5% and 57.8%, respectively.

Long-Term Incentives. The Committee made long-term incentive awards to the executive officers under the 2011 Long-Term Performance Plan. Subsequent to those awards, at the 2015 annual meeting, the shareholders adopted the 2015 Long-Term Performance Plan to replace the 2011 plan.

The plans seek to reward executives for achieving long-term goals and authorize incentive awards in a variety of forms. The Committee typically makes awards annually, near the beginning of the year, after reviewing the previous fiscal year s financial results.

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

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

Pay Governance s 2016 study indicated Mr. Schrimsher s annual long-term incentive target value was below competitive norms. With this background, and after considering the more subjective factors referenced above, the Committee increased his long-term incentive target value by approximately 5.5%. The Committee approved adjustments ranging from -8% to +11% for the other officers.

Emphasizing performance, the Committee awarded the executives long-term incentive target value approximately one-half in three-year stock-settled performance shares, one-quarter in SARs, and one-quarter in RSUs. The Committee believes this combination appropriately balances the vehicles distinct purposes. The awards also reflect the Committee s subjective judgment that long-term incentive earnings should be paid in shares.

In determining numbers of performance shares to be targeted and SARs and RSUs to be awarded, the Committee values Applied s shares based on data provided by Pay Governance. To reduce the impact of short-term stock price volatility, the valuation methodology uses the average closing share price for 90 calendar days prior to the grant date. The Grants of Plan-Based Awards table on page 29 shows the threshold, target, and maximum payouts for the performance shares, as well as the number of SARs and RSUs awarded to the named executive officers.

The following paragraphs describe the three types of long-term incentive awards made to executive officers in 2016, as well as performance for the year under outstanding performance share programs:

Stock Appreciation Rights (25% of Target Long-Term Incentive Value).
The Committee and management believe SARs are strong performance-based vehicles, as the value of these awards depends on Applied s stock price growth; until Applied performs in a manner that is recognized by the stock market and creates gains for shareholders, SARs have no value to executives. The base stock price is the market closing price on the grant date. SARs have a ten-year term and vest 25% on each of the first through fourth anniversaries of the grant date, subject to continuous employment with Applied, thereby promoting executive retention. In addition, unvested SARs vest on an executive officer s retirement.

The Committee intends for SARs to align the interests of management and shareholders in achieving long-term growth in the value of Applied s stock by using a form of award the value of which is determined primarily by long-term stock price appreciation. The four-year vesting period, ten-year term, and stock-settled nature of the SARs are consistent with this objective. Moreover, SARs are less dilutive than stock options, further protecting shareholder interests.

Restricted Stock Units (25% of Target Long-Term Incentive Value).
RSUs are grants valued in shares of Applied stock, but shares are not issued to executives until the grants vest on the third anniversary of the award date, assuming continued employment with Applied. The Committee believes cliff vesting for restricted stock is more demanding than typical market practice, but appropriate considering the nature of the award. The RSUs do vest, albeit pro rata, if an executive retires during the three-year term. Applied pays dividend equivalents on RSUs on a current basis, which rewards management for total returns delivered to shareholders.

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

2016-2018 Performance Shares (50% of Target Long-Term Incentive Value).
Performance shares provide incentives to achieve goals over a three-year period. At the beginning of a period, the Committee sets a target number of shares of Applied stock to be paid to each executive at the end of the period, assuming continued employment. The actual payout is then calculated, relative to the target, based on Applied s achievement of objective performance goals. If an executive retires during the three years, the performance shares vest on a pro rata basis, tied to the period worked and actual performance during that period.

As a new three-year period begins, the Committee reviews the business plan and market outlook for the period. Then, after also considering the independent consultant s guidance as to market practices, the Committee determines

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performance measures and goal ranges at which payouts can be earned for each year of the period. The Committee sets goals it believes are attainable without inappropriate risk-taking, but that still require executives to perform on a sustained basis at a consistently high level to achieve the targeted payout.

Payouts can range from 0% to 200% of the target number of shares. The target payout is 100% of the target number assigned to the executive. The Grants of Plan-Based Awards table on page 29 shows the threshold, target, and maximum payouts for performance shares awarded to the named executive officers in 2016.

