

APPLIED INDUSTRIAL TECHNOLOGIES INC  
Form DEF 14A  
September 14, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**  
**SCHEDULE 14A**  
**(RULE 14a-101)**

**SCHEDULE 14A INFORMATION**

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

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**APPLIED INDUSTRIAL TECHNOLOGIES, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement)**

Payment of Filing Fee (Check the appropriate box):

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No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

(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 30, 2018**

**10:00 a.m. Eastern Time**

Dear Shareholder:

We are pleased to invite you to the 2018 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 30, 2018, 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, 2019. Shareholders of record at the close of business on August 31, 2018, 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 14, 2018

**YOUR VOTE IS IMPORTANT! WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE VIA THE INTERNET, BY PHONE, 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 30, 2018.**

**The Proxy Statement and 2018 Annual Report to Shareholders are available at**

**[www.applied.com/access-proxy](http://www.applied.com/access-proxy)**

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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 2018 annual meeting of shareholders to be held on Tuesday, October 30, 2018, 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 14, 2018.

**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, 2019.

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

Only shareholders of record at the close of business on August 31, 2018, may vote. As of that date, there were 38,751,041 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 via the Internet, by phone, 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, or by a trustee or another nominee, then that other person is considered the shareholder of record. We sent these proxy materials to that person, and they were 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 determine what voting options are available to you.

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

Votes submitted online or by phone for shares held in the Retirement Savings Plan must be received by Thursday, October 25, 2018; votes online or by phone for other shares must be received by Monday, October 29, 2018.

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.

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### **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 in this case, the result is 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 director 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 ratify the Audit Committee's appointment of independent auditors. 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 should 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](http://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 via the Internet or by telephone, returning a later-dated proxy card, or voting in person. Your presence at the meeting will not by itself revoke the proxy.

**Who pays the costs of soliciting proxies?**

Applied pays the costs. 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 Sodali 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 2018 annual meeting, the shareholders will elect directors for a three-year term expiring in 2021 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: Peter A. Dorsman, Vincent K. Petrella, and Dr. Jerry Sue Thornton. Each nominee was most recently elected at the 2015 annual meeting. Their terms expire this year and the Board renominated them following the Corporate Governance Committee's review and evaluation of their performance. Directors serving terms expiring in 2019 and 2020 will continue in office, except that L. Thomas Hiltz will retire from the Board at the 2018 annual meeting. The Board currently intends to reduce its size to nine directors following his retirement.

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 2021**

**Peter A. Dorsman**

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



***Business Experience.*** Mr. Dorsman, age 63, 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 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. Prior to then, he served as NCR's Executive Vice President, Industry Solutions Group and Global Operations, and as Senior Vice President, Global Operations.

***Other Directorship in Previous 5 Years.*** HD Supply Holdings, Inc. (NASDAQ: HDS; since 2017)

***Qualifications.*** Mr. Dorsman has broad experience in marketing, sales, strategy, and operations. At NCR, a multi-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.

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**Vincent K. Petrella**

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

***Business Experience.*** Mr. Petrella, age 58, 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 and Executive Organization & Compensation Committees

***Business Experience.*** Dr. Thornton, age 71, retired in 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; until 2017)

***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

management skills to Applied's Board. In addition, Dr. Thornton has extensive service as a director of other NYSE-listed companies, including participation on numerous key board committees.

**Continuing Directors with Terms Expiring in 2019**

**Edith Kelly-Green**

Director since 2002, member of Corporate Governance and Executive Committees

***Business Experience.*** Until retiring in 2003, Ms. Kelly-Green, age 65, 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.

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**Dan P. Komnenovich**

Director since 2012, member of Audit and Corporate Governance Committees

***Business Experience.*** Until his retirement in 2013, Mr. Komnenovich, age 66, 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.

**Joe A. Raver**

Director since 2017, member of Audit and Corporate Governance Committees

***Business Experience.*** Mr. Raver, age 52, has served as President and Chief Executive Officer of Hillenbrand, Inc. (NYSE: HI) since 2013. Before then, he served as President of Hillenbrand's Process Equipment Group beginning in 2011 and, prior to that, his career included service in various other leadership and operational roles with Hillenbrand, including as President of Batesville Casket Company. Hillenbrand is a diversified industrial company with multiple brands that serve a range of industries across the globe. The company's Process Equipment Group provides compounding, extrusion and material handling; size reduction; screening and separating, and flow control products and services for a range of manufacturing and other industrial processes.

***Other Directorship in Previous 5 Years.*** Hillenbrand, Inc.

*Qualifications.* Mr. Raver brings to Applied's Board his broad management experience as a sitting chief executive officer and director of a NYSE-listed global manufacturing company serving industrial markets worldwide. In addition, his career includes extensive leadership and operations experience in diverse business settings.

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**Continuing Directors with Terms Expiring in 2020**

**Robert J. Pagano, Jr.**

Director since 2017, member of Audit and Executive Organization & Compensation Committees

***Business Experience.*** Mr. Pagano, age 55, has served as Chief Executive Officer and President of Watts Water Technologies, Inc. (NYSE: WTS) since May 2014. Watts Water Technologies, Inc. is a global supplier of products and solutions that manage and conserve the flow of fluids and energy into, through, and out of buildings in the residential and commercial markets. He also served as interim Chief Financial Officer from October 2014 to April 2015 and from April to July 2018. Mr. Pagano previously was Senior Vice President of ITT Corporation and President, ITT Industrial Process from 2009 to May 2014. ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation, and industrial markets. Mr. Pagano began his career with an international public accounting firm and he is a Certified Public Accountant.

***Other Directorship in Previous 5 Years.*** Watts Water Technologies, Inc. (since 2014)

***Qualifications.*** Mr. Pagano brings to Applied's Board his broad management experience as a sitting chief executive officer and director of a NYSE-listed global manufacturing company. In addition, his career includes extensive leadership and operations experience, working with distributors to serve industrial markets throughout the world, as well as a strong background in finance and accounting.

**Neil A. Schrimsher**

Director since 2011, member of Executive Committee

***Business Experience.*** Mr. Schrimsher, age 54, joined Applied as our Chief Executive Officer in 2011 and was also elected President in 2013. Before joining Applied, 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. Prior to that, he was President of Cooper Lighting, Inc.

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

***Qualifications.*** As the only Applied executive to serve on the Board, Mr. Schrimsher contributes 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.

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**Peter C. Wallace**

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

***Business Experience.*** Mr. Wallace, age 64, most recently was Chief Executive Officer of Gardner Denver, Inc. (NYSE: GDI) from June 2014 until retiring in December 2015. Gardner Denver is a 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 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), 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.

**CORPORATE GOVERNANCE**

**Corporate Governance Documents**

Applied's Internet address is [www.applied.com](http://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, 2018, the Board held six meetings. Each incumbent director attended at least 75% of the total number of meetings of the Board and the committees on which he or she served.

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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 2011, the Board concluded it would be in the best interests of Applied and its shareholders to separate the positions of Chairman and Chief Executive Officer (CEO) 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 CEO 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.

The committee members' names and number of meetings held in fiscal 2018 follow: