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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2018, or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number 1-2299

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-0117420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

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

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

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

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

Large accelerated filer X	Accelerated filer __
Non-accelerated filer __	Smaller reporting company __
Emerging growth company __	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐ Yes ☒ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (December 31, 2017): $2,604,976,726.

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

Class	Outstanding at August 10, 2018
Common Stock, without par value	38,721,431

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual meeting of shareholders of Applied Industrial Technologies, Inc., to be held October 30, 2018, are incorporated by reference into Parts II, III, and IV of this Form 10-K.

TABLE OF CONTENTS

CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

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

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

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

PART I

ITEM 1. BUSINESS.

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

We are a leading distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, and other industrial supplies, operating in North America, Australia, New Zealand, and Singapore. We serve MRO (maintenance, repair, and operations) and OEM (original equipment manufacturing) customers in virtually every industry. In addition, the Company provides engineering, design, and systems integration for industrial, fluid power, and flow control applications, as well as customized mechanical, fabricated rubber, fluid power, and flow control shop services.

We add value for our customers by providing product-related technical application support and solutions to help customers minimize their production downtime, improve machine performance, and reduce overall procurement and maintenance costs.

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

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

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

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

(a) General Development of Business.

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

(b) Financial Information about Segments.

We have identified two reportable segments: service center based distribution; and fluid power and flow control.

The service center based distribution segment provides customers with a wide range of industrial products primarily through a network of service centers. The fluid power and flow control segment consists of specialized companies that distribute components, design and assemble equipment and systems, and perform equipment repair in their respective fields of expertise.

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

(c) Narrative Description of Business.

Overview. Our field operating structure is built on two platforms: service center based distribution; and fluid power and flow control.

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

  The service center based distribution business accounts for a majority of our field operations and 76.3% of our 2018 sales dollars.

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

- *Fluid Power and Flow Control*. Our specialized fluid power and flow control businesses primarily market products and services to customers within the businesses' geographic regions. We serve customers purchasing for MRO needs as well as customers purchasing for OEM applications. In addition to distribution services, the businesses offer technical advice, broader system solutions, and other value-added services. The fluid power businesses design and assemble hydraulic and electro-hydraulic power units and control systems, electronic control systems, pneumatic and electro-pneumatic panels and sub-assemblies, fabricated aluminum assemblies, lubrication systems, hydraulic manifolds, and pump assemblies. They also perform equipment repairs. Flow control capabilities include the following: flow control system integration; valve, actuator, and pump repair; valve actuation; and process instrumentation.

Products. We are a leading distributor of products including bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies.

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

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

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

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

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

We maintain product inventory levels at each service center tailored to the local market. These inventories consist of standard items as well as other items specific to local customer demand. Distribution centers replenish service center inventories and also may ship products directly to customers. Having product in stock helps us satisfy customers' immediate needs.

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

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

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

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

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

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

Many of our fluid power and flow control businesses distinguish themselves from most component distributors by offering engineering, design, fabrication, installation, and repair services for equipment or systems in their respective fields of expertise. Our fluid power capabilities extend to the following specialties: fluid power system integration; manifold design, machining, and assembly; and the integration of hydraulic and pneumatic equipment with electronics for complete machine design. Flow control services include the following: flow control system integration; valve, actuator, and pump repair; valve actuation; and process instrumentation.

Each business has account managers with technical product and application knowledge, who handle sophisticated projects. The businesses also may provide technical support to our service centers and their customers.

Markets. We purchase from thousands of product manufacturers and resell the products to thousands of customers in a wide variety of industries, including agriculture and food processing, cement, chemicals and petrochemicals, fabricated metals, forest products, industrial machinery and equipment, mining, oil and gas, primary metals, transportation, and utilities, as well as to government entities. Customers range from very large businesses, with which we may have multiple-location relationships, to very small ones. We are not significantly dependent on a single customer or group of customers, the loss of which would have a material adverse effect on our business as a whole, and no single customer accounts for more than 4% of our net sales.

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

Our principal competitors are specialist and general line distributors of bearings, power transmission products, fluid power components and systems, flow control solutions, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies. These competitors include local, regional, national, and multinational operations, and can include catalog and e-commerce companies. We also compete with original equipment manufacturers and their distributors in the sale of maintenance and replacement components. The identity and number of our competitors vary throughout the geographic, industry, and product markets we serve.

Although we may be one of the leading distributors in the geographic markets we serve for the primary product categories we provide there, our market share in a given market may be relatively small compared to the portion of the market served by original equipment manufacturers and other distributors.

Backlog Orders and Seasonality. Because of the type of industrial distribution services we provide, backlog orders are not material to our business as a whole, although they are a more important factor for our fluid power and flow control businesses. Our business has exhibited minor seasonality - in particular, sales per day during the first half of our fiscal year have tended in the past to be slightly lower than during the second half due, in part, to the impact of customer plant shutdowns, summer vacations and holidays.

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

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

Number of Employees. At June 30, 2018, we had 6,634 employees.

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

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

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

(d) Financial Information about Geographic Areas.

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

ITEM 1A. RISK FACTORS.

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

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

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

Our business could be adversely affected if we do not successfully execute our initiatives to grow sales and earnings. We have underway numerous initiatives to grow sales, enhance gross margins, manage costs, and otherwise improve our earnings and competitive position. If we do not implement these initiatives effectively, or if for other reasons they are unsuccessful, our business could be adversely affected.

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

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

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

*An increase in competition could decrease sales or earnings***.** We operate in a highly competitive industry. The industry remains fragmented, but is consolidating. Our principal competitors are specialist and general line distributors of bearings, power transmission products, fluid power components and systems, flow control solutions, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies. These competitors include local, regional, national, and multinational operations, and can include catalog and e-commerce companies. Competition is largely focused in the local service area and is generally based on product line breadth, product availability, service capabilities, and price. Existing competitors have, and future competitors may have, greater financial or other resources than we do, broader product or service offerings, greater market presence, stronger relationships with key suppliers or customers, or better name recognition. If existing or future competitors seek to gain or to retain market share by aggressive pricing strategies and sales methods, or otherwise through competitive advantage, our sales and profitability could be adversely affected. Our success will also be affected by our ability to continue to provide competitive offerings as customer preferences or demands evolve, for example with respect to our product and services portfolio or our e-commerce and inventory management solutions.

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

Trade policies can have an adverse impact on industries we sell into, potentially negatively affecting our net sales and profits. Changes to trade policies can disrupt geographic and industry demand trends. While Applied primarily serves markets in the United States, a significant portion of our domestic customer base exports or serves exporters. U.S. government-imposed tariffs or taxes that penalize imports can be met with countermeasures by foreign governments, and it becomes difficult to predict what the net effect of such actions will be on Applied’s net sales and profits. It is possible that such changes could adversely affect our financial results.

Volatility in product, energy, and other costs can affect our profitability. Product manufacturers may adjust the prices of products we distribute for many reasons, including changes in their costs for raw materials, components, energy, labor, and tariffs and taxes on imports. In addition, a portion of our own distribution costs is comprised of fuel for our sales and delivery vehicles, freight, and utility expenses for our facilities. Our ability to pass along increases in our product and distribution costs in a timely manner to our customers depends on execution, market conditions, and contractual limitations. Failing to pass along price increases timely in an inflationary environment, or not maintaining sales volume while increasing prices, could significantly reduce our profitability.

While increases in the cost of products or energy could be damaging to us, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit margin to deteriorate. Changes in energy or raw materials costs can also adversely affect customers; for example, declines in oil, gas, and coal prices may negatively impact customers operating in those industries and, consequently, our sales to those customers.

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

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

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

In recent years, we replaced multiple legacy information system applications with newer software platforms, to enhance our business information and transaction systems to support future growth. We continue with and consider additional enterprise resource planning system conversions, on a smaller scale, in discrete business operations. Despite extensive planning, we could experience disruptions related to the implementation because of the projects' complexity. The potential adverse consequences could include delays, loss of information, diminished management reporting capabilities, damage to our ability to process transactions timely, harm to our control environment, diminished employee productivity, and unanticipated increases in costs. Further, our ability to achieve anticipated operational benefits from new platforms is not assured.

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

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

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

We may not realize the growth opportunities and cost synergies that are anticipated from our recent acquisition of FCX Performance, Inc. On January 31, 2018, we acquired FCX Performance, Inc. ("FCX"), a distributor of specialty process flow control products and services, for an aggregate purchase price of $781.8 million. The benefits that are expected to result from this sizable acquisition will depend, in part, on our ability to realize the anticipated growth opportunities and cost synergies as a result of the acquisition. Our success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on a number of factors. There is a significant degree of difficulty and management distraction inherent in the process of integrating an acquisition as large as FCX. While integration activities are well underway, the process of integrating operations could still cause an interruption of, or loss of momentum in, our activities or the activities of the FCX business. Members of our senior management may be required to devote considerable time to the integration process, which decreases the time they will have to manage our other operations, service existing customers, and attract new business. If senior management is not able to manage the integration process effectively, or if any significant business activities are interrupted as a result of the integration process, our business could suffer. There can be no assurance that we will successfully or cost-effectively integrate FCX. The failure to do so could have a material adverse effect on our business, financial condition, or results of operations.

Even if we are able to integrate FCX successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies we currently expect from the acquisition, and we cannot guarantee these benefits will be achieved within anticipated time frames or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of FCX. While it is anticipated that certain expenses will be incurred to achieve cost synergies, such expenses are difficult to estimate accurately and may exceed current estimates. Accordingly, the benefits from the acquisition may be offset by costs incurred to integrate the business or delays in the integration process. In addition, the overall integration may result in unanticipated problems, expenses, liabilities, competitive responses, loss of customers and other relationships, and loss of key employees, any of which may adversely affect our business, financial position or results of operations and may cause our stock price to decline.

We incurred a substantial amount of debt to complete the acquisition of FCX. To service our debt, we will require a significant amount of cash that may limit our ability to pay dividends, repurchase our shares, or complete other acquisitions or strategic initiatives. In connection with the FCX acquisition, we entered into a new credit facility pursuant to which we incurred approximately $780.0 million in term loan indebtedness and approximately $250.0 million in revolving indebtedness. This indebtedness substantially increased our leverage and requires substantial future principal and interest payments. Our ability to service our debt and fund our other liquidity needs will depend on our ability to generate cash in the future. This additional leverage may (i) require us to dedicate a substantial portion of our cash flows from operations to the payment of debt service, reducing the availability of our cash flow to fund planned capital expenditures, pay dividends, repurchase our shares, complete other acquisitions or strategic initiatives, and other general corporate purposes; (ii) limit our ability to obtain additional financing in the future (either at all or on satisfactory terms) to enable us to react to changes in our business or execute our growth strategies; and (iii) place us at a competitive disadvantage compared to businesses in our industry that have lower levels of indebtedness. Additionally, any failure to comply with covenants in the instruments governing our debt could result in an event of default. Any of the foregoing events or circumstances relating to our additional indebtedness may adversely affect our business, financial position, or results of operations and may cause our stock price to decline.

Goodwill and other intangible assets recorded as a result of our acquisitions could become impaired. We review long-lived assets, including property, plant and equipment and identifiable amortizing intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life. In 2016 we recorded a $64.8 million non-cash impairment charge for goodwill associated with the service center based distribution reporting units in Canada, Australia, and New Zealand.

As of June 30, 2018, we had $646.6 million of goodwill and $435.9 million of other intangible assets, net. We assess all existing goodwill at least annually for impairment on a reporting unit basis. The techniques used in our qualitative assessment and goodwill impairment tests incorporate a number of estimates and assumptions that are subject to change. Although we believe these estimates and assumptions are reasonable and reflect market conditions forecasted at the assessment date, any changes to these assumptions and estimates due to market conditions or otherwise may lead to an outcome where impairment charges would be required in future periods.

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

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

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

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

We cannot assure that any material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting. In addition, although we have been successful historically in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or ensure the fair presentation of our financial statements included in our periodic reports filed with the SEC.

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

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

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

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

Our operations outside the United States increase our exposure to global economic and political conditions and currency exchange volatility. Foreign operations contributed 14.9% of our sales in 2018. This presence outside the U.S. increases risks associated with exposure to more volatile economic conditions, political instability, cultural and legal differences in conducting business (including corrupt practices), economic and trade policy actions, and currency exchange fluctuations.

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

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

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

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

- changes in customer preferences for products and services of the nature, brands, quality, or cost sold by us;
- changes in customer procurement policies and practices;
- changes in the market prices for products and services relative to the costs of providing them;
- changes in operating expenses;
- organizational changes within the Company;
- government regulation, legislation, or policies, including with respect to federal tax policy and international trade, such as recent tariffs and proposed tariffs on imports, and countermeasures by foreign governments;
- the variability and timing of new business opportunities including acquisitions, customer relationships, and supplier authorizations;
- the incurrence of debt and contingent liabilities in connection with acquisitions;
- volatility of our stock price and the resulting impact on our consolidated financial statements; and changes in accounting policies and practices that could impact our financial reporting and increase compliance costs.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We believe having a local presence is important to serving our customers, so we maintain service centers and other operations in local markets throughout the countries in which we operate. At June 30, 2018, we owned real properties at 120 locations and leased 443 locations. Certain properties house more than one operation.

The following were our principal owned real properties (each of which has more than 50,000 square feet of floor space) at June 30, 2018:

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

Our principal leased real properties (each of which has more than 50,000 square feet of floor space) at June 30, 2018 were:

Location of Principal Leased Real Property	Type of Facility
Fontana, California	Distribution center, rubber shop, fluid power shop, and service center
Newark, California	Fluid power shop
Elyria, Ohio	Product return center and service center
Strongsville, Ohio	Offices and warehouse
Portland, Oregon	Distribution center
Stafford, Texas	Offices, warehouse, and flow control shop
Longview, Washington	Service center, rubber shop, and fluid power shop
Nisku, Alberta	Offices, service center, and shops
Winnipeg, Manitoba	Distribution center and service center

The properties in Newark and Stafford are used in our fluid power and flow control segment. The Fontana and Longview properties are used in both the service center based distribution segment and the fluid power and flow control segment. The remaining properties are used in the service center based distribution segment.

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT.

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

The following is a list of the executive officers and a description of their business experience during the past five years. Except as otherwise stated, the positions and offices indicated are with Applied, and the persons were most recently elected to their current positions on October 24, 2017:

:

Name	Positions and Experience	Age
Neil A. Schrimsher	President since August 2013 and Chief Executive Officer since 2011.	54
Fred D. Bauer	Vice President-General Counsel & Secretary since 2002.	52
Warren E. Hoffner	Vice President-General Manager, Fluid Power since 2003. The Board of Directors designated Mr. Hoffner an executive officer in October 2015.	58
Kurt W. Loring	Vice President-Chief Human Resources Officer since July 2014. Prior to then Mr. Loring was Vice President, Human Resources for the Forged Products segment of Precision Castparts Corporation (formerly NYSE: PCP). The $4.3 billion segment, with greater than 5,000 employees, is a world-leading producer of complex forgings and high-performance nickel-based alloys and super alloys for aerospace, power generation, and general industrial applications.	49
David K. Wells	Vice President-Chief Financial Officer & Treasurer since September 2017. He served as Vice President-Finance from May 2017 through August 2017. Prior to joining Applied, from May 2015 to May 2017, Mr. Wells was Vice President & Chief Financial Officer of ESAB, a manufacturer of welding and material cutting products and a division of Colfax Corporation (NYSE: CFX). Prior to then he was Vice President & Chief Financial Officer of Apex Tool Group, a manufacturer of hand and power tools.	55

PART II

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

Applied's common stock, without par value, is listed for trading on the New York Stock Exchange with the ticker symbol “AIT.” Information concerning the quarterly stock dividends for the fiscal years ended June 30, 2018, 2017, and 2016 and the number of shareholders of record as of August 10, 2018 are set forth in Item 8, “Financial Statements and Supplementary Data,” in the “Quarterly Operating Results” table. That information is incorporated here by reference.

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

			Price Range	
	Shares Traded	Average Daily Volume	High	Low
2018				
First Quarter	**12,202,332**	**193,688**	**$ 66.05**	**$ 54.00**
Second Quarter	**12,152,983**	**192,904**	**70.05**	**59.65**
Third Quarter	**15,931,593**	**261,174**	**75.40**	**67.40**
Fourth Quarter	**13,642,214**	**213,160**	**76.20**	**62.45**
2017				
First Quarter	9,924,600	155,100	$ 48.61	$ 44.03
Second Quarter	13,423,500	213,100	62.65	43.50
Third Quarter	12,986,200	209,500	66.65	58.80
Fourth Quarter	10,868,100	172,500	69.00	57.10
2016				
First Quarter	17,146,300	267,900	$ 42.65	$ 37.15
Second Quarter	14,832,500	231,800	43.54	37.00
Third Quarter	14,619,200	239,700	44.24	35.55
Fourth Quarter	12,583,200	196,600	47.18	42.52

The following table summarizes Applied's repurchases of its common stock in the quarter ended June 30, 2018.

Period	(a) Total Number of Shares (1)	(b) Average Price Paid per Share ($)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1, 2018 to April 30, 2018	87	65.07	—	1,056,700
May 1, 2018 to May 31, 2018	—	—	—	1,056,700
June 1, 2018 to June 30, 2018	319	75.45	—	1,056,700
Total	406	73.23	—	1,056,700

(1) During the quarter ended June 30, 2018, Applied purchased 406 shares in connection with an employee deferred compensation program. This purchase is not counted in the authorization in note (2).

(2) On October 24, 2016, the Board of Directors authorized the repurchase of up to 1.5 million shares of the Company's common stock, replacing the prior authorization. We publicly announced the new authorization on October 26, 2016. Purchases can be made in the open market or in privately negotiated transactions. The authorization is in effect until all shares are purchased, or the Board revokes or amends the authorization.

ITEM 6. SELECTED FINANCIAL DATA.

This selected financial data should be read in conjunction with Applied's consolidated financial statements and related notes included elsewhere in this annual report as well as the section of the annual report titled Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(In thousands, except per share amounts and statistical data)

	2018 (a)	2017	2016	2015	2014
Consolidated Operations — Year Ended June 30					
Net sales	**$ 3,073,274**	$ 2,593,746	$ 2,519,428	$ 2,751,561	$ 2,459,878
Depreciation and amortization of property	**17,798**	15,306	15,966	16,578	13,977
Amortization:					
Intangible assets	**32,065**	24,371	25,580	25,797	14,023
SARs and stock options	**1,961**	1,891	1,543	1,610	1,808
Operating income (c)	**225,827**	175,386	89,782	184,619	164,358
Net income (b) (c)	**141,625**	133,910	29,577	115,484	112,821
Per share data:					
Net income:					
Basic	**3.65**	3.43	0.75	2.82	2.69
Diluted (b) (c)	**3.61**	3.40	0.75	2.80	2.67
Cash dividend	**1.18**	1.14	1.10	1.04	0.96
Year-End Position — June 30					
Working capital	**$ 625,469**	$ 572,789	$ 507,238	$ 535,938	$ 545,193
Long-term debt (including portion classified as current)	**966,063**	291,982	328,334	320,995	170,712
Total assets	**2,285,741**	1,387,595	1,312,025	1,432,556	1,334,169
Shareholders' equity	**814,963**	745,256	657,916	741,328	800,308
Year-End Statistics — June 30					
Current ratio	**2.4**	2.8	2.8	2.7	2.9
Operating facilities	**610**	552	559	565	538
Shareholders of record (d)	**4,323**	4,687	5,372	6,016	6,330
Return on assets (b) (c) (e)	**8.0%**	10.2%	2.2%	7.9%	10.2%
Return on equity (b) (c) (f)	**18.2%**	19.1%	4.2%	15.0%	14.5%
Capital expenditures (g)	**$ 23,230**	$ 17,045	$ 13,130	$ 14,933	$ 20,190
Cash Returned to Shareholders During the Year					
Dividends paid	**$ 45,858**	$ 44,619	$ 43,330	$ 42,663	$ 40,410
Purchases of treasury shares	**22,778**	8,242	37,465	76,515	36,732
Total	**$ 68,636**	$ 52,861	$ 80,795	$ 119,178	$ 77,142

(a) FY 2018 includes the acquisition of FCX Performance, Inc. from the acquisition date of 1/31/2018.

(b) FY 2017 includes a tax benefit pertaining to a worthless stock tax deduction of $22.2 million, or $0.56 per share. Excluding the worthless stock tax deduction, the fiscal 2017 return on assets would be 8.5% and return on equity would be 16.2%.

(c) A goodwill impairment charge in fiscal 2016 reduced operating income by $64.8 million, net income by $63.8 million, and diluted earnings per share by $1.62. Excluding the goodwill impairment charge, the fiscal 2016 return on assets would be 6.7% and return on equity would be 12.8%.

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

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

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

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

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

OVERVIEW

With more than 6,600 employees across North America, Australia, New Zealand, and Singapore, Applied Industrial Technologies ("Applied," the "Company," "We," "Us" or "Our") is a leading distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, and other industrial supplies, serving MRO (Maintenance, Repair & Operations) and OEM (Original Equipment Manufacturer) customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial, fluid power, and flow control applications, as well as customized mechanical, fabricated rubber, fluid power, and flow control shop services. Applied also offers storeroom services and inventory management solutions that provide added value to its customers. We have a long tradition of growth dating back to 1923, the year our business was founded in Cleveland, Ohio. At June 30, 2018, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore from 610 facilities.

The following is Management's Discussion and Analysis of significant factors that have affected our financial condition, results of operations and cash flows during the periods included in the accompanying consolidated balance sheets, statements of consolidated income, consolidated comprehensive income and consolidated cash flows in Item 8 under the caption "Financial Statements and Supplementary Data." When reviewing the discussion and analysis set forth below, please note that the majority of SKUs (Stock Keeping Units) we sell in any given year were not sold in the comparable period of the prior year, resulting in the inability to quantify certain commonly used comparative metrics analyzing sales, such as changes in product mix and volume.

On January 31, 2018, Applied completed the acquisition of all of the outstanding shares of FCX Performance, Inc. ("FCX"), a Columbus, Ohio based distributor of specialty process flow control products and services. At the time of closing, FCX operated 68 locations with approximately 1,000 employees. The total consideration transferred was approximately $781.8 million, which was financed by cash-on-hand and a new credit facility comprised of a $780 million Term Loan A and $250 million revolver, effective with the transaction closing.

Our fiscal 2018 consolidated sales were $3.1 billion, an increase of $479.5 million or 18.5% compared to the prior year, with the acquisitions of FCX, Sentinel Fluid Controls, and Diseños, Construcciones y Fabricaciones Hispanoamericanas, S.A. (DICOFASA) increasing sales by $264.7 million or 10.2% and favorable foreign currency translation of $16.0 million increasing sales by 0.6%. Gross profit margin increased to 28.8% for fiscal 2018 from 28.4% for fiscal 2017 primarily due to the impact of the acquisition of FCX, which favorably impacted the gross profit margin by 38 basis points in fiscal 2018. Operating margin increased to 7.3% in fiscal 2018 from 6.8% in fiscal 2017.

During the fourth quarter of fiscal 2017, the Company recorded an income tax benefit of $22.2 million pertaining to a worthless stock deduction based on the write-off of the Company's investment in one of its subsidiaries in Canada for U.S. tax purposes.

Our earnings per share was $3.61 in fiscal 2018 versus $3.40 in fiscal year 2017. The current year results include a positive impact on earnings per share of $0.15 per share related to U.S. tax reform from the enactment of the Tax Cuts and Jobs Act in December 2017. The prior year results include a positive impact on earnings per share of $0.56 per share related to the worthless stock deduction.

Shareholders' equity was $815.0 million at June 30, 2018 compared to $745.3 million at June 30, 2017. Working capital increased $52.7 million from June 30, 2017 to $625.5 million at June 30, 2018. The current ratio was 2.4 to 1 at June 30, 2018 and 2.8 to 1 at June 30, 2017.

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

The MCU (total industry) and IP indices gradually increased during fiscal 2018 correlating with the overall growth in the industrial economy. The ISM PMI registered 60.2 in June 2018, an increase from the June 2017 revised reading of 56.7. A reading above 50 generally indicates expansion. The index readings for the months during the current quarter, along with the revised indices for previous quarter ends, were as follows:

	Index Reading		
Month	**MCU**	**PMI**	**IP**
June 2018	78.0	60.2	103.9
May 2018	77.7	58.7	103.1
April 2018	78.2	57.3	104.2
March 2018	77.5	59.3	103.6
December 2017	77.3	59.3	102.8
September 2017	75.7	60.2	101.3
June 2017	76.2	56.7	101.9

YEAR ENDED JUNE 30, 2018 vs. 2017

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

	Year Ended June 30, As a % of Net Sales		Change in $'s Versus Prior Period
	2018	2017	% Change
Net Sales	**100.0%**	100.0%	18.5%
Gross Profit Margin	**28.8%**	28.4%	19.8%
Selling, Distribution & Administrative	**21.4%**	21.7%	17.0%
Operating Income	**7.3%**	6.8%	28.8%
Net Income	**4.6%**	5.2%	5.8%

Sales in fiscal 2018 were $3.1 billion, which was $479.5 million or 18.5% above the prior year, with sales from acquisitions accounting for $264.7 million or 10.2% of the increase, and favorable foreign currency translation accounting for an increase of $16.0 million or 0.6%. There were 251.5 selling days in fiscal 2018 and 252.5 selling days in fiscal 2017. Excluding the impact of businesses acquired and the impact of foreign currency translation, sales were up $198.8 million or 7.7% during the year, of which 5.9% is from the Service Center Based Distribution segment and 2.1% is from the Fluid Power & Flow Control segment, offset by a 0.3% decrease due to one less sales day.

The following table shows changes in sales by reportable segment.

Amounts in millions	Year ended June 30,			Amount of change due to		
Sales by Reportable Segment	**2018**	2017	Sales Increase	Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	**$ 2,346.4**	$ 2,180.4	$ 166.0	$ 3.6	$ 16.0	$ 146.4
Fluid Power & Flow Control	**726.9**	413.4	313.5	261.1	—	52.4
Total	**$ 3,073.3**	$ 2,593.8	$ 479.5	$ 264.7	$ 16.0	$ 198.8

Sales of our Service Center Based Distribution segment, which operates primarily in MRO markets, increased $166.0 million, or 7.6%. Acquisitions within this segment increased sales by $3.6 million or 0.2%, and favorable foreign currency translation increased sales by $16.0 million or 0.7%. Excluding the impact of businesses acquired and the impact of foreign currency translation, sales increased $146.4 million or 6.7%, driven by an increase of 7.0% from operations, offset by a 0.3% decrease due to one less sales day.

Sales of our Fluid Power & Flow Control segment increased $313.5 million or 75.8%. Acquisitions within this segment increased sales $261.1 million or 63.2%. Excluding the impact of businesses acquired, sales increased $52.4 million or 12.7%, driven by an increase of 13.1% from operations, offset by a 0.4% decrease due to one less sales day.

The following table shows changes in sales by geographical area. Other countries includes Mexico, Australia, New Zealand, and Singapore.

Amounts in millions				Amount of change due to		
	Year ended June 30,					
Sales by Geographic Area	**2018**	2017	Sales Increase	Acquisitions	Foreign Currency	Organic Change
United States	**$ 2,615.1**	$ 2,182.6	$ 432.5	$ 261.1	$ —	$ 171.4
Canada	**273.6**	252.0	21.6	—	11.3	10.3
Other countries	**184.6**	159.2	25.4	3.6	4.7	17.1
Total	**$ 3,073.3**	$ 2,593.8	$ 479.5	$ 264.7	$ 16.0	$ 198.8

Sales in our U.S. operations increased $432.5 million or 19.8%, with acquisitions adding $261.1 million or 12.0%. Excluding the impact of businesses acquired, U.S. sales were up $171.4 million or 7.8%, of which 8.2% is growth from operations, offset by a 0.4% decrease due to one less sales day. Sales from our Canadian operations increased $21.6 million or 8.6%, and favorable foreign currency translation increased Canadian sales by $11.3 million or 4.5%. Excluding the impact of foreign currency translation, Canadian sales were up $10.3 million or 4.1%, of which 3.7% is growth from operations, and the remaining 0.4% increase is due to one additional sales day. Consolidated sales from our other country operations increased $25.4 million or 16.0% compared to the prior year. Acquisitions added sales of $3.6 million or 2.3% and favorable foreign currency translation increased other country sales by $4.7 million or 2.9%. Excluding the impact of businesses acquired and the impact of foreign currency translation, other country sales were up $17.1 million or 10.8% compared to the prior year, driven by an increase from operations of 11.0%, offset by a decrease of 0.2% due to one less sales day in Australia, New Zealand, and Singapore.

The sales product mix for fiscal 2018 was 67.9% industrial products and 32.1% fluid power/flow control products compared to 71.5% and 28.5%, respectively, in the prior year.

Our gross profit margin increased to 28.8% in fiscal 2018 compared to 28.4% in fiscal 2017 due to the acquisition of FCX, which favorably impacted the gross profit margin by 38 basis points in fiscal 2018.

The following table shows the changes in SD&A.

Amounts in millions				Amount of change due to		
	Year ended June 30,					
	2018	2017	SD&A Increase	Acquisitions	Foreign Currency	Organic Change
SD&A	**$ 658.2**	$ 562.3	$ 95.9	$ 74.7	$ 3.9	$ 17.3

Selling, distribution and administrative expense (SD&A) consists of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management, and providing marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, insurance, legal, facility related expenses and expenses incurred with acquiring businesses. SD&A increased $95.9 million or 17.0% during fiscal 2018 compared to the prior year, and as a percent of sales decreased to 21.4% from 21.7% in fiscal 2017. Changes in foreign currency exchange rates had the effect of increasing SD&A by $3.9 million or 0.7% compared to the prior year. SD&A from businesses acquired added $74.7 million or 13.3% of SD&A expenses, including $6.1 million of one-time costs and $9.6 million of intangibles amortization related to the FCX acquisition. Excluding the impact of businesses acquired and the unfavorable impact from foreign currency translation, SD&A increased $17.3 million or 3.0% during fiscal 2018 compared to fiscal 2017. Excluding the impact of acquisitions, total compensation increased $20.1 million during fiscal 2018 compared to the prior fiscal year as a result of merit increases and improved Company performance. All other expenses within SD&A were down $2.8 million.

Operating income increased $50.4 million, or 28.8%, to $225.8 million during fiscal 2018 from $175.4 million during fiscal 2017, and as a percent of sales, increased to 7.3% from 6.8% due to growth from operations and the acquisition of FCX.

Operating income as a percentage of sales for the Service Center Based Distribution segment increased to 5.8% in fiscal 2018 from 5.3% in fiscal 2017. Operating income as a percentage of sales for the Fluid Power & Flow Control segment increased to 11.4% in fiscal 2018 from 11.3% in fiscal 2017. These increases are due to the positive leveraging impact from the increase in sales in the current year.

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

Other (income) expense, net, represents certain non-operating items of income and expense. This was $2.4 million of income in fiscal 2018 compared to $0.1 million of income in fiscal 2017. Current year income primarily consists of life insurance income of $1.6 million, unrealized gains on investments held by non-qualified deferred compensation trusts of $0.8 million, and foreign currency transaction gains of $0.2 million, offset by net other periodic post-employment costs of $0.2 million. Fiscal 2017 income consisted primarily of unrealized gains on investments held by non-qualified deferred compensation trusts of $1.2 million, offset by net other periodic post-employment costs of $0.8 million, foreign currency transaction losses of $0.2 million, and life insurance expense of $0.1 million.

The effective income tax rate was 30.8% for fiscal 2018 compared to 19.8% for fiscal 2017. The fiscal 2018 effective tax rate was favorably impacted by the enactment of the Tax Cuts and Jobs Act (the "Act") in December 2017, which reduced the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. This resulted in a blended statutory rate for the Company for fiscal 2018 of 28.06%. Overall, the Act resulted in a net tax benefit of $5.8 million for fiscal 2018. The corporate income tax rate change had a favorable impact to the Company of $12.1 million, which was offset by income tax expense of $3.9 million accounting for the one-time transition tax related to the Company's undistributed foreign earnings and expense of $2.4 million related to the re-measurement of deferred tax balances. The fiscal 2017 effective tax rate was favorably impacted by a $22.2 million net tax benefit, pertaining to a worthless stock tax deduction which decreased the effective tax rate by 13.3%. The tax benefit was net of a $1.0 million valuation allowance applicable to the related state deferred income tax asset. This deduction was based on the write-off of the Company's investment in one of its Canadian subsidiaries for U.S. tax purposes. The fiscal 2017 effective tax rate was favorably impacted further by $2.4 million of net excess tax benefits, resulting from stock-based compensation awards vesting and exercises, that were recognized as a reduction of income tax expense and decreased the effective income tax rate for fiscal 2017 by 1.4%.

We expect our income tax rate for fiscal 2019 to be in the range of 24.0% to 26.0%.

As a result of the factors addressed above, net income for fiscal 2018 increased $7.7 million from the prior year. Net income per share was $3.61 per share for fiscal 2018 compared to $3.40 for fiscal 2017. Current year results were favorably impacted by organic growth, as well as positive impacts on earnings per share of $0.15 per share related to tax reform and $0.05 per share related to the results of FCX, offset by a negative impact of $0.13 per share for one-time costs related to the acquisition of FCX. The prior year results include a positive impact on earnings per share of $0.56 per share related to the tax benefit recorded for the worthless stock deduction. Net income per share was favorably impacted by lower weighted average common shares outstanding in fiscal 2018 as a result of our share repurchase program.

At June 30, 2018, we had a total of 610 operating facilities in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore, versus 552 at June 30, 2017.

The number of Company employees was 6,634 at June 30, 2018 and 5,554 at June 30, 2017.

YEAR ENDED JUNE 30, 2017 vs. 2016

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

	Year Ended June 30, As a % of Net Sales		Change in $'s Versus Prior Period
	2017	2016	% Change
Net Sales	**100.0%**	100.0%	2.9%
Gross Profit Margin	**28.4%**	28.1%	4.3%
Selling, Distribution & Administrative	**21.7%**	22.0%	1.7%
Operating Income	**6.8%**	3.6%	95.3%
Net Income	**5.2%**	1.2%	352.8%

Sales in fiscal 2017 were $2.6 billion, which was $74.3 million or 2.9% above fiscal 2016, with sales from acquisitions accounting for $31.1 million or 1.2% of the increase, offset by a decrease due to unfavorable foreign currency translation of $1.1 million or 0.1%. There were 252.5 selling days in fiscal 2017 and 253.5 selling days in fiscal 2016. Excluding the impact of businesses acquired and prior to the impact of foreign currency translation, sales were up $44.3 million or 1.8% during fiscal 2017, driven by an increase of 1.6% from our traditional core operations in addition to an increase of 0.6% from our upstream oil and gas-focused subsidiaries, offset by a 0.4% decrease due to one less sales day.

The following table shows changes in sales by reportable segment.

Amounts in millions				Amount of change due to		
	Year ended June 30,					
Sales by Reportable Segment	2017	2016	Sales Increase	Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	$ 2,180.4	$ 2,150.5	$ 29.9	$ 19.8	$ (1.1)	$ 11.2
Fluid Power & Flow Control	413.4	369.0	44.4	11.3	—	33.1
Total	$ 2,593.8	$ 2,519.5	$ 74.3	$ 31.1	$ (1.1)	$ 44.3

Sales of our Service Center Based Distribution segment, which operates primarily in MRO markets, increased $29.9 million, or 1.4%. Acquisitions within this segment increased sales by $19.8 million or 0.9%, while unfavorable foreign currency translation decreased sales by $1.1 million or 0.1%. Excluding the impact of businesses acquired and unfavorable currency translation impact, sales increased $11.2 million or 0.6%, driven by an increase of 0.7% from our upstream oil and gas-focused subsidiaries and an increase of 0.3% from within our traditional core operations, offset by a 0.4% decrease due to one less sales day.

Sales of our Fluid Power & Flow Control segment increased $44.4 million or 12.0%. Acquisitions within this segment increased sales $11.3 million or 3.1%. Excluding the impact of businesses acquired, sales increased $33.1 million or 8.9%, driven by an increase from operations, primarily in the U.S., of 9.3%, offset by a decrease of 0.4% due to one less sales day.

The following table shows changes in sales by geographical area. Other countries includes Mexico, Australia, New Zealand, and Singapore.

Amounts in millions				Amount of change due to		
	Year ended June 30,					
Sales by Geographic Area	2017	2016	Sales Increase	Acquisitions	Foreign Currency	Organic Change
United States	$ 2,182.6	$ 2,117.5	$ 65.1	$ 25.1	$ —	$ 40.0
Canada	252.0	257.8	(5.8)	6.0	(0.2)	(11.6)
Other countries	159.2	144.2	15.0	—	(0.9)	15.9
Total	$ 2,593.8	$ 2,519.5	$ 74.3	$ 31.1	$ (1.1)	$ 44.3

Sales in our U.S. operations increased $65.1 million or 3.1%, with acquisitions adding $25.1 million or 1.2%. Excluding the impact of businesses acquired, U.S. sales were up $40.0 million or 1.9%, of which 1.4% was from our traditional core operations and 0.9% was from our upstream oil and gas-focused subsidiaries, offset by a 0.4% decrease due to one less sales day. Sales from our Canadian operations decreased $5.8 million or 2.2%, with unfavorable foreign currency translation decreasing Canadian sales by $0.2 million or 0.1%. Acquisitions added $6.0 million, or 2.3%. Excluding the impact of businesses acquired and unfavorable foreign currency translation impact, Canadian sales were down $11.6 million or 4.4%, of which 2.0% related to the upstream oil and gas-focused subsidiaries, 2.0% was from the traditional core operations, and the remaining 0.4% decrease due to one less sales day. Consolidated sales from our other country operations, which include Mexico, Australia, New Zealand, and Singapore, increased $15.0 million or 10.4% compared to fiscal 2016. Unfavorable foreign currency translation decreased other country sales by $0.9 million or 0.7%. Prior to the impact of currency translation, other country sales were up $15.9 million or 11.1% compared to the fiscal 2016, driven by an increase from operations of 13.0%, primarily in Australia and Singapore, offset by a decrease of 1.9% due to fewer sales days.

The sales product mix for fiscal 2017 was 71.5% industrial products and 28.5% fluid power products compared to 72.9% industrial and 27.1% fluid power in fiscal 2016.

Our gross profit margin increased to 28.4% in fiscal 2017 compared to 28.1% in fiscal 2016. The increase was primarily due to recording a more favorable impact from LIFO layer liquidations which increased gross profit by $9.4 million in fiscal 2017 and $2.1 million in fiscal 2016, offset by a $4.8 million increase in scrap expense in fiscal 2017 compared to fiscal 2016. Further, the gross profit margin for fiscal 2016 was negatively impacted by $3.6 million of restructuring expense recorded within cost of sales related to inventory reserves for excess and obsolete inventory for the upstream oil and gas-focused operations.

The following table shows the changes in SD&A.

Amounts in millions				Amount of change due to		
	Year ended June 30,					
	2017	2016	SD&A Increase	Acquisitions	Foreign Currency	Organic Change
SD&A	$ 562.3	$ 552.8	$ 9.5	$ 8.2	$ 0.1	$ 1.2

Selling, distribution and administrative expenses (SD&A) consist of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management, and providing marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, legal, facility related expenses and expenses incurred with acquiring businesses. SD&A increased $9.5 million or 1.7% during fiscal 2017 compared to fiscal 2016, and as a percent of sales decreased to 21.7% from 21.9% in fiscal 2016. Changes in foreign currency exchange rates had the effect of increasing SD&A by $0.1 million or less than 0.1% compared to fiscal 2016. Additional SD&A from businesses acquired in fiscal 2017 added $8.2 million or 1.5% of SD&A expenses including $1.0 million associated with intangibles amortization. Excluding the impact of businesses acquired and the unfavorable impact from foreign currency translation, SD&A increased $1.2 million or 0.2% during fiscal 2017 compared to fiscal 2016. Excluding the impact of acquisitions, total compensation increased $12.9 million during fiscal 2017 compared to fiscal 2016 as a result of merit increases, improved Company performance, and increased costs related to health care claims. These increases were offset by severance expense and other restructuring charges related to consolidating facilities of $5.2 million of SD&A included in fiscal 2016 that did not reoccur during fiscal 2017. Also, excluding the impact of acquisitions, bad debt expense decreased $2.3 million during fiscal 2017 compared to fiscal 2016, due to improvement in aged receivables. Further, the Company recorded a gain of $1.6 million in fiscal 2017 related to the sale of five buildings during the year. All other expenses within SD&A were down $2.6 million.

During the third quarter of fiscal 2016, the Company performed its annual goodwill impairment test. As a result of this test, the Company determined that all of the goodwill associated with the Australia/New Zealand Service Center Based Distribution reporting unit was impaired as of January 1, 2016. This impairment was the result of the decline in the mining and extraction industries in Australia and the resulting reduced customer spending due to a decline in demand throughout Asia. Further, due to a sustained decline in oil prices and reduced customer spending in Canada, the Company determined that a portion of the goodwill associated with the Canada Service Center Based Distribution reporting unit was also impaired as of January 1, 2016. Accordingly, the Company recognized a combined non-cash impairment charge of $64.8 million for goodwill during fiscal 2016, which decreased net income by $63.8 million and earnings per share by $1.62. Changes in future results, assumptions, and estimates used in calculating the goodwill impairment test could result in additional impairment charges in future periods.

Operating income increased $85.6 million, or 95.3%, to $175.4 million during fiscal 2017 from $89.8 million during fiscal 2016, and as a percent of sales, increased to 6.8% from 3.6%. These increases were primarily due to the Company recognizing a non-cash goodwill impairment charge of $64.8 million and restructuring charges of $8.8 million during fiscal 2016 that did not reoccur during fiscal 2017, as well as higher sales volume in fiscal 2017.

Operating income as a percentage of sales for the Service Center Based Distribution segment was 5.3% in fiscal 2017 and fiscal 2016, before the goodwill impairment charge.

Operating income as a percentage of sales for the Fluid Power & Flow Control segment increased to 11.3% in fiscal 2017 from 10.1% in fiscal 2016. This increase was due to the positive leveraging impact from the increase in sales, primarily from our U.S. operations in this segment, in fiscal 2017.

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

Other (income) expense, net, represents certain non-operating items of income and expense. This was $0.1 million of income in fiscal 2017 compared to $2.0 million of expense in fiscal 2016. Fiscal 2017 income primarily consists of unrealized gains on investments held by non-qualified deferred compensation trusts of $1.2 million, offset by net other periodic post-employment costs of $0.8 million, foreign currency transaction losses of $0.2 million, and life insurance expense of $0.1 million. Fiscal 2016 expense consisted primarily of foreign currency transaction losses of $1.0 million and net other periodic post-employment costs of $1.0 million.

The effective income tax rate was 19.8% for fiscal 2017 compared to 62.6% for fiscal 2016. The fiscal 2017 effective tax rate was favorably impacted by a $22.2 million net tax benefit pertaining to a worthless stock tax deduction, which decreased the effective tax rate by 13.3%. The tax benefit was net of a $1.0 million valuation allowance applicable to the related state deferred income tax asset. This deduction was based on the write-off of the Company's investment in one of its Canadian subsidiaries for U.S. tax purposes. The fiscal 2016 effective tax rate was unfavorably impacted due to the recording of $64.8 million of goodwill impairment during fiscal 2016, of which $61.3 million was not tax deductible. The goodwill impairment increased the effective tax rate for fiscal 2016 by 27.1%. The remaining decrease in the effective tax rate was primarily due to the adoption of ASU 2016-09 in the first quarter of fiscal 2017, which requires excess tax benefits and deficiencies resulting from stock-based compensation awards vesting and exercises to be recognized in the income statement. During fiscal 2017, $2.4 million of net excess tax benefits were recognized as a reduction of income tax expense, which decreased the effective income tax rate for fiscal 2017 by 1.4%. All undistributed earnings of our foreign subsidiaries were considered to be permanently reinvested at June 30, 2017 and 2016.

As a result of the factors addressed above, net income for fiscal 2017 increased $104.3 million from fiscal 2016. Net income per share was $3.40 per share for fiscal 2017 compared to $0.75 for fiscal 2016. Fiscal 2017 results included a positive impact on earnings per share of $0.56 per share related to the tax benefit recorded for the worthless stock deduction. Fiscal 2016 results included negative impacts on earnings per share of $1.62 per share for goodwill impairment charges and $0.16 per share for restructuring charges. Net income per share was favorably impacted by lower weighted average common shares outstanding in fiscal 2017 as a result of our share repurchase program.

At June 30, 2017, we had a total of 552 operating facilities in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore, versus 559 at June 30, 2016.

The number of Company employees was 5,554 at June 30, 2017 and 5,569 at June 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of capital is cash flow from operations, supplemented as necessary by bank borrowings or other sources of debt. At June 30, 2018 we had total debt obligations outstanding of $966.1 million compared to $292.0 million at June 30, 2017. Management expects that our existing cash, cash equivalents, funds available under the revolving credit and uncommitted shelf facilities, and cash provided from operations, will be sufficient to finance normal working capital needs in each of the countries we operate in, payment of dividends, investments in properties, facilities and equipment, and the purchase of additional Company common stock. Management also believes that additional long-term debt and line of credit financing could be obtained based on the Company’s credit standing and financial strength.

The Company’s working capital at June 30, 2018 was $625.5 million compared to $572.8 million at June 30, 2017. The current ratio was 2.4 to 1 at June 30, 2018 and 2.8 to 1 at June 30, 2017.

Net Cash Flows

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

	Year Ended June 30,		
	2018	2017	2016
Net Cash Provided by (Used in):			
Operating Activities	**$ 147,304**	$ 164,619	$ 162,014
Investing Activities	**(797,906)**	(16,894)	(75,031)
Financing Activities	**600,284**	(103,349)	(93,007)
Exchange Rate Effect	**(589)**	820	(3,585)
Increase (Decrease) in Cash and Cash Equivalents	**$ (50,907)**	$ 45,196	$ (9,609)

The decrease in cash provided by operating activities during fiscal 2018 is primarily due to increased working capital levels to support increased sales compared to the prior year periods. The decrease in cash was further impacted by increased interest payments, and the payment of $7.1 million of one-time costs, both related to the FCX acquisition. These decreases were partially offset by improved operating results, including the impact of the FCX acquisition.

Net cash used in investing activities in fiscal 2018 included $775.7 million used for the acquisitions of FCX and DICOFASA, and $23.2 million used for capital expenditures. Net cash used in investing activities in fiscal 2017 included $17.0 million for capital expenditures and $2.8 million used for acquisitions. These were offset by $2.9 million of proceeds received from the sale of five buildings during fiscal 2017. Net cash used in investing activities in fiscal 2016 included $13.1 million for capital expenditures and $62.5 million used for acquisitions.

Net cash provided by financing activities in fiscal 2018 included $780.0 million of cash from borrowings under the new credit facility and $19.5 million of net borrowings under the revolving credit facility, offset by $125.4 million of long-term debt repayments. Further uses of cash were $45.9 million for dividend payments, $22.8 million used to repurchase 393,300 shares of treasury stock, and $3.3 million used for the payment of debt issuance costs.

Net cash used in financing activities in fiscal 2017 included $3.4 million of long-term debt repayments and $33.0 million of net repayments under the revolving credit facility. Further uses of cash were $44.6 million for dividend payments, $8.2 million used to repurchase 162,500 shares of treasury stock, $11.3 million used for acquisition holdback payments, and $3.5 million used to pay taxes for shares withheld.

Net cash used in financing activities in fiscal 2016 included $98.7 million of long-term debt repayments and $19.0 million of net repayments under the revolving credit facility, offset by $125.0 million of cash from borrowings under the credit facility. Further uses of cash were $43.3 million for dividend payments, $37.5 million used to repurchase 951,100 shares of treasury stock, and $18.9 million of acquisition holdback payments.

The increase in dividends over the last three fiscal years is the result of regular increases in our dividend payout rates. We paid dividends of $1.18, $1.14, and $1.10 per share in fiscal 2018, 2017 and 2016, respectively.

Capital Expenditures

We expect capital expenditures for fiscal 2019 to be in the $26.0 million to $28.0 million range, primarily consisting of capital associated with additional information technology equipment and infrastructure investments. Depreciation for fiscal 2019 is expected to be in the range of $21.0 million to $22.0 million.

ERP Project

In fiscal 2011 Applied commenced its ERP (SAP) project to transform the Company's technology platforms and enhance its business information and technology systems for future growth. We first deployed our solution in our Western Canadian operating locations and our traditional U.S. Service Center Based Distribution businesses, excluding recent acquisitions. In fiscal 2014, the Company initiated the conversion to SAP of its related financial and accounting systems, including the receivables, payables, treasury, inventory, fixed assets, general ledger and consolidation systems. All of these underlying financial and accounting systems, except for the consolidation process/system, were transitioned to SAP during fiscal 2015. At the beginning of fiscal 2016 the Company converted to a new consolidation process and system. During the fourth quarter of fiscal 2017, operations in Eastern Canada transitioned onto SAP, and the majority of the Company's upstream oil and gas-focused operations transitioned onto SAP during fiscal 2018. The Company will continue to evaluate and consider an appropriate deployment schedule for other operations not on SAP.

Share Repurchases

The Board of Directors has authorized the repurchase of shares of the Company’s stock. These purchases may be made in open market and negotiated transactions, from time to time, depending upon market conditions. At June 30, 2018, we had authorization to purchase an additional 1,056,700 shares.

In fiscal 2018, 2017 and 2016, we repurchased 393,300, 162,500, and 951,100 shares of the Company’s common stock, respectively, at an average price per share of $57.92, $50.72, and $39.39, respectively.

Borrowing Arrangements

In January 2018, in conjunction with the acquisition of FCX, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a $780.0 million unsecured term loan and a $250.0 million unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At June 30, 2018, the Company had $775.1 million outstanding under the term loan and $19.5 million outstanding under the revolver. Unused lines under this facility, net of outstanding letters of credit of $3.6 million to secure certain insurance obligations, totaled $226.9 million at June 30, 2018, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan as of June 30, 2018 was 4.13%.

The weighted average interest rate on the amount outstanding under the revolving credit facility as of June 30, 2018 was 3.93%.

At June 30, 2017, the Company had $120.3 million outstanding under the term loan in the previous credit facility agreement, which carried a variable interest rate tied to LIBOR and was 2.25% as of June 30, 2017. No amount was outstanding under the revolver as of June 30, 2017. Unused lines under this facility, net of outstanding letters of credit of $2.4 million to secure certain insurance obligations, totaled $247.6 million at June 30, 2017.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with either revolving credit agreement, in the amount of $2.7 million as of June 30, 2018 and June 30, 2017, respectively, in order to secure certain insurance obligations.

At June 30, 2018 and June 30, 2017, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of $170.0 million. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series C" notes have a principal amount of $120.0 million and carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of $50.0 million, carry a fixed interest rate of 3.21%, and are due in equal principal payments in October 2019 and 2023. As of June 30, 2018, $50.0 million in additional financing was available under this facility.

In 2014, the Company assumed $2.4 million of debt as a part of the headquarters facility acquisition. The 1.50% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At June 30, 2018 and 2017, $1.4 million and $1.7 million was outstanding, respectively.

The new credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At June 30, 2018, the most restrictive of these covenants required that the Company have net indebtedness less than 4.25 times consolidated income before interest, taxes, depreciation and amortization. At June 30, 2018, the Company's indebtedness was less than 3.0 times consolidated income before interest, taxes, depreciation and amortization. The Company was in compliance with all financial covenants at June 30, 2018.

Accounts Receivable Analysis

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

June 30,	2018	2017
Accounts receivable, gross	$ 562,377	$ 400,559
Allowance for doubtful accounts	13,566	9,628
Accounts receivable, net	$ 548,811	$ 390,931
Allowance for doubtful accounts, % of gross receivables	2.4%	2.4%

Year Ended June 30,	2018	2017
Provision for losses on accounts receivable	$ 2,803	$ 2,071
Provision as a % of net sales	0.09%	0.08%

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

On a consolidated basis, DSO was 55.0 at June 30, 2018 versus 51.6 at June 30, 2017. The inclusion of FCX had no impact on the Company's DSO at June 30, 2018. Accounts receivable increased 40.4% this year, of which 20.7% is accounts receivable for FCX. The remaining increase is due to an increase in sales excluding FCX for the twelve months ended June 30, 2018.

Approximately 2.4% of our accounts receivable balances are more than 90 days past due at June 30, 2018 compared to 1.7% at June 30, 2017. This increase primarily relates to our U.S. Service Center Based Distribution businesses. On an overall basis, our provision for losses from uncollected receivables represents 0.09% of our sales in the year ended June 30, 2018. Historically, this percentage is around 0.10% to 0.15%. Management believes the overall receivables aging and provision for losses on uncollected receivables are at reasonable levels.

Inventory Analysis

Inventories are valued using the last-in, first-out (LIFO) method for U.S. inventories and the average cost method for foreign inventories. Management uses an inventory turnover ratio to monitor and evaluate inventory. Management calculates this ratio on an annual as well as a quarterly basis and uses inventory valued at average costs. The annualized inventory turnover (using average costs) for the period ended June 30, 2018 was 4.0 versus 3.7 at June 30, 2017. We believe our inventory turnover ratio in fiscal 2019 will be slightly better than our fiscal 2018 levels.

CONTRACTUAL OBLIGATIONS

The following table shows the approximate value of the Company’s contractual obligations and other commitments to make future payments as of June 30, 2018 (in thousands):

	Total	Period Less Than 1 yr	Period 2-3 yrs	Period 4-5 yrs	Period Over 5 yrs	Other
Operating leases	$ 111,400	$ 38,100	$ 45,300	$ 17,000	$ 11,000	—
Planned funding of post-retirement obligations	16,300	3,500	4,400	1,800	6,600	—
Unrecognized income tax benefit liabilities, including interest and penalties	4,700	—	—	—	—	4,700
Long-term debt obligations	966,100	19,700	128,900	792,300	25,200	—
Interest on long-term debt obligations (1)	84,300	18,300	40,800	25,000	200	—
Acquisition holdback payments	3,365	2,592	698	—	75	—
Total Contractual Cash Obligations	$ 1,186,165	$ 82,192	$ 220,098	$ 836,100	$ 43,075	$ 4,700

(1) Amounts represent estimated contractual interest payments on outstanding long-term debt obligations. Rates in effect as of June 30, 2018 are used for variable rate debt.

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

CRITICAL ACCOUNTING POLICIES

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

LIFO Inventory Valuation and Methodology

Inventories are valued at the average cost method, using the last-in, first-out (LIFO) method for U.S. inventories, and the average cost method for foreign inventories. We adopted the link chain dollar value LIFO method for accounting for U.S. inventories in fiscal 1974. Approximately 16.8% of our domestic inventory dollars relate to LIFO layers added in the 1970s. The excess of average cost over LIFO cost is $139.2 million as reflected in our consolidated balance sheet at June 30, 2018. The Company maintains five LIFO pools based on the following product groupings: bearings, power transmission products, rubber products, fluid power products and other products.

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

Allowances for Slow-Moving and Obsolete Inventories

We evaluate the recoverability of our slow-moving and inactive inventories at least quarterly. We estimate the recoverable cost of such inventory by product type while considering factors such as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. Our ability to recover our cost for slow moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand and relationships with suppliers. A significant portion of the products we hold in inventory have long shelf lives, are not highly susceptible to obsolescence and are eligible for return under various supplier return programs.

As of June 30, 2018 and 2017, the Company's reserve for slow-moving or obsolete inventories was $38.1 million and $28.8 million, respectively, recorded in inventories in the consolidated balance sheets. The increase is primarily due to a $6.8 million reserve related to the inventory acquired with FCX.

Allowances for Doubtful Accounts

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

As of June 30, 2018 and 2017, our allowance for doubtful accounts was 2.4% of gross receivables. Our provision for losses on accounts receivable was $2.8 million, $2.1 million and $4.3 million in fiscal 2018, 2017 and 2016, respectively.

Goodwill and Intangibles

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

We evaluate goodwill for impairment at the reporting unit level annually as of January 1, and whenever an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Events or circumstances that may result in an impairment review include changes in macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, specific events affecting the reporting unit or sustained decrease in share price. Each year, the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If impairment is indicated in the qualitative assessment, or, if management elects to initially perform a quantitative assessment of goodwill, the impairment test uses a one-step approach. The fair value of a reporting unit is compared with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

Goodwill on our consolidated financial statements relates to both the Service Center Based Distribution segment and the Fluid Power & Flow Control segment. The Company has six reporting units for which an annual goodwill impairment assessment was performed as of January 1, 2018. The Company concluded that all of the reporting units' fair value exceeded their carrying amounts by at least 30% as of January 1, 2018. However, for one of our reporting units with goodwill of approximately $28.0 million, if we do not achieve our forecasted margin improvements goodwill could be impaired.

The fair values of the reporting units in accordance with the goodwill impairment test were determined using the Income and Market approaches. The Income approach employs the discounted cash flow method reflecting projected cash flows expected to be generated by market participants and then adjusted for time value of money factors. The Market approach utilizes an analysis of comparable publicly traded companies.

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

Income Taxes

Deferred income taxes are recorded for estimated future tax effects of differences between the bases of assets and liabilities for financial reporting and income tax purposes, giving consideration to enacted tax laws. As of June 30, 2018, the Company had recognized $56.1 million of net deferred tax liabilities. Valuation allowances are provided against deferred tax assets where it is considered more-likely-than-not that the Company will not realize the benefit of such assets on a jurisdiction by jurisdiction basis. The remaining net deferred tax asset is the amount management believes is more-likely-than-not of being realized. The realization of these deferred tax assets can be impacted by changes to tax laws, statutory rates and future taxable income levels.

CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

This Form 10-K, including Management's Discussion and Analysis, contains statements that are forward-looking based on management's current expectations about the future. Forward-looking statements are often identified by qualifiers, such as "guidance", "expect", "believe", "plan", "intend", "will", "should", "could", "would", "anticipate", "estimate", "forecast", "may", "optimistic" and derivative or similar words or expressions. Similarly, descriptions of objectives, strategies, plans, or goals are also forward-looking statements. These statements may discuss, among other things, expected growth, future sales, future cash flows, future capital expenditures, future performance, and the anticipation and expectations of the Company and its management as to future occurrences and trends. The Company intends that the forward-looking statements be subject to the safe harbors established in the Private Securities Litigation Reform Act of 1995 and by the Securities and Exchange Commission in its rules, regulations and releases.

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

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

We discuss certain of these matters and other risk factors more fully throughout our Form 10-K, as well as other of our filings with the Securities and Exchange Commission.

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

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

We occasionally utilize derivative instruments as part of our overall financial risk management policy, but do not use derivative instruments for speculative or trading purposes. As of June 30, 2018, we did not have any outstanding derivative instruments.

Foreign Currency Exchange Rate Risk

Because we operate throughout North America, Australia and New Zealand and approximately 14.9% of our fiscal year 2018 net sales were generated outside the United States, foreign currency exchange rates can impact our financial position, results of operations and competitive position. The financial statements of foreign subsidiaries are translated into their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities, while income and expenses are translated at average monthly exchange rates. Translation gains and losses are components of other comprehensive income (loss) as reported in the statements of consolidated comprehensive income. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the statements of consolidated income as a component of other (income) expense, net. Applied does not currently hedge the net investments in our foreign operations.

During the course of the fiscal year, the Canadian, Mexican, Australian, and New Zealand currency exchange rates decreased in relation to the U.S. dollar by 2.0%, 9.2%, 4.1%, and 7.4%, respectively. In the twelve months ended June 30, 2018, we experienced net foreign currency translation losses totaling $8.9 million, which were included in other comprehensive income (loss). We utilize a sensitivity analysis to measure the potential impact on earnings based on a hypothetical 10% change in foreign currency rates. A 10% strengthening of the U.S. dollar relative to foreign currencies that affect the Company from the levels experienced during the year ended June 30, 2018 would have resulted in a $0.9 million decrease in net income for the year ended June 30, 2018. A 10% weakening of the U.S. dollar relative to foreign currencies that affect the Company from the levels experienced during the year ended June 30, 2018 would have resulted in a $0.9 million increase in net income for the year ended June 30, 2018.

Interest Rate Risk

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

Our variable interest rate debt facilities outstanding include our five-year credit facility, which provides for a revolving credit facility with a capacity of up to $250.0 million in borrowings and $19.5 million outstanding at June 30, 2018, and a $780.0 million term loan, of which $775.1 million was outstanding at June 30, 2018. Fixed interest rate debt facilities include $170.0 million outstanding under our unsecured shelf facility agreement, as well as $1.4 million of assumed debt from the purchase of our headquarters facility. We had total average variable interest rate bank borrowings of $431.7 million during fiscal 2018. The impact of a hypothetical 1.0% increase in the interest rates on our average variable interest rate bank borrowings would have resulted in a $4.3 million increase in interest expense. Changes in market interest rates would also impact interest rates on these facilities.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Applied Industrial Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2018 and 2017, the related statements of consolidated income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2018, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 17, 2018 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
Cleveland, Ohio

August 17, 2018

We have served as the Company's auditor since 1966.

Table of Contents

STATEMENTS OF CONSOLIDATED INCOME

(In thousands, except per share amounts)

Year Ended June 30,	2018	2017	2016
Net Sales	**$ 3,073,274**	$ 2,593,746	$ 2,519,428
Cost of Sales	**2,189,279**	1,856,051	1,812,006
Gross Profit	**883,995**	737,695	707,422
Selling, Distribution and Administrative, including depreciation	**658,168**	562,309	552,846
Goodwill Impairment	**—**	—	64,794
Operating Income	**225,827**	175,386	89,782
Interest Expense	**24,142**	8,831	9,004
Interest Income	**(657)**	(290)	(241)
Other (Income) Expense, net	**(2,376)**	(121)	2,041
Income Before Income Taxes	**204,718**	166,966	78,978
Income Tax Expense	**63,093**	33,056	49,401
Net Income	**$ 141,625**	$ 133,910	$ 29,577
Net Income Per Share — Basic	**$ 3.65**	$ 3.43	$ 0.75
Net Income Per Share — Diluted	**$ 3.61**	$ 3.40	$ 0.75

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(In thousands)

Year Ended June 30,		2018		2017		2016
Net income per the statements of consolidated income	**$**	**141,625**	$	133,910	$	29,577
Other comprehensive (loss) income, before tax:						
Foreign currency translation adjustments		**(8,875)**		2,238		(24,441)
Post-employment benefits:						
Actuarial gain (loss) on re-measurement		**709**		2,038		(1,998)
Reclassification of actuarial losses and prior service cost into SD&A expense and included in net periodic pension costs		**(73)**		506		518
Unrealized gain (loss) on investment securities available for sale		**37**		91		(52)
Total other comprehensive (loss) income, before tax		**(8,202)**		4,873		(25,973)
Income tax expense (benefit) related to items of other comprehensive income (loss)		**319**		1,029		(598)
Other comprehensive (loss) income, net of tax		**(8,521)**		3,844		(25,375)
Comprehensive income	**$**	**133,104**	$	137,754	$	4,202

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands)

June 30,	2018	2017
Assets		
Current assets		
Cash and cash equivalents	**$ 54,150**	$ 105,057
Accounts receivable, less allowances of $13,566 and $9,628	**548,811**	390,931
Inventories	**422,069**	345,145
Other current assets	**32,990**	41,409
Total current assets	**1,058,020**	882,542
Property — at cost		
Land	**14,411**	14,250
Buildings	**104,419**	97,529
Equipment, including computers and software	**177,813**	162,432
Total property — at cost	**296,643**	274,211
Less accumulated depreciation	**175,300**	166,143
Property — net	**121,343**	108,068
Identifiable intangibles, net	**435,947**	163,562
Goodwill	**646,643**	206,135
Other assets	**23,788**	27,288
Total Assets	**$ 2,285,741**	$ 1,387,595
Liabilities		
Current liabilities		
Accounts payable	**$ 256,886**	$ 180,614
Current portion of long-term debt	**19,183**	4,814
Compensation and related benefits	**73,370**	58,785
Other current liabilities	**83,112**	65,540
Total current liabilities	**432,551**	309,753
Long-term debt	**944,522**	286,769
Post-employment benefits	**11,985**	16,715
Other liabilities	**81,720**	29,102
Total Liabilities	**1,470,778**	642,339
Shareholders' Equity		
Preferred stock — no par value; 2,500 shares authorized; none issued or outstanding	**—**	—
Common stock — no par value; 80,000 shares authorized; 54,213 shares issued; 38,703 and 39,041 shares outstanding, respectively	**10,000**	10,000
Additional paid-in capital	**169,383**	164,655
Retained earnings	**1,129,678**	1,033,751
Treasury shares — at cost (15,510 and 15,172 shares), respectively	**(403,875)**	(381,448)
Accumulated other comprehensive loss	**(90,223)**	(81,702)
Total Shareholders' Equity	**814,963**	745,256
Total Liabilities and Shareholders' Equity	**$ 2,285,741**	$ 1,387,595

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In thousands)

Year Ended June 30,	2018	2017	2016
Cash Flows from Operating Activities			
Net income	**$ 141,625**	$ 133,910	$ 29,577
Adjustments to reconcile net income to net cash provided by operating activities:			
Goodwill impairment	**—**	—	64,794
Depreciation and amortization of property	**17,798**	15,306	15,966
Amortization of intangibles	**32,065**	24,371	25,580
Amortization of stock appreciation rights and options	**1,961**	1,891	1,543
Deferred income taxes	**1,615**	(2,852)	(6,581)
Provision for losses on accounts receivable	**2,803**	2,071	4,303
Unrealized foreign exchange transaction (gains) losses	**(667)**	(333)	61
Other share-based compensation expense	**4,666**	3,629	2,524
(Gain) loss on sale of property	**(335)**	(1,541)	337
Other	**—**	103	—
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	**(83,103)**	(42,267)	26,414
Inventories	**(33,436)**	(3,624)	25,081
Other operating assets	**6,947**	(6,162)	2,964
Accounts payable	**50,345**	32,076	(28,644)
Other operating liabilities	**5,020**	8,041	(1,905)
Cash provided by Operating Activities	**147,304**	164,619	162,014
Cash Flows from Investing Activities			
Property purchases	**(23,230)**	(17,045)	(13,130)
Proceeds from property sales	**978**	2,924	603
Cash paid for acquisition of businesses, net of cash acquired	**(775,654)**	(2,773)	(62,504)
Cash used in Investing Activities	**(797,906)**	(16,894)	(75,031)
Cash Flows from Financing Activities			
Net borrowings (repayments) under revolving credit facility, classified as long term	**19,500**	(33,000)	(19,000)
Borrowings under long-term debt facilities	**780,000**	—	125,000
Long-term debt repayments	**(125,420)**	(3,353)	(98,662)
Debt issuance costs	**(3,298)**	—	(719)
Purchases of treasury shares	**(22,778)**	(8,242)	(37,465)
Dividends paid	**(45,858)**	(44,619)	(43,330)
Excess tax benefits from share-based compensation	**—**	—	208
Acquisition holdback payments	**(319)**	(11,307)	(18,913)
Exercise of stock appreciation rights and options	**102**	656	896
Taxes paid for shares withheld	**(1,645)**	(3,484)	(1,022)
Cash provided by (used in) Financing Activities	**600,284**	(103,349)	(93,007)
Effect of exchange rate changes on cash	**(589)**	820	(3,585)
(Decrease) increase in cash and cash equivalents	**(50,907)**	45,196	(9,609)
Cash and cash equivalents at beginning of year	**105,057**	59,861	69,470
Cash and Cash Equivalents at End of Year	**$ 54,150**	$ 105,057	$ 59,861
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	**41,724**	38,772	54,749
Interest	**25,560**	8,561	9,497

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(In thousands)

For the Years Ended June 30, 2018, 2017 and 2016	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares-at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2015	39,905	$ 10,000	$ 160,072	$ 969,548	$ (338,121)	$ (60,171)	$ 741,328
Net income				29,577			29,577
Other comprehensive income (loss)						(25,375)	(25,375)
Cash dividends — $1.10 per share				(54,266)			(54,266)
Purchases of common stock for treasury	(951)				(37,465)		(37,465)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	64		(391)		1,000		609
Performance share awards	8		(308)		116		(192)
Restricted stock units	15		(530)		232		(298)
Compensation expense — stock appreciation rights and options			1,543				1,543
Other share-based compensation expense			2,524				2,524
Other	16		(381)	(38)	350		(69)
Balance at June 30, 2016	39,057	10,000	162,529	944,821	(373,888)	(85,546)	657,916
Net income				133,910			133,910
Other comprehensive income (loss)						3,844	3,844
Cash dividends — $1.14 per share				(45,005)			(45,005)
Purchases of common stock for treasury	(163)				(8,242)		(8,242)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	111		(2,218)		105		(2,113)
Performance share awards	10		(360)		126		(234)
Restricted stock units	15		(624)		227		(397)
Compensation expense — stock appreciation rights and options			1,891				1,891
Other share-based compensation expense			3,629				3,629
Other	11		(192)	25	224		57
Balance at June 30, 2017	**39,041**	**10,000**	**164,655**	**1,033,751**	**(381,448)**	**(81,702)**	**745,256**
Net income				**141,625**			**141,625**
Other comprehensive income (loss)						**(8,050)**	**(8,050)**
Reclassifications of certain income tax effects from accumulated other comprehensive loss				**471**		**(471)**	**—**
Cash dividends — $1.18 per share				**(46,162)**			**(46,162)**
Purchases of common stock for treasury	**(393)**				**(22,778)**		**(22,778)**
Treasury shares issued for:							
Exercise of stock appreciation rights and options	**19**		**(482)**		**84**		**(398)**
Performance share awards	**5**		**(273)**		**(24)**		**(297)**
Restricted stock units	**15**		**(740)**		**(56)**		**(796)**
Compensation expense — stock appreciation rights and options			**1,961**				**1,961**
Other share-based compensation expense			**4,666**				**4,666**
Other	**16**		**(404)**	**(7)**	**347**		**(64)**
Balance at June 30, 2018	**38,703**	**$ 10,000**	**$ 169,383**	**$ 1,129,678**	**$ (403,875)**	**$ (90,223)**	**$ 814,963**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

NOTE 1: BUSINESS AND ACCOUNTING POLICIES

Business

Applied Industrial Technologies, Inc. and subsidiaries (the “Company” or “Applied”) is a leading distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, and other industrial supplies, serving Maintenance Repair & Operations (MRO) and Original Equipment Manufacturer (OEM) customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial, fluid power, and flow control applications, as well as customized mechanical, fabricated rubber, fluid power, and flow control shop services. Applied also offers storeroom services and inventory management solutions that provide added value to its customers. Although the Company does not generally manufacture the products it sells, it does assemble and repair certain products and systems.

Consolidation

The consolidated financial statements include the accounts of Applied Industrial Technologies, Inc. and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Foreign Currency

The financial statements of the Company’s Canadian, Mexican, Australian and New Zealand subsidiaries are measured using local currencies as their functional currencies. Assets and liabilities are translated into U.S. dollars at current exchange rates, while income and expenses are translated at average exchange rates. Translation gains and losses are reported in other comprehensive (loss) income in the statements of consolidated comprehensive income. Gains and losses resulting from transactions denominated in foreign currencies are included in the statements of consolidated income as a component of other (income) expense, net.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Marketable Securities

The primary marketable security investments of the Company include money market and mutual funds held in a rabbi trust for a non-qualified deferred compensation plan. These are included in other assets in the consolidated balance sheets, are classified as trading securities, and are reported at fair value based on quoted market prices. Changes in the fair value of the investments during the period are recorded in other (income) expense, net in the statements of consolidated income.

Concentration of Credit Risk

The Company has a broad customer base representing many diverse industries across North America, Australia, New Zealand, and Singapore. As such, the Company does not believe that a significant concentration of credit risk exists in its accounts receivable. The Company’s cash and cash equivalents consist of deposits with commercial banks and regulated non-bank subsidiaries. While the Company monitors the creditworthiness of these institutions, a crisis in the financial systems could limit access to funds and/or result in the loss of principal. The terms of these deposits and investments provide that all monies are available to the Company upon demand.

Allowances for Doubtful Accounts

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

Inventories

Inventories are valued at the average cost method, using the last-in, first-out (LIFO) method for U.S. inventories and the average cost method for foreign inventories. The Company adopted the link chain dollar value LIFO method of accounting for U.S. inventories in fiscal 1974. At June 30, 2018, approximately 16.8% of the Company's domestic inventory dollars relate to LIFO layers added in the 1970s. The Company maintains five LIFO pools based on the following product groupings: bearings, power transmission products, rubber products, fluid power products and other products. LIFO layers and/or liquidations are determined consistently year-to-year.

The Company evaluates the recoverability of its slow moving and inactive inventories at least quarterly. The Company estimates the recoverable cost of such inventory by product type while considering factors such as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. The Company's ability to recover its cost for slow moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand, and relationships with suppliers. Historically, the Company's inventories have demonstrated long shelf lives, are not highly susceptible to obsolescence, and, in certain instances, can be eligible for return under supplier return programs.

Supplier Purchasing Programs

The Company enters into agreements with certain suppliers providing inventory purchase incentives. The Company's inventory purchase incentive arrangements are unique to each supplier and are generally annual programs ending at either the Company's fiscal year end or the supplier's year end; however, program length and ending dates can vary. Incentives are received in the form of cash or credits against purchases upon attainment of specified purchase volumes and are received either monthly, quarterly or annually. The incentives are generally a specified percentage of the Company's net purchases based upon achieving specific purchasing volume levels. These percentages can increase or decrease based on changes in the volume of purchases. The Company accrues for the receipt of these inventory purchase incentives based upon cumulative purchases of inventory. The percentage level utilized is based upon the estimated total volume of purchases expected during the life of the program. Supplier programs are analyzed each quarter to determine the appropriateness of the amount of purchase incentives accrued. Upon program completion, differences between estimates and actual incentives subsequently received have not been material. Benefits under these supplier purchasing programs are recognized under the Company's inventory accounting methods as a reduction of cost of sales when the inventories representing these purchases are recorded as cost of sales. Accrued incentives expected to be settled as a credit against future purchases are reported on the consolidated balance sheets as an offset to amounts due to the related supplier.

Property and Related Depreciation and Amortization

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets and is included in selling, distribution and administrative expenses in the accompanying statements of consolidated income. Buildings, building improvements and leasehold improvements are depreciated over ten to thirty years or the life of the lease if a shorter period, and equipment is depreciated over three to ten years. The Company capitalizes internal use software development costs in accordance with guidance on accounting for costs of computer software developed or obtained for internal use. Amortization of software begins when it is ready for its intended use, and is computed on a straight-line basis over the estimated useful life of the software, generally not to exceed twelve years. Capitalized software and hardware costs are classified as property on the consolidated balance sheets. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the recorded value cannot be recovered from undiscounted future cash flows. Impairment losses, if any, would be measured based upon the difference between the carrying amount and the fair value of the assets.

Goodwill and Intangible Assets

Goodwill is recognized as the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. Goodwill is not amortized. Goodwill is reviewed for impairment annually as of January 1 or whenever changes in conditions indicate an evaluation should be completed. These conditions could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. The Company utilizes discounted cash flow models and market multiples for comparable businesses to determine the fair value of reporting units. Evaluating impairment requires significant judgment by management, including estimated future operating results, estimated future cash flows, the long-term rate of growth of the business, and determination of an appropriate discount rate. While the Company uses available information to prepare the estimates and evaluations, actual results could differ significantly.

The Company recognizes acquired identifiable intangible assets such as customer relationships, trade names, vendor relationships, and non-competition agreements apart from goodwill. Customer relationship identifiable intangibles are amortized using the sum-of-the-years-digits method or the expected cash flow method over estimated useful lives consistent with assumptions used in the determination of their value. Amortization of all other finite-lived identifiable intangible assets is computed using the straight-line method over the estimated period of benefit. Amortization of identifiable intangible assets is included in selling, distribution and administrative expense in the accompanying statements of consolidated income. Identifiable intangible assets with finite lives are reviewed for impairment when changes in conditions indicate carrying value may not be recoverable. Identifiable intangible assets with indefinite lives are reviewed for impairment on an annual basis or whenever changes in conditions indicate an evaluation should be completed. The Company does not currently have any indefinite-lived identifiable intangible assets.

Self-Insurance Liabilities

The Company maintains business insurance programs with significant self-insured retention covering workers' compensation, business, automobile, general product liability and other claims. The Company accrues estimated losses including those incurred but not reported using actuarial calculations, models and assumptions based on historical loss experience. The Company also maintains a self-insured health benefits plan which provides medical benefits to U.S. based employees electing coverage under the plan. The Company estimates its reserve for all unpaid medical claims, including those incurred but not reported, based on historical experience, adjusted as necessary based upon management's reasoned judgment.

Revenue Recognition

Sales are recognized when there is evidence of an arrangement, the sales price is fixed, collectibility is reasonably assured and the product's title and risk of loss is transferred to the customer. Typically, these conditions are met when the product is shipped to the customer. The Company charges shipping and handling fees when products are shipped or delivered to a customer, and includes such amounts in net sales. The Company reports its sales net of actual sales returns and the amount of reserves established for anticipated sales returns based on historical rates. Sales tax collected from customers is excluded from net sales in the accompanying statements of consolidated income.

Shipping and Handling Costs

The Company records freight payments to third parties in cost of sales and internal delivery costs in selling, distribution and administrative expense in the accompanying statements of consolidated income. Internal delivery costs in selling, distribution and administrative expenses were approximately $19,320, $20,060 and $21,480 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively.

Income Taxes

Income taxes are determined based upon income and expenses recorded for financial reporting purposes. Deferred income taxes are recorded for estimated future tax effects of differences between the bases of assets and liabilities for financial reporting and income tax purposes, giving consideration to enacted tax laws. Uncertain tax positions meeting a more-likely-than-not recognition threshold are recognized in accordance with Accounting Standards Codification ("ASC") Topic 740 - *Income Taxes*. The Company recognizes accrued interest and penalties related to unrecognized income tax benefits in the provision for income taxes.

Share-Based Compensation

Share-based compensation represents the cost related to share-based awards granted to employees under the 2015 Long-Term Performance Plan, the 2011 Long-Term Performance Plan, or the 2007 Long-Term Performance Plan. The Company measures share-based compensation cost at the grant date, based on the estimated fair value of the award and recognizes the cost over the requisite service period. Non-qualified stock appreciation rights (SARs) and stock options are granted with an exercise price equal to the closing market price of the Company's common stock at the date of grant and the fair values are determined using a Black-Scholes option pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate and the expected dividend yield. SARs and stock option awards generally vest over four years of continuous service and have ten-year contractual terms. The fair value of restricted stock awards, restricted stock units (RSUs), and performance shares are based on the closing market price of Company common stock on the grant date.

Treasury Shares

Shares of common stock repurchased by the Company are recorded at cost as treasury shares and result in a reduction of shareholders' equity in the consolidated balance sheets. The Company uses the weighted-average cost method for determining the cost of shares reissued. The difference between the cost of the shares and the reissuance price is added to or deducted from additional paid-in capital.

Recently Adopted Accounting Guidance

Change in Accounting Principle - Net Periodic and Post-retirement Benefit Costs

In March 2017, the FASB issued its final standard on improving the presentation of net periodic pension and postretirement benefit costs. This standard, issued as ASU 2017-07, requires that an employer report the service cost component for defined benefit plans and postretirement plans in the same line item in the income statement as other compensation costs arising from services rendered by the employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This update is effective for annual financial statement periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period. The Company early adopted ASU 2017-07 in the first quarter of fiscal 2018. The impact of the adoption of this guidance resulted in the reclassification of the other components of net benefit cost from selling, distribution, and administrative expense to other (income) expense, net in the statements of consolidated income, resulting in an increase to operating income. There is no impact to income before income taxes, net income, or net income per share. Therefore, $143, $155, and $113 of service costs are included in selling, distribution and administrative expense, and $245, $796, and $981 of net other periodic post-employment costs are included in other (income) expense, net in the statements of consolidated income for the years ended June 30, 2018, and 2017, and 2016, respectively. The Company used a practical expedient where the amounts disclosed in our Benefit Plans footnote for the prior year comparative periods were the basis for the estimation for applying the retrospective presentation requirements.

Accumulated Other Comprehensive Income

In January 2018, the FASB issued its final standard on reporting comprehensive income. The standard, issued as ASU 2018-02, allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company early adopted ASU 2018-02 in the fourth quarter of fiscal 2018 using the at the beginning of the period of adoption method. The impact of adoption was a reclassification of $471 from accumulated other comprehensive loss to retained earnings.

Change in Accounting Principle - Simplifying the test for Goodwill Impairment

In January 2017, the FASB issued its final standard on simplifying the test for goodwill impairment. This standard, issued as ASU 2017-04, eliminates step 2 from the goodwill impairment test and instead requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. This update is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company early adopted ASU 2017-04 in the fourth quarter of fiscal 2018 and will apply this guidance prospectively to its annual and interim goodwill impairment tests.

Recently Issued Accounting Guidance

In May 2014, the FASB issued its final standard on the recognition of revenue from contracts with customers. The standard, issued as ASU 2014-09, outlines a single comprehensive model for entities to use in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. The core principle of this model is that "an entity recognizes revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services." In August 2015, the FASB issued ASU 2015-14 to delay the effective date of ASU 2014-09 by one year. In accordance with the delay, the update is effective for financial statement periods beginning after December 15, 2017 and may be adopted either retrospectively or on a modified retrospective basis. Early adoption is permitted, but not before financial statement periods beginning after December 15, 2016. In March 2016 the FASB issued ASU 2016-08 and ASU 2016-10, and in May 2016 the FASB issued ASU 2016-12, which clarify the guidance in ASU 2014-09 but do not change the core principle of the revenue recognition model. The Company has evaluated the provisions of the new standard and is in the process of assessing its impact on financial statements, information systems, business processes, and financial statement disclosures. We have substantially completed an analysis of revenue streams at each of the business units and are evaluating the impact the new standard will have on revenue recognition. The Company primarily sells purchased products and recognizes revenue at point of sale or delivery and the majority of its revenue will continue to be recognized at a point in time under the new standard. A small percentage of revenue will be recognized using an over time revenue recognition model. The new standard will be adopted in the first quarter of fiscal 2019 using the modified retrospective method of adoption, and the Company will recognize the cumulative effect of initially applying the new standard as an adjustment to opening retained earnings as of July 1, 2018. The standard is not expected to have a material impact on the Company's consolidated financial statements, except for expanded disclosures on revenue in order to comply with the new guidance. The Company will continue to evaluate the impacts of the adoption of the standard and these assessments are subject to change.

In February 2016, the FASB issued its final standard on accounting for leases. This standard, issued as ASU 2016-02, requires that an entity that is a lessee recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. The core principle of this update is that a "lessee should recognize the assets and liabilities that arise from leases." This update is effective for financial statement periods beginning after December 15, 2018, with earlier application permitted. The Company has established a cross-functional team to evaluate the new standard and has begun implementing new lease administration software. The Company is still determining the financial impact that this standard update will have on its consolidated financial statements, but anticipates it will have a material impact on its assets and liabilities due to the addition of right-of-use assets and lease liabilities to the consolidated balance sheet. The Company will continue to evaluate the impacts of the adoption of the standard and these assessments are subject to change.

In June 2016, the FASB issued its final standard on measurement of credit losses on financial instruments. This standard, issued as ASU 2016-13, requires that an entity measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. This update is effective for financial statement periods beginning after December 15, 2019, with early adoption permitted for financial statement periods beginning after December 15, 2018. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

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

In October 2016, the FASB issued its final standard on the income tax consequences of intra-entity transfers of assets other than inventory. This standard, issued as ASU 2016-16, requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and eliminates the exception for an intra-entity transfer of an asset other than inventory. This update is effective for annual and interim financial statement periods beginning after December 15, 2017, with early adoption permitted. The Company will adopt this standard when it becomes effective in the first quarter of fiscal 2019, and it is not expected to have a material impact on the Company’s financial statements and related disclosures.

In May 2017, the FASB issued its final standard on scope of modification accounting. This standard, issued as 2017-09, provides guidance about which change to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This update is effective for annual and interim financial statement periods beginning after December 15, 2017, with early adoption permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

NOTE 2: BUSINESS COMBINATIONS

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

FCX Acquisition

On January 31, 2018, the Company completed the acquisition of 100% of the outstanding shares of FCX Performance, Inc. ("FCX"), a Columbus, Ohio based distributor of specialty process flow control products and services. The total consideration transferred for the acquisition was $781,781, which was financed by cash-on-hand and a new credit facility comprised of a $780,000 Term Loan A and a $250,000 revolver, effective with the transaction closing. See note 5 Debt. As a distributor of highly engineered valves, instruments, pumps and lifecycle services to MRO and OEM customers across diverse industrial and process end markets, this business will be included in the Fluid Power & Flow Control Segment.

The following table summarizes the consideration transferred, assets acquired, and liabilities assumed in connection with the acquisition of FCX based on their preliminary estimated fair values at the acquisition date, which are subject to adjustment. The purchase accounting will be finalized within one year from the acquisition date.

	FCX Acquisition 2018
Cash	$ 11,141
Accounts receivable	80,836
Inventories	47,325
Other current assets	1,657
Property	8,282
Identifiable intangible assets	305,420
Goodwill	439,164
Other assets	775
Total assets acquired	$ 894,600
Accounts payable and accrued liabilities	54,518
Other liabilities	2,677
Deferred tax liabilities	55,624
Net assets acquired	$ 781,781
Purchase price	$ 784,281
Reconciliation of fair value transferred:	
Working Capital Adjustments	(2,500)
Total Consideration	$ 781,781

Goodwill acquired of $160,814 is expected to be deductible for income tax purposes.

Net sales, operating income and net income from the FCX acquisition included in the Company's results since January 31, 2018, the date of the acquisition, are as follows:

	January 31, 2018 to June 30, 2018
Net sales	$ 249,752
Operating income	16,845
Net income	8,758

The company incurred $2,849 in third-party costs during 2018 pertaining to the acquisition of FCX, which are included in selling, distribution and administration expense in the statements of consolidated income for fiscal 2018.

The following unaudited pro forma consolidated results of operations have been prepared as if the FCX acquisition (including the related acquisition costs) had occurred at the beginning of fiscal 2017:

Pro forma, year ended June 30:	2018	2017
Net sales	$ 3,330,430	$ 2,943,583
Operating income	234,603	196,194
Net income	158,181	126,270
Diluted net income per share	$ 4.03	$ 3.20

These pro forma amounts have been calculated after applying the Company’s accounting policies and adjusting the results to reflect additional amortization that would have been recorded assuming the fair value adjustments to identified intangible assets had been applied as of July 1, 2016. In addition, pro forma adjustments have been made for the interest expense that would have been incurred as a result of the indebtedness used to finance the acquisitions. The pro forma net income amounts also incorporate an adjustment to the recorded income tax expense for the income tax effect of the pro forma adjustments described above. These pro forma results of operations do not include any anticipated synergies or other effects of the planned integration of FCX; accordingly, such pro forma adjustments do not purport to be indicative of the results of operations that actually would have resulted had the acquisitions occurred as of the date indicated or that may result in the future.

Other Fiscal 2018 Acquisition

On July 3, 2017, the Company acquired 100% of the outstanding stock of Diseños, Construcciones y Fabricaciones Hispanoamericanas, S.A. ("DICOFASA"), a distributor of accessories and components for hydraulic systems and lubrication, located in Puebla, Mexico. DICOFASA is included in the Service Center Based Distribution segment. The purchase price for the acquisition was $5,920, net tangible assets acquired were $3,395, and goodwill was $2,525 based upon estimated fair values at the acquisition date. The purchase price includes $906 of acquisition holdback payments. Due to changes in foreign currency exchange rates, the balance of $842 is included in other current liabilities and other liabilities on the consolidated balance sheets as of June 30, 2018, which will be paid on the first three anniversaries of the acquisition with interest at a fixed rate of 1.5% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

Fiscal 2017 Acquisition

On March 3, 2017, the Company acquired substantially all of the net assets of Sentinel Fluid Controls ("Sentinel"), a distributor of hydraulic and lubrication components, systems and solutions operating from four locations. Sentinel is included in the Fluid Power & Flow Control segment. The purchase price for the acquisition was $3,755, net tangible assets acquired were $3,130, and goodwill was $625 based upon estimated fair values at the acquisition date. The purchase price included $982 of acquisition holdback payments, of which $328 and $175 were paid during fiscal years 2018 and 2017, respectively. The remaining balance of $479 is included in other current liabilities and other liabilities on the consolidated balance sheets, which will be paid plus interest at various times in the future. The Company funded the amount paid for the acquisition at closing using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

Fiscal 2016 Acquisitions

On June 14, 2016, the Company acquired 100% of the outstanding stock of Seals Unlimited ("Seals"), a distributor of sealing, fastener, and hose products located in Burlington, Ontario. On January 4, 2016, the Company acquired substantially all of the net assets of HUB Industrial Supply ("HUB"), a distributor of consumable industrial products operating from three locations - Lake City, FL, Indianapolis, IN, and Las Vegas, NV. On August 3, 2015, the Company acquired substantially all of the net assets of Atlantic Fasteners Co., Inc. ("Atlantic Fasteners"), a distributor of C-Class consumables including industrial fasteners and related industrial supplies located in Agawam, MA. Seals, HUB, and Atlantic Fasteners are all included in the Service Center Based Distribution segment. On October 1, 2015, the Company acquired substantially all of the net assets of S.G. Morris Co. ("SGM"). SGM, headquartered in Cleveland, OH, is a distributor of hydraulic components throughout Ohio, Western Pennsylvania and West Virginia and is included in the Fluid Power & Flow Control segment. The total combined consideration for these acquisitions was approximately $65,900, net tangible assets acquired were $22,700, and intangibles including goodwill were $43,200 based upon estimated fair values at the acquisition dates. The total combined consideration includes $3,300 of acquisition holdback payments, of which $1,250 was paid during fiscal year 2017. The remaining balance of $2,050 is included in other current liabilities on the consolidated balance sheets, which will be paid plus interest in October 2018. The Company funded the amounts paid for the acquisitions at closing using available cash and borrowings under the revolving credit facility at variable interest rates. The acquisition prices and the results of operations for the acquired entities are not material in relation to the Company's consolidated financial statements.

Holdback Liabilities for Acquisitions

Acquisition holdback payments of approximately $2,592, $283, $415 and $75 will be made in fiscal 2019, 2020, 2021, and 2024, respectively. The related liabilities for these payments are recorded in the consolidated balance sheets in other current liabilities for the amounts due in fiscal year 2019 and other liabilities for the amounts due in fiscal years 2020 through 2024.

NOTE 3: INVENTORIES

Inventories consist of the following:

June 30,		2018		2017
U.S. inventories at average cost	$	**443,521**	$	373,984
Foreign inventories at average cost		**117,711**		108,734
		561,232		482,718
Less: Excess of average cost over LIFO cost for U.S. inventories		**139,163**		137,573
Inventories on consolidated balance sheets	$	**422,069**	$	345,145

The overall impact of LIFO layer liquidations increased gross profit by $579, $9,414, and $2,100 in fiscal 2018, fiscal 2017, and fiscal 2016, respectively. In fiscal 2017, reductions in U.S. inventories, primarily in the bearings pool which included the scrapping of approximately $6,000 of product, resulted in liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years.

NOTE 4: GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill for both the Service Center Based Distribution segment and the Fluid Power & Flow Control segment for the years ended June 30, 2018 and 2017 are as follows:

		Service Center Based Distribution		Fluid Power & Flow Control		Total
Balance at July 1, 2016	$	198,486	$	4,214	$	202,700
Goodwill added during the year		3,220		625		3,845
Other, primarily currency translation		34		(444)		(410)
Balance at June 30, 2017		201,740		4,395		206,135
Goodwill added during the year		**2,525**		**439,164**		**441,689**
Other, primarily currency translation		**(1,181)**		**—**		**(1,181)**
Balance at June 30, 2018	**$**	**203,084**	**$**	**443,559**	**$**	**646,643**

During the first quarter of fiscal 2017, the Company recorded an adjustment to the preliminary estimated fair value of intangible assets related to the HUB acquisition. The fair values of the customer relationships and trade names intangible assets were decreased by $2,636 and $584, respectively, with a corresponding total increase to goodwill of $3,220. The changes to the preliminary estimated fair values resulted in a decrease to amortization expense of $156 during fiscal 2017, which is recorded in selling, distribution and administrative expense in the statements of consolidated income.

On July 1, 2016, the Company enacted a change in its management reporting structure which changed the composition of the Canada service center reporting unit. This triggering event required the Company to perform an interim goodwill impairment test for the Canada service center reporting unit. The Company performed step one of the goodwill impairment test for the Canada service center reporting unit as of July 1, 2016 and determined that the reporting unit had excess fair value of approximately $8,000 or 5% when compared to its carrying amount of approximately $163,000.

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

The Company has six (6) reporting units for which an annual goodwill impairment assessment was performed as of January 1, 2018. The Company concluded that all of the reporting units' fair value exceeded their carrying amounts by at least 30% as of January 1, 2018. The fair values of the reporting units in accordance with the goodwill impairment test were determined using the Income and Market approaches. The Income approach employs the discounted cash flow method reflecting projected cash flows expected to be generated by market participants and then adjusted for time value of money factors. The Market approach utilizes an analysis of comparable publicly traded companies.

The Company had seven (7) reporting units for which an annual goodwill impairment assessment was performed as of January 1, 2016. The Company concluded that five (5) of the reporting units' fair value substantially exceeded their carrying amounts. The carrying value for two (2) reporting units (Canada service center and Australia/New Zealand service center) exceeded the fair value, indicating there may be goodwill impairment. The fair values of the reporting units in accordance with step one of the goodwill impairment test were determined using the Income and Market approaches.

Step two of the goodwill impairment test compares the fair value of the reporting unit goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. The fair value of the reporting unit from step one is allocated to all of the assets and liabilities of the reporting unit, including unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

Step two of the goodwill impairment test for the Canada service center reporting unit was completed in the third quarter of fiscal 2016. The analysis resulted in a goodwill impairment of $56,022 for the Canada service center reporting unit. The non-cash impairment charge was the result of the overall decline in the industrial economy in Canada coupled with the substantial and sustained decline in the oil and gas sector during calendar year 2015. This led to reduced spending by customers and reduced revenue expectations. The uncertainty regarding the oil and gas industries and overall industrial economy in Canada also led the reporting unit to reduce expectations.

Step two of the goodwill impairment test for the Australia/New Zealand reporting unit was completed in the third quarter of fiscal 2016. The analysis concluded that all of the Australia/New Zealand reporting unit's goodwill was impaired, and therefore the Company recorded a non-cash impairment expense of $8,772 in the third quarter of fiscal 2016. The impairment charge was primarily the result of the decline in the mining and extraction industries in Australia, reduced spending by customers, and the effects of reduced revenue expectations.

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

At June 30, 2018 and 2017, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled $64,794 related to the Service Center Based Distribution segment and $36,605 related to the Fluid Power & Flow Control segment.

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

June 30, 2018	**Amount**	**Accumulated Amortization**	**Net Book Value**
Finite-Lived Intangibles:			
Customer relationships	$ 465,691	$ 125,009	$ 340,682
Trade names	112,939	22,454	90,485
Vendor relationships	11,425	7,382	4,043
Non-competition agreements	2,761	2,024	737
Total Intangibles	$ 592,816	$ 156,869	$ 435,947

June 30, 2017		Amount		Accumulated Amortization		Net Book Value
Finite-Lived Intangibles:						
Customer relationships	$	235,009	$	102,414	$	132,595
Trade names		43,873		19,295		24,578
Vendor relationships		14,152		9,141		5,011
Non-competition agreements		3,788		2,410		1,378
Total Intangibles	$	296,822	$	133,260	$	163,562

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

During 2018, the Company acquired identifiable intangible assets with a preliminary acquisition cost allocation and weighted-average life as follows:

		Acquisition Cost Allocation	Weighted-Average Life
Customer relationships	$	234,370	20.0 years
Trade names		71,050	15.0 years
Total Intangibles Acquired	$	305,420	18.8 years

Amortization of identifiable intangibles totaled $32,065, $24,371 and $25,580 in fiscal 2018, 2017 and 2016, respectively, and is included in selling, distribution and administrative expenses in the statements of consolidated income. Future amortization expense based on the Company's identifiable intangible assets as of June 30, 2018 is estimated to be $44,000 for 2019, $42,500 for 2020, $40,200 for 2021, $37,800 for 2022 and $35,300 for 2023.

NOTE 5: DEBT

Revolving Credit Facility & Term Loan

In January 2018, in conjunction with the acquisition of FCX, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a $780,000 unsecured term loan and a $250,000 unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At June 30, 2018, the Company had $775,125 outstanding under the term loan and $19,500 outstanding under the revolver. Unused lines under this facility, net of outstanding letters of credit of $3,625 to secure certain insurance obligations, totaled $226,875 at June 30, 2018, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan as of June 30, 2018 was 4.13%. The weighted average interest rate on the amount outstanding under the revolving credit facility as of June 30, 2018 was 3.93%.

The new credit facility replaced the Company's previous credit facility agreement. At June 30, 2017, the Company had $120,313 outstanding under the term loan in the previous credit facility agreement, which carried a variable interest rate tied to LIBOR and was 2.25% as of June 30, 2017. No amount was outstanding under the revolver as of June 30, 2017. Unused lines under this facility, net of outstanding letters of credit of $2,441 to secure certain insurance obligations, totaled $247,559 at June 30, 2017.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with either revolving credit agreement, in the amount of $2,698 as of June 30, 2018 and June 30, 2017, respectively, in order to secure certain insurance obligations.

Other Long-Term Borrowings

At June 30, 2018 and June 30, 2017, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of $170,000. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series C" notes have a principal amount of $120,000 and carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of $50,000, carry a fixed interest rate of 3.21%, and are due in equal principal payments in October 2019 and 2023. As of June 30, 2018, $50,000 in additional financing was available under this facility.

In 2014, the Company assumed $2,359 of debt as a part of the headquarters facility acquisition. The 1.50% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At June 30, 2018 and 2017, $1,438 and $1,669 was outstanding, respectively.

Unamortized debt issue costs of $551 and $105 are included as a reduction of current portion of long-term debt on the consolidated balance sheets as of June 30, 2018 and June 30, 2017, respectively. Unamortized debt issue costs of $1,807 and $294 are included as a reduction of long-term debt on the consolidated balance sheets as of June 30, 2018 and June 30, 2017, respectively.