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

For the 2016-2018 performance shares, consistent with prior years, the Committee set separate goals for each year of the period, with 75% of an award tied to Applied s EBITDA and 25% to ROA. ROA is calculated by dividing annual net income by average monthly assets for the year. ROA improvements can be achieved by, among other things, increasing sales and margins, as well as improving the management of working capital, all of which are important objectives for industrial distributors.

The Committee considered these metrics to be appropriate measures of management s impact on the company s operating performance and efficiency over a three-year period. The metrics also balanced the Management Incentive Plan s emphasis on bottom-line results and cash flow.

Each participant s targeted number of shares for the three-year period is divided into one-third for each year. Shares awarded for achievement during a particular year are then banked for distribution at the end of the three-year term and do not affect the banking of shares for the other years.

The goals for the first year of the performance period, 2016, are shown below.

EBITDA (weighted 75%)	**Under $186.72 million**	**$186.72 million**	**$233.40 million**	**$291.75 million**
% of Prorated Portion of Target Share Award for 2016	0%	50%	100%	200%
% Change Compared with 2015 Result		(18.3)%	2.1%	27.6%
ROA (weighted 25%)	**Under 6.6%**	**6.6%**	**8.3%**	**10.4%**
% of Prorated Portion of Target Share Award for 2016	0%	50%	100%	200%
% Change Compared with 2015 Result		(16.5)%	5.1%	31.6%

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

The company s EBITDA of $196.7 million and ROA of 2.2% would have resulted in the banking of performance shares for the first year of the 2016-2018 program at 45.5% of the targeted awards. The Committee believed that those financial results, which were impacted by the $64.8 million non-cash goodwill impairment charge and $8.8 million of restructuring charges, did not reflect the company s underlying operating performance and management s achievements for the year. Following a review, the Committee determined, as permitted under the program, to exclude the charges from the achievement calculations, but only for the 2016 year of the 2016-2018 program. Accordingly, 68.8% of the targeted performance shares were banked for the first year of this program, still well below the 100% payout level. As shown below, this decision did not affect the 2015-2017 and 2014-2016 programs; no shares were banked for those programs for 2016.

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2015-2017 Performance Shares (2016 performance).
As described above, the Committee sets separate goals for each year of a three-year performance share program. So, while 2016 was the first year of the 2016-2018 performance period, it was also the second year of the 2015-2017 period and the third year of the 2014-2016 period. For the 2015-2017 program, the 2016 goals, adopted in August 2014, follow:

EBITDA (weighted 75%)	**Under $215.20 million**	**$215.20 million**	**$269.00 million**	**$336.25 million**
% of Prorated Portion of Target Share Award for 2016	0%	50%	100%	200%
ROA (weighted 25%)	**Under 7.8%**	**7.8%**	**9.8%**	**12.3%**
% of Prorated Portion of Target Share Award for 2016	0%	50%	100%	200%

With 2016 performance falling short of threshold goals, the participants did not bank awards for 2016. The award for the program s first year, 2015, as a percentage of target performance shares, was 81.1%.

2014-2016 Performance Shares (2016 performance).
The goals for the final year of the 2014-2016 program, adopted in August 2013, follow:

EBITDA (weighted 75%)	**Under $210.08 million**	**$210.08 million**	**$262.60 million**	**$328.25 million**
% of Prorated Portion of Target Share Award for 2016	0%	50%	100%	200%
ROA (weighted 25%)	**Under 10.1%**	**10.1%**	**12.6%**	**15.8%**
% of Prorated Portion of Target Share Award for 2016	0%	50%	100%	200%

With 2016 performance falling short of threshold goals, the participants did not bank awards for 2016. The awards for the first two years of the program, as a percentage of target performance shares, were 64.2% in 2014 and 63.2% in 2015.

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

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

Key Executive Restoration Plan and other nonqualified deferred compensation plans.
The Committee believes that providing competitive supplemental retirement benefits is important for executive recruitment and retention. Statutory limits exist, however, on the value of benefits executives can receive under the company s qualified savings plan.

Accordingly, in 2012 the Committee adopted the Key Executive Restoration Plan (the KERP), an unfunded, nonqualified deferred compensation plan. To participate in the KERP, an executive must be designated by the Committee or the Board. Applied credits a bookkeeping account for each participant with an amount equal to (i) 6.25% (unless the Committee or the Board specifies a different percentage) of the participant s base salary and annual actual cash incentive pay for the calendar year, minus (ii) the amount of company contributions credited to the participant under the RSP. Account balances are deemed invested in mutual funds selected by the participant from those available in the KERP. In this way, participants take responsibility for funding their own retirement benefits. Further, because of the use of incentive pay in the KERP formula, company contributions are tied in part to Applied s annual performance results.

To be eligible for KERP account credits, participants must be employed on the last day of a year or have retired, died, or become disabled during the year. Unless otherwise provided by the Committee or the Board, credits to a participant s account vest based on years of service with Applied, 25% per year. In addition, a participant will be 100% vested in the event of attainment of age 65, death, disability, or certain separations from service within one year after a change in control (as defined in the KERP).

The Committee has designated each named executive officer as a KERP participant. The Committee set the account credit percentage for Mr. Schrimsher at 10% and provided he would vest in 50% of his account after three years of service, 75% after four years, and 100% after five years. In October 2015, he reached four years of service.

Applied also maintains plans that permit highly compensated U.S. employees to defer receiving portions of base salary and cash incentive awards and to accumulate nonqualified savings. Applied does not contribute to these plans and participants are not provided above-market or guaranteed returns. We describe the plans, along with the KERP, more fully in Nonqualified Deferred Compensation, at page 31.

Supplemental Executive Retirement Benefits Plan.
Applied maintains the Supplemental Executive Retirement Benefits Plan (the SERP), a nonqualified defined benefit plan that was frozen in 2012, for executive officers that were designated as participants by the Committee.

Messrs. Armold, Barlett, Bauer, and Eisele, the only remaining active SERP participants, have historical benefits accrued, which are described in Pension Plans, beginning at page 33.

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

Applied provides retiree health care coverage, through third-party plans, to executive officers who retire after reaching age 55, with participants paying the contributions that active employees pay for Applied s plan. When the retiree attains age 65, the program becomes a Medicare supplement. Individuals first elected as executive officers after 2012 are not eligible for this program.

Perquisites and Other Personal Benefits. Applied does not offer perquisites such as company automobiles or allowances, financial planning and tax services, or country clubs to the named executive officers.

Applied provides executive officers five weeks annual vacation per calendar year; other employees get five weeks when they reach 25 years of service. Unused vacation time is forfeited at the end of each calendar year.

Change in Control and Termination Benefits. Upon his hire, Applied and Mr. Schrimsher entered into a CEO-level severance agreement providing termination benefits as described in Potential Payments upon Termination or Change in Control, on page 34. Applied does not have employment contracts with the other named executive officers, nor does it have an executive severance policy. The Committee retains discretion to determine severance benefits, if any, to be offered to the other named executive officers if the company terminates their employment, other than in the circumstance of a change in control.

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

The agreements provide severance benefits if an executive s employment is terminated by the officer for Good Reason or by Applied Without Cause (each as defined in the agreements), if the termination occurs within two years (three years under older agreements entered into with Messrs. Armold, Barlett, Bauer, and Eisele) after a change in control. These double trigger arrangements are believed to be consistent with typical market practices. The executive, in turn, must not compete with Applied for three years following termination (one year for Messrs. Armold, Barlett, Bauer, and Eisele). Change in control agreements entered into after 2011, including Mr. Schrimsher s, do not provide a gross-up for excise taxes. We describe the agreements more fully on pages 35-36 of this proxy statement.

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Stock Ownership and Retention Guidelines

The Committee believes executives should accumulate meaningful equity stakes in Applied to align their economic interests with shareholders interests, thereby promoting the objective of increasing shareholder value. Accordingly, we have adopted stock ownership guidelines, requiring that executive officers not dispose of stock unless their owned shares market value equals or exceeds the following annual base salary multiples immediately after the disposition:

Position	Stock Ownership Guideline
Chief Executive Officer	5x base salary
Other Executive Officers	3x base salary

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

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

Until the guideline is achieved, executives must retain net shares received as a result of exercising SARs or the vesting of RSUs or performance shares. Net shares are those shares that remain after shares are sold or netted to pay withholding taxes.