The table below summarizes the aggregate maturities of amounts outstanding under long-term borrowing arrangements for each of the next five years:

Fiscal Year	Aggregate Maturity
2019	$ 19,734
2020	49,613
2021	79,241
2022	84,120
2023	708,124
Thereafter	25,231

Covenants

The new credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At June 30, 2018, the most restrictive of these covenants required that the Company have net indebtedness less than 4.25 times consolidated income before interest, taxes, depreciation and amortization. At June 30, 2018, the Company's indebtedness was less than 3.0 times consolidated income before interest, taxes, depreciation and amortization. The Company was in compliance with all financial covenants at June 30, 2018.

NOTE 6: FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at June 30, 2018 and June 30, 2017 totaled $10,318 and $10,481, respectively. The majority of these marketable securities are held in a rabbi trust for a non-qualified deferred compensation plan. The marketable securities are included in other assets on the consolidated balance sheets and their fair values were valued using quoted market prices (Level 1 in the fair value hierarchy).

As of June 30, 2018, the carrying value of the Company's fixed interest rate debt outstanding under its unsecured shelf facility agreement with Prudential Investment Management approximates fair value (Level 2 in the fair value hierarchy).

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

NOTE 7: INCOME TAXES

Income Before Income Taxes

The components of income before income taxes are as follows:

Year Ended June 30,	2018	2017	2016
U.S.	$ 186,874	$ 154,472	$ 139,960
Foreign	17,844	12,494	(60,982)
Income before income taxes	$ 204,718	$ 166,966	$ 78,978

Provision

The provision (benefit) for income taxes consists of:

Year Ended June 30,	2018	2017	2016
Current:			
Federal	$ 48,131	$ 26,456	$ 45,226
State and local	8,038	4,692	6,349
Foreign	5,309	4,760	4,407
Total current	61,478	35,908	55,982
Deferred:			
Federal	5,955	852	397
State and local	(586)	535	(30)
Foreign	(3,754)	(4,239)	(6,948)
Total deferred	1,615	(2,852)	(6,581)
Total	$ 63,093	$ 33,056	$ 49,401

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted in the U.S., making significant changes to U.S. tax law. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on certain un-remitted earnings of foreign subsidiaries that were previously tax deferred, generally eliminates U.S. federal income tax on dividends from foreign subsidiaries, and creates new taxes on certain foreign-sourced earnings. During fiscal 2018, the Company revised its estimated annual effective tax rate to reflect the change in the federal statutory rate from 35% to 21%. The rate change was administratively effective as of the beginning of our fiscal year, resulting in the Company using a blended statutory rate for the annual period of 28.06%. The corporate income tax rate change had a favorable impact to the Company of $12,113 for fiscal 2018.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Act for which the accounting under ASC 740 is incomplete. To the extent that a company's accounting for certain income tax effects of the Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before enactment of the Act.

Accordingly, as of June 30, 2018 we have not completed our accounting for the tax effects of the Act. For fiscal 2018, we recognized a provisional tax liability of $3,877 related to the one-time transition tax on certain un-remitted earnings of foreign subsidiaries, which is payable over eight years. We also re-measured the applicable deferred tax assets and liabilities based on the rates at which they are expected to reverse. The Company recorded a provisional amount of $2,414 of additional deferred income tax expense related to the re-measurement of our deferred tax balance. However, we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. Overall, considering the decrease in the corporate income tax rate and the expense related to the transition tax and deferred tax re-measurement, the Act resulted in a net tax benefit of $5,822 for fiscal 2018, which is included as a component of income tax expense in the statements of consolidated income.

During the fourth quarter of fiscal 2017, the Company recorded a net tax benefit of $22,246 pertaining to a worthless stock deduction. The tax benefit of this deduction was based on the write-off of the Company's investment in one of its Canadian subsidiaries for U.S. tax purposes reduced by $1,019 of tax provided for a valuation allowance applicable to the related state deferred income tax asset.

The exercise of non-qualified stock appreciation rights and options during fiscal 2018, 2017 and 2016 resulted in $419, $1,921 and $212, respectively, of income tax benefits to the Company derived from the difference between the market and option price of the shares at the date of exercise and the fair value of the options on the grant date. Vesting of stock awards and other stock compensation in fiscal 2018, 2017 and 2016 resulted in $430, $482 and $(4), respectively, of incremental income tax benefits (expense) over the amounts previously reported for financial reporting purposes. Due to the adoption of ASU 2016-09 in fiscal 2017, the tax benefits for fiscal 2018 and 2017 were recorded in income tax expense in the statements of consolidated income, while the fiscal 2016 tax expense was recorded in additional paid-in capital.

Effective Tax Rates

The following reconciles the U.S. federal statutory income tax rate to the Company's effective income tax rate:

Year Ended June 30,	**2018**	2017	2016
Statutory income tax rate	**28.1 %**	35.0 %	35.0 %
Effects of:			
State and local taxes	**3.1**	2.8	5.2
U.S. federal tax reform	**3.1**	—	—
Worthless stock deduction	**—**	(13.9)	—
Stock compensation	**(0.4)**	(1.4)	—
Goodwill impairment	**—**	—	27.1
Impact of foreign operations	**(1.3)**	(2.3)	(3.0)
Deductible dividend	**(0.3)**	(0.4)	(0.9)
Valuation allowance	**(0.9)**	0.3	0.5
Other, net	**(0.6)**	(0.3)	(1.3)
Effective income tax rate	**30.8 %**	19.8 %	62.6 %

Consolidated Balance Sheets

Significant components of the Company's deferred tax assets and liabilities are as follows:

June 30,	**2018**	2017
Deferred tax assets:		
Compensation liabilities not currently deductible	**$ 19,334**	$ 26,873
Other expenses and reserves not currently deductible	**13,169**	11,601
Goodwill and intangibles	**3,197**	5,661
Foreign tax credit (expiring in years 2025-2026)	**413**	709
Net operating loss carryforwards (expiring in years 2023-2038)	**11,315**	5,729
Other	**199**	119
Total deferred tax assets	**47,627**	50,692
Less: Valuation allowance	**(38)**	(1,831)
Deferred tax assets, net of valuation allowance	**47,589**	48,861
Deferred tax liabilities:		
Inventories	**(8,196)**	(7,447)
Goodwill and intangibles	**(86,176)**	(30,482)
Depreciation and differences in property bases	**(9,294)**	(10,122)
Total deferred tax liabilities	**(103,666)**	(48,051)
Net deferred tax (liabilities) assets	**$ (56,077)**	$ 810
Net deferred tax (liabilities) assets are classified as follows:		
Other assets	**$ 2,103**	$ 8,985
Other liabilities	**(58,180)**	(8,175)
Net deferred tax (liabilities) assets	**$ (56,077)**	$ 810

Valuation allowances are provided against deferred tax assets where it is considered more-likely-than-not that the Company will not realize the benefit of such assets. The remaining net deferred tax asset is the amount management believes is more-likely-than-not of being realized. The realization of these deferred tax assets can be impacted by changes to tax laws, statutory rates and future income levels.

As a result of the Act, the Company's net unremitted foreign earnings of $77,374 have been subject to U.S. taxation. As of June 30, 2018, all such undistributed earnings of non-U.S. subsidiaries are considered permanently reinvested. Therefore, no taxes have been provided that would result from the remittance of such earnings. The net amount of the unrecognized tax liability with respect to the distribution of these earnings is estimated to be approximately $1,986. In addition, we expect foreign tax credits would be available to either offset or partially reduce the tax cost in the event of a distribution.

Unrecognized Income Tax Benefits

The Company and its subsidiaries file income tax returns in U.S. federal, various state, local and foreign jurisdictions. The following table sets forth the changes in the amount of unrecognized tax benefits for the years ended June 30, 2018, 2017 and 2016:

Year Ended June 30,	2018	2017	2016
Unrecognized Income Tax Benefits at beginning of the year	**$ 3,533**	$ 2,915	$ 2,604
Current year tax positions	**143**	574	539
Prior year tax positions	**636**	259	—
Expirations of statutes of limitations	**(324)**	(189)	(132)
Settlements	**—**	(26)	(96)
Unrecognized Income Tax Benefits at end of year	**$ 3,988**	$ 3,533	$ 2,915

Included in the balance of unrecognized income tax benefits at June 30, 2018, 2017 and 2016 are $3,725, $3,323 and $2,691, respectively, of income tax benefits that, if recognized, would affect the effective income tax rate.

During 2018, 2017 and 2016, the Company recognized $(110) and $163 and $127 of (benefit) expense, respectively, for interest and penalties related to unrecognized income tax benefits in its statements of consolidated income. The Company had a liability for penalties and interest of $677 and $787 as of June 30, 2018 and 2017, respectively. The Company does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next twelve months.

The Company is subject to U.S. federal income tax examinations for the tax years 2015 through 2018 and to state and local income tax examinations for the tax years 2012 through 2018. In addition, the Company is subject to foreign income tax examinations for the tax years 2011 through 2018.

The Company's unrecognized income tax benefits are included in other liabilities in the consolidated balance sheets since payment of cash is not expected within one year.

NOTE 8: SHAREHOLDERS' EQUITY

Treasury Shares

At June 30, 2018, 596 shares of the Company's common stock held as treasury shares were restricted as collateral under escrow arrangements relating to change in control and director and officer indemnification agreements.

Accumulated Other Comprehensive Income (Loss)

Changes in the accumulated other comprehensive income (loss) for the years ended June 30, 2018, 2017, and 2016, are comprised of the following amounts, shown net of taxes:

	Foreign currency translation adjustment	Unrealized (loss) gain on securities available for sale	Post-employment benefits	Total accumulated other comprehensive (loss) income
Balance at July 1, 2015	$ (57,244)	$ (4)	$ (2,923)	$ (60,171)
Other comprehensive loss	(24,441)	(34)	(1,215)	(25,690)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	315	315
Net current-period other comprehensive loss	(24,441)	(34)	(900)	(25,375)
Balance at June 30, 2016	(81,685)	(38)	(3,823)	(85,546)
Other comprehensive income	2,238	59	1,239	3,536
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	308	308
Net current-period other comprehensive income	2,238	59	1,547	3,844
Balance at June 30, 2017	(79,447)	21	(2,276)	(81,702)
Other comprehensive (loss) income	**(8,549)**	**20**	**524**	**(8,005)**
Amounts reclassified from accumulated other comprehensive income (loss)	**—**	**—**	**(45)**	**(45)**
Amounts reclassified for certain income tax effects to retained earnings	**22**	**9**	**(502)**	**(471)**
Net current-period other comprehensive (loss) income	**(8,527)**	**29**	**(23)**	**(8,521)**
Balance at June 30, 2018	**$ (87,974)**	**$ 50**	**$ (2,299)**	**$ (90,223)**

Table of Contents

Other Comprehensive Income (Loss)

Details of other comprehensive income (loss) are as follows:

Year Ended June 30,	2018			2017			2016		
	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount	Pre-Tax Amount	Tax Expense	Net Amount	Pre-Tax Amount	Tax (Benefit) Expense	Net Amount
Foreign currency translation adjustments	$ (8,875)	$ (326)	$ (8,549)	$ 2,238	$ —	$ 2,238	$ (24,441)	$ —	$ (24,441)
Post-employment benefits:									
Actuarial gain (loss) on re-measurement	709	185	524	2,038	799	1,239	(1,998)	(783)	(1,215)
Reclassification of actuarial losses and prior service cost into SD&A expense and included in net periodic pension costs	(73)	(28)	(45)	506	198	308	518	203	315
Unrealized gain (loss) on investment securities available for sale	37	17	20	91	32	59	(52)	(18)	(34)
Reclassification of certain income tax effects to retained earnings	—	471	(471)	—	—	—	—	—	—
Other comprehensive (loss) income	$ (8,202)	$ 319	$ (8,521)	$ 4,873	$ 1,029	$ 3,844	$ (25,973)	$ (598)	$ (25,375)

Net Income Per Share

Basic net income per share is based on the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effect of potential common shares outstanding. Under the two-class method of computing net income per share, non-vested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's participating securities include Restricted Stock Units ("RSUs") and restricted stock awards. The Company calculated basic and diluted net income per share under both the treasury stock method and the two-class method. For the years presented there were no material differences in the net income per share amounts calculated using the two methods. Accordingly, the treasury stock method is disclosed below.

The following table presents amounts used in computing net income per share and the effect on the weighted-average number of shares of dilutive potential common shares:

Year Ended June 30,	2018	2017	2016
Net Income	$ 141,625	$ 133,910	$ 29,577
Average Shares Outstanding:			
Weighted-average common shares outstanding for basic computation	38,752	39,013	39,254
Dilutive effect of potential common shares	529	391	212
Weighted-average common shares outstanding for dilutive computation	39,281	39,404	39,466
Net Income Per Share — Basic	$ 3.65	$ 3.43	$ 0.75
Net Income Per Share — Diluted	$ 3.61	$ 3.40	$ 0.75

Stock appreciation rights and options relating to 66, 141 and 775 shares of common stock were outstanding at June 30, 2018, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per share for the fiscal years then ended as they were anti-dilutive.

NOTE 9: SHARE-BASED COMPENSATION

Share-Based Incentive Plans

Following approval by the Company's shareholders in October 2015, the 2015 Long-Term Performance Plan (the "2015 Plan") replaced the 2011 Long-Term Performance Plan. The 2015 Plan, which expires in 2020, provides for granting of SARs, stock options, stock awards, cash awards, and such other awards or combination thereof as the Executive Organization and Compensation Committee or, in the case of director awards, the Corporate Governance Committee of the Board of Directors (together referred to as the Committee) may determine to officers, other key employees and members of the Board of Directors. Grants are generally made at regularly scheduled committee meetings. Compensation costs charged to expense under award programs paid (or to be paid) with shares (including SARs, stock options, performance shares, restricted stock, and RSUs) are summarized in the table below:

Year Ended June 30,	2018	2017	2016
SARs and options	$ 1,961	$ 1,891	$ 1,543
Performance shares	2,006	1,331	446
Restricted stock and RSUs	2,660	2,298	2,078
Total compensation costs under award programs	$ 6,627	$ 5,520	$ 4,067

Such amounts are included in selling, distribution and administrative expense in the accompanying statements of consolidated income. The total income tax benefit recognized in the statements of consolidated income for share-based compensation plans was $1,923, $4,848 and $1,595 for fiscal years 2018, 2017 and 2016, respectively. It has been the practice of the Company to issue shares from treasury to satisfy requirements of awards paid with shares.

The aggregate unrecognized compensation cost for share-based award programs with the potential to be paid at June 30, 2018 are summarized in the table below:

June 30,	2018	Average Expected Period of Expected Recognition (Years)
SARs and options	$ 3,729	2.5
Performance shares	3,282	1.7
Restricted stock and RSUs	2,173	1.9
Total unrecognized compensation costs under award programs	$ 9,184	2.1

Cost of these programs will be recognized as expense over the weighted-average remaining vesting period of 2.1 years. The aggregate number of shares of common stock which may be awarded under the 2015 Plan is 2,500; shares available for future grants at June 30, 2018 were 1,655.

Stock Appreciation Rights and Stock Options

The weighted-average assumptions used for SARs and stock option grants issued in fiscal 2018, 2017 and 2016 are:

	2018	2017	2016
Expected life, in years	6.0	4.8	4.4
Risk free interest rate	2.1%	1.2%	1.3%
Dividend yield	2.5%	2.5%	2.5%
Volatility	24.3%	24.1%	26.0%
Per share fair value of SARs and stock options granted during the year	$11.25	$7.97	$6.79

The expected life is based upon historical exercise experience of the officers, other key employees and members of the Board of Directors. The risk free interest rate is based upon U.S. Treasury zero-coupon bonds with remaining terms equal to the expected life of the SARs and stock options. The assumed dividend yield has been estimated based upon the Company’s historical results and expectations for changes in dividends and stock prices. The volatility assumption is calculated based upon historical daily price observations of the Company’s common stock for a period equal to the expected life.

SARs are redeemable solely in Company common stock. The exercise price of stock option awards may be settled by the holder with cash or by tendering Company common stock.

A summary of SARs and stock options activity is presented below:

Year Ended June 30, 2018 (Shares in thousands)	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	1,218	$ 42.26
Granted	286	58.40
Exercised	(58)	37.55
Forfeited	(45)	55.64
Outstanding, end of year	1,401	$ 45.32
Exercisable at end of year	789	$ 41.08
Expected to vest at end of year	1,379	$ 45.22

The weighted-average remaining contractual terms for SARs and stock options outstanding, exercisable, and expected to vest at June 30, 2018 were 6.6, 5.3, and 6.6 years, respectively. The aggregate intrinsic values of SARs and stock options outstanding, exercisable, and expected to vest at June 30, 2018 were $34,869 $22,927, and $34,440, respectively. The aggregate intrinsic value of the SARs and stock options exercised during fiscal 2018, 2017, and 2016 was $1,765, $8,396, and $2,422, respectively.