At June 30, 2016, the value of the holdings (determined as described above) of the named executive officers and their guidelines were as follow:

Name	Value of Holdings of Applied Stock ($)	Stock Ownership Guideline ($)
N. Schrimsher (hired in October 2011)	3,928,579	4,100,000
M. Eisele	7,520,189	1,354,500
F. Bauer	3,734,071	1,194,000
T. Barlett	1,409,000	1,038,000
T. Armold	1,634,474	1,005,000

The Committee monitors compliance with the guidelines, interprets them, and must approve exceptions. The Committee also periodically reviews the guidelines and compares them with market data reported by the independent consultant and others.

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

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

Clawback Provisions

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

- The Committee may terminate or rescind an award and, if applicable, require an executive to repay cash or shares (and dividends, distributions, and dividend equivalents paid thereon) issued pursuant to the award within the previous 12 months (and proceeds thereof), if the Committee determines that, during the executive s employment with Applied or during the period ending 12 months following separation from service, the executive competed with Applied or in certain other circumstances engaged in acts inimical to Applied s interests.

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

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Tax Deductibility and Regulatory Considerations

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

In general, the Committee seeks to preserve the tax deductibility of compensation without compromising the Committee s flexibility in designing an effective, competitive compensation program. Applied has intended for most awards under executive incentive programs to qualify as performance-based compensation.

In making long-term incentive grants, the Committee considers executive retention to be one of the key objectives. Accordingly, the Committee uses RSUs as one of three award vehicles, although RSUs represent only about one-quarter of the target long-term incentive value. RSUs do not qualify as performance-based compensation, but the Committee believes that drawback is outweighed by their beneficial impact on executive retention.

Conclusion

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

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

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Summary Compensation Table   Fiscal Years 2016, 2015, and 2014

The following table summarizes information, for the years ended June 30, 2016, 2015, and 2014, regarding the compensation of Applied s Chief Executive Officer, Chief Financial Officer, the three other most highly compensated executive officers at June 30, 2016.

Name and Principal Position	Year	Salary ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
Neil A. Schrimsher	2016	820,000	1,408,932	446,926	516,600	0	162,481	3,354,939
	2015	820,000	1,465,692	356,636	651,572	0	154,802	3,448,702
President & Chief Executive Officer	2014	795,000	1,353,644	391,153	459,272	0	150,780	3,149,849
Mark O. Eisele	2016	451,500	332,198	104,834	146,738	79,915	46,582	1,161,767
	2015	451,500	395,739	96,054	233,195	393,682	45,692	1,615,862
Vice President Chief Financial Officer & Treasurer	2014	438,000	409,124	117,346	164,471	0	36,487	1,165,428
Fred D. Bauer	2016	398,000	263,462	82,764	120,395	227,128	41,448	1,133,197
	2015	388,000	288,256	69,425	163,402	174,094	43,902	1,127,079
Vice President General Counsel & Secretary	2014	376,700	298,006	84,936	115,338	45,525	33,465	953,970
Todd A. Barlett	2016	346,000	252,006	79,316	103,800	19,603	34,907	835,632
	2015	336,000	254,063	61,817	146,842	230,050	33,955	1,062,727
Vice President Acquisitions and Global Business Development	2014	320,000	252,544	73,760	92,432	0	22,844	761,580
Thomas E. Armold	2016	335,000	240,550	75,867	100,500	0	33,451	785,368
	2015	315,507	239,405	58,013	134,224	207,516	31,198	985,863
Vice President Sales (5)	2014	294,000	237,390	69,290	76,430	0	19,921	697,031

(1) Amounts represent the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used to determine the awards grant date fair values are described in the notes to Applied s consolidated financial statements, included in our annual reports to shareholders for those years. The 2016 awards are described in the Compensation Discussion and Analysis at pages 20-23 and the Grants of Plan-Based Awards table at page 29. The amounts reported for 2016 in the Stock Awards column are totals of the following:

Name	RSUs ($)	Performance Shares ($)
N. Schrimsher	448,812	960,120
M. Eisele	107,408	224,790
F. Bauer	84,392	179,070
T. Barlett	80,556	171,450
T. Armold	76,720	163,830

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

(2) Amounts shown reflect Management Incentive Plan earnings.

(3) Messrs. Armold, Barlett, Bauer, and Eisele participated in the Supplemental Executive Retirement Benefits Plan, a nonqualified defined benefit plan that was frozen in 2012. The amounts in this column reflect increases in the estimated actuarial present values of their historical accrued benefits. Messrs. Armold, Barlett and Eisele are fully vested in their benefits and Mr. Bauer is partially vested.

The 2016 figure is the difference between the number shown in the Pension Benefits table on page 34 for 2016 year-end and the same item calculated for July 1, 2015. See the notes to that table for information regarding how estimated amounts were calculated. In 2016 the present value of Mr. Armold s benefit decreased (by $2,251), and in 2014 the present values decreased for Messrs. Armold (by $22,777), Barlett (by $14,897), and Eisele (by $12,817), but, pursuant to SEC rule, the changes in value are shown as $0.

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In 2012, the Committee stopped the accrual of additional plan benefits by virtue of years of service and compensation levels. Accordingly, the values in this column relate to changes in the discount rate and the components of the three-segment interest rate structure, as well as to mortality factor adjustments, as described below.

The SERP uses interest rates and mortality tables imposed on tax-qualified pension plans by Code section 417(e). Values for 2016 reflect a 2.25% discount rate and a three-segment interest rate structure in effect for January 2016, with 1.78% for the first five years, 4.08% for the next 15 years, and 5.02% thereafter.

Values for 2015 reflect a 3.00% discount rate and a three-segment interest rate structure in effect for January 2015, with 1.33% for the first five years, 3.46% for the next 15 years, and 4.40% thereafter. Values for 2014 reflect a 2.75% discount rate and a three-segment interest rate structure in effect for January 2014, with 1.24% for the first five years, 4.42% for the next 15 years, and 5.40% thereafter.

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

(4) Amounts in this column for 2016 are totals of the following:

Retirement Savings Plan (section 401(k) plan) matching contributions,
KERP account credits,
Company contributions for executive life insurance, for a $300,000 benefit, and
Estimated values of perquisites and other personal benefits.

The following perquisites and other personal benefits were provided in 2016 to named executive officers: the annual expense related to post-retirement health care coverage; and company contributions for officer-level accident insurance benefits. No perquisite or personal benefit exceeded the greater of $25,000 or 10% of the total amount of perquisites and personal benefits for a named executive officer in 2016.

The following table itemizes All Other Compensation for 2016:

Name	Retirement Savings Plan Contributions ($)	Key Executive Restoration Plan Account Credits ($)	Life Insurance Benefits ($)	Perquisites and Other Personal Benefits ($)
N. Schrimsher	3,869	143,130	429	15,053
M. Eisele	3,715	38,080	1,234	3,553
F. Bauer	3,820	30,190	485	6,953
T. Barlett	3,826	26,014	1,514	3,553
T. Armold	3,867	24,578	1,553	3,453

(5) Mr. Armold was promoted to his current position in February 2015.

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Grants of Plan-Based Awards Fiscal Year 2016

In 2016, the Executive Organization & Compensation Committee provided the following incentive opportunities and grants under the 2011 Long-Term Performance Plan to the named executive officers:

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Units	All Other Option Awards: Number of Securities Underlying	Base Price of Option Awards ($/Share)	Grant Date Fair Value of Stock and Option
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#) (3)	Options (#)	(4)	Awards ($)
N. Schrimsher	8/11/2015							11,700			448,812
	8/11/2015								64,800	38.36	446,926
	8/11/2015 (Performance Shares)				12,600	25,200	50,400				
	9/17/2015 (Management Incentive Plan)	430,500	861,000	1,722,000							
M. Eisele	8/11/2015							2,800			107,408
	8/11/2015								15,200	38.36	104,834
	8/11/2015 (Performance Shares)				2,950	5,900	11,800				
	9/17/2015 (Management Incentive Plan)	146,738	293,475	586,950							
F. Bauer	8/11/2015										