The total fair value of shares vested during fiscal 2018, 2017, and 2016 was $2,149, $1,788, and $1,291, respectively.

Performance Shares

Performance shares are paid in shares of Applied stock at the end of a three-year period provided the Company achieves goals established by the committee. The number of Applied shares payable will vary depending on the level of the goals achieved.

A summary of nonvested performance shares activity at June 30, 2018 is presented below:

Year Ended June 30, 2018 (Shares in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	52	$ 43.99
Awarded	51	47.13
Vested	(10)	48.76
Nonvested, end of year	93	$ 45.16

The Committee set three one-year goals for each of the 2018, 2017 and 2016 grants. Each fiscal year during the three-year term has its own separate goals, tied to the Company's earnings before interest, tax, depreciation, and amortization (EBITDA) and after-tax return on assets (ROA). Achievement during any particular fiscal year is awarded and "banked" for payout at the end of the three-year term. For the outstanding grants as of June 30, 2018, the maximum number of shares which could be earned in future periods was 67.

Restricted Stock and Restricted Stock Units

Restricted stock award recipients are entitled to receive dividends on, and have voting rights with respect to their respective shares, but are restricted from selling or transferring the shares prior to vesting. Restricted stock awards vest over periods of one to four years. RSUs are grants valued in shares of Applied stock, but shares are not issued until the grants vest three to four years from the award date, assuming continued employment with Applied. Applied primarily pays dividend equivalents on RSUs on a current basis.

A summary of the status of the Company's non-vested restricted stock and RSUs at June 30, 2018 is presented below:

Year Ended June 30, 2018 (Share amounts in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	116	$ 46.91
Granted	53	62.62
Forfeitures	(10)	54.96
Vested	(43)	52.58
Nonvested, end of year	116	$ 51.27

NOTE 10: BENEFIT PLANS

Retirement Savings Plan

Substantially all U.S. employees participate in the Applied Industrial Technologies, Inc. Retirement Savings Plan. Participants may elect 401(k) contributions of up to 50% of their compensation, subject to Internal Revenue Code maximums. The Company partially matches 401(k) contributions by participants. The Company's expense for matching of employees' 401(k) contributions was $6,551, $6,677 and $2,535 during 2018, 2017 and 2016, respectively.

Deferred Compensation Plans

The Company has deferred compensation plans that enable certain employees of the Company to defer receipt of a portion of their compensation. Assets held in these rabbi trusts consist of investments in money market and mutual funds and Company common stock.

Post-employment Benefit Plans

The Company provides the following post-employment benefits which, except for the Qualified Defined Benefit Retirement Plan and Key Executive Restoration Plan, are unfunded:

Supplemental Executive Retirement Benefits Plan

The Company has a non-qualified pension plan to provide supplemental retirement benefits to certain officers. Benefits are payable and determinable at retirement based upon a percentage of the participant's historical compensation. The Executive Organization and Compensation Committee of the Board of Directors froze participant benefits (credited service and final average earnings) and entry into the Supplemental Executive Retirement Benefits Plan (SERP) effective December 31, 2011.

Key Executive Restoration Plan

In fiscal 2012, the Company adopted the Key Executive Restoration Plan (KERP), a funded, non-qualified deferred compensation plan, to replace the SERP. The Company recorded $359, $289, and $268 of expense associated with this plan in fiscal 2018, 2017, and 2016, respectively.

Qualified Defined Benefit Retirement Plan

The Company has a qualified defined benefit retirement plan that provides benefits to certain hourly employees at retirement. These employees do not participate in the Retirement Savings Plan. The benefits are based on length of service and date of retirement. The plan accruals were frozen as of April 16, 2018 and employees are now permitted to participate in the Retirement Savings Plan subsequent to April 16, 2018.

Salary Continuation Benefits

The Company has agreements with certain retirees of acquired companies to pay monthly retirement benefits through fiscal 2020.

Retiree Health Care Benefits

The Company provides health care benefits, through third-party policies, to eligible retired employees who pay a specified monthly premium. Premium payments are based upon current insurance rates for the type of coverage provided and are adjusted annually. Certain monthly health care premium payments are partially subsidized by the Company. Additionally, in conjunction with a fiscal 1998 acquisition, the Company assumed the obligation for a post-retirement medical benefit plan which provides health care benefits to eligible retired employees at no cost to the individual.

The Company uses a June 30 measurement date for all plans.

The following table sets forth the changes in benefit obligations and plan assets during the year and the funded status for the post-employment plans at June 30:

	Pension Benefits		Retiree Health Care Benefits	
	2018	2017	**2018**	2017
Change in benefit obligation:				
Benefit obligation at beginning of the year	**$ 24,411**	$ 26,605	**$ 1,684**	$ 2,235
Service cost	**124**	126	**19**	29
Interest cost	**729**	687	**52**	63
Plan participants' contributions	**—**	—	**68**	69
Benefits paid	**(3,181)**	(1,562)	**(223)**	(237)
Amendments	**—**	—	**—**	(245)
Actuarial gain during year	**(549)**	(1,445)	**(109)**	(230)
Benefit obligation at end of year	**$ 21,534**	$ 24,411	**$ 1,491**	$ 1,684
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 6,530**	$ 6,737	**$ —**	$ —
Actual gain on plan assets	**516**	578	**—**	—
Employer contributions	**3,837**	776	**155**	168
Plan participants' contributions	**—**	—	**68**	69
Benefits paid	**(3,181)**	(1,561)	**(223)**	(237)
Fair value of plan assets at end of year	**$ 7,702**	$ 6,530	**$ —**	$ —
Funded status at end of year	**$ (13,832)**	$ (17,881)	**$ (1,491)**	$ (1,684)

The amounts recognized in the consolidated balance sheets and in accumulated other comprehensive loss for the post-employment plans were as follows:

	Pension Benefits		Retiree Health Care Benefits	
June 30,	**2018**	2017	**2018**	2017
Amounts recognized in the consolidated balance sheets:				
Other current liabilities	**$ 3,298**	$ 2,814	**$ 220**	$ 220
Post-employment benefits	**10,534**	15,067	**1,271**	1,464
Net amount recognized	**$ 13,832**	$ 17,881	**$ 1,491**	$ 1,684
Amounts recognized in accumulated other comprehensive loss:				
Net actuarial (loss) gain	**$ (4,781)**	$ (5,798)	**$ 1,121**	$ 1,167
Prior service cost	**—**	(35)	**554**	922
Total amounts recognized in accumulated other comprehensive loss	**$ (4,781)**	$ (5,833)	**$ 1,675**	$ 2,089

The following table provides information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets:

	Pension Benefits	
June 30,	**2018**	2017
Projected benefit obligations	**$ 21,534**	$ 24,411
Accumulated benefit obligations	**21,534**	24,411
Fair value of plan assets	**7,702**	6,530

The net periodic costs (benefits) are as follows:

	Pension Benefits			Retiree Health Care Benefits		
Year Ended June 30,	**2018**	2017	2016	**2018**	2017	2016
Service cost	**$ 124**	$ 126	$ 91	**$ 19**	$ 29	$ 22
Interest cost	**729**	687	879	**52**	63	75
Expected return on plan assets	**(472)**	(460)	(491)	**—**	—	—
Recognized net actuarial loss (gain)	**424**	872	913	**(154)**	(181)	(210)
Amortization of prior service cost	**27**	86	86	**(369)**	(271)	(271)
Recognition of prior service cost upon plan curtailment	**8**	—	—	**—**	—	—
Net periodic cost (benefits)	**$ 840**	$ 1,311	$ 1,478	**$ (452)**	$ (360)	$ (384)

In accordance with the Company's adoption of ASU 2017-07, the Company reports the service cost component of the net periodic post-employment costs in the same line item in the income statement as other compensation costs arising from services rendered by the employees during the period. The other components of net periodic post-employment costs are presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Therefore, $143, $155, and $113 of service costs are included in selling, distribution and administrative expense, and $245, $796, and $981 of net other periodic post-employment costs are included in other (income) expense, net in the statements of consolidated income for the years ended June 30, 2018, 2017, and 2016, respectively.

The estimated net actuarial loss for the pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are $185. The estimated net actuarial gain and income from prior service cost for the retiree health care benefits that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are $121 and $369, respectively.

Assumptions

A discount rate is used to determine the present value of future payments. In general, the Company's liability increases as the discount rate decreases and decreases as the discount rate increases. The Company computes a weighted-average discount rate taking into account anticipated plan payments and the associated interest rates from the Citigroup Pension Discount Yield Curve and the Findley Discount Curve. During fiscal 2015, the Society of Actuaries released a series of updated mortality tables resulting from recent studies measuring mortality rates for various groups of individuals. As of June 30, 2015, the Company adopted these mortality tables, which reflect improved trends in longevity and have the effect of increasing the estimate of benefits to be received by plan participants.

The weighted-average actuarial assumptions used to determine benefit obligations and net periodic benefit cost for the plans were as follows:

	Pension Benefits		Retiree Health Care Benefits	
June 30,	**2018**	2017	**2018**	2017
Assumptions used to determine benefit obligations at year end:				
Discount rate	**3.5%**	2.8%	**3.8%**	3.3%
Assumptions used to determine net periodic benefit cost:				
Discount rate	**2.8%**	2.3%	**3.3%**	2.9%
Expected return on plan assets	**7.0%**	7.0%	**N/A**	N/A

The assumed health care cost trend rates used in measuring the accumulated benefit obligation for retiree health care benefits were 7.0% as of June 30, 2018 and 2017, respectively, decreasing to 5.0% by 2027.

A one-percentage point change in the assumed health care cost trend rates would have had the following effects as of June 30, 2018 and for the year then ended:

	One-Percentage Point	
	Increase	Decrease
Effect on total service and interest cost components of periodic expense	$ 9	$ (8)
Effect on post-retirement benefit obligation	152	(130)

Plan Assets

The fair value of each major class of plan assets for the Company's Qualified Defined Benefit Retirement Plan is valued using either quoted market prices in active markets for identical instruments; Level 1 in the fair value hierarchy, or other inputs that are observable, either directly or indirectly; Level 2 in the fair value hierarchy. Following are the fair values and target allocation as of June 30:

	Target Allocation	Fair Value	
		2018	2017
Asset Class:			
Equity* securities (Level 1)	40 – 70%	**$ 6,226**	$ 3,880
Debt securities (Level 2)	20 – 50%	**1,337**	2,538
Other (Level 1)	0 – 20%	**139**	112
Total	100%	**$ 7,702**	$ 6,530

* Equity securities do not include any Company common stock.

The Company has established an investment policy and regularly monitors the performance of the assets of the trust maintained in conjunction with the Qualified Defined Benefit Retirement Plan. The strategy implemented by the trustee of the Qualified Defined Benefit Retirement Plan is to achieve long-term objectives and invest the pension assets in accordance with ERISA and fiduciary standards. The long-term primary objectives are to provide for a reasonable amount of long-term capital, without undue exposure to risk; to protect the Qualified Defined Benefit Retirement Plan assets from erosion of purchasing power; and to provide investment results that meet or exceed the actuarially assumed long-term rate of return. The expected long-term rate of return on assets assumption was developed by considering the historical returns and the future expectations for returns of each asset class as well as the target asset allocation of the pension portfolio.

Cash Flows

Employer Contributions

The Company expects to contribute $3,300 to its pension benefit plans and $130 to its retiree health care benefit plans in fiscal 2019. Contributions do not equal estimated future benefit payments as certain payments are made from plan assets.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as applicable, are expected to be paid in each of the next five years and in the aggregate for the subsequent five years:

During Fiscal Years	Pension Benefits	Retiree Health Care Benefits
2019	$ 3,700	$ 130
2020	3,800	120
2021	1,300	110
2022	1,300	110
2023	1,400	100
2024 through 2028	5,200	530

NOTE 11: LEASES

The Company leases many service center and distribution center facilities, vehicles and equipment under non-cancelable lease agreements accounted for as operating leases. The minimum annual rental commitments under non-cancelable operating leases as of June 30, 2018 are as follows:

During Fiscal Years	
2019	$ 38,100
2020	27,500
2021	17,800
2022	11,200
2023	5,800
Thereafter	11,000
Total minimum lease payments	$ 111,400

Rental expense incurred for operating leases, principally from leases for real property, vehicles and computer equipment was $41,000 in 2018, $35,900 in 2017 and $37,300 in 2016, and was classified within selling, distribution and administrative expenses in the statements of consolidated income.

The Company maintains lease agreements for many of the operating facilities of businesses it acquires from previous owners. In many cases, the previous owners of the business acquired become employees of Applied and occupy management positions within those businesses. The payments under lease agreements of this nature totaled $2,400, $2,400, and $3,800 and in 2018, 2017, and 2016, respectively.

NOTE 12: SEGMENT AND GEOGRAPHIC INFORMATION

Effective July 1, 2017, the Company completed a number of changes to its organizational structure that resulted in a change in how the Company manages its businesses, allocates resources and measures performance. As a result, the Company has revised its reportable segments to reflect how management currently reviews financial information and makes operating decisions. All Canadian and Mexican subsidiaries are now grouped under the Service Center Based Distribution segment. All prior-period amounts have been adjusted to reflect the reportable segment change.

The Company's reportable segments are: Service Center Based Distribution and Fluid Power & Flow Control. These reportable segments contain the Company's various operating segments which have been aggregated based upon similar economic and operating characteristics. The Service Center Based Distribution segment provides customers with solutions to their maintenance, repair and original equipment manufacturing needs through the distribution of industrial products including bearings, power transmission components, fluid power components and systems, industrial rubber products, linear motion products, tools, safety products, and other industrial and maintenance supplies. The Fluid Power & Flow Control segment distributes engineered fluid power components and specialty flow control solutions and operates shops that assemble fluid power systems and components, performs equipment repair, and offers technical advice to customers.

The accounting policies of the Company’s reportable segments are generally the same as those described in note 1. Intercompany sales, primarily from the Fluid Power & Flow Control segment to the Service Center Based Distribution segment of $25,556, $22,719, and $20,261, in 2018, 2017, and 2016, respectively, have been eliminated in the following table.

Segment Financial Information

	Service Center Based Distribution	Fluid Power & Flow Control	Total
Year Ended June 30, 2018			
Net sales	**$ 2,346,418**	**$ 726,856**	**$ 3,073,274**
Operating income for reportable segments	**136,718**	**83,194**	**219,912**
Assets used in the business	**1,198,296**	**1,087,445**	**2,285,741**
Depreciation and amortization of property	**15,336**	**2,462**	**17,798**
Capital expenditures	**18,492**	**4,738**	**23,230**
Year Ended June 30, 2017			
Net sales	$ 2,180,358	$ 413,388	$ 2,593,746
Operating income for reportable segments	115,794	46,569	162,363
Assets used in the business	1,187,054	200,541	1,387,595
Depreciation and amortization of property	14,375	931	15,306
Capital expenditures	14,566	2,479	17,045
Year Ended June 30, 2016			
Net sales	$ 2,150,478	$ 368,950	$ 2,519,428
Operating income for reportable segments	113,111	37,174	150,285
Assets used in the business	1,132,222	179,803	1,312,025
Depreciation and amortization of property	15,049	917	15,966
Capital expenditures	12,500	630	13,130

ERP related assets are included in assets used in the business and capital expenditures within the Service Center Based Distribution segment. Within the geographic disclosures, these assets are included in the United States. Expenses associated with the ERP are included in the Corporate and other income, net, line in the reconciliation of operating income for reportable segments to the consolidated income before income taxes table below.

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

Year Ended June 30,	**2018**	2017	2016
Operating income for reportable segments	**$ 219,912**	$ 162,363	$ 150,285
Adjustments for:			
Intangible amortization — Service Center Based Distribution	**17,375**	18,954	19,913
Intangible amortization — Fluid Power & Flow Control	**14,690**	5,417	5,667
Goodwill Impairment — Service Center Based Distribution	**—**	—	64,794
Corporate and other income, net	**(37,980)**	(37,394)	(29,871)
Total operating income	**225,827**	175,386	89,782
Interest expense, net	**23,485**	8,541	8,763
Other (income) expense, net	**(2,376)**	(121)	2,041
Income before income taxes	**$ 204,718**	$ 166,966	$ 78,978

Fluctuations in corporate and other income, net, are due to changes in corporate expenses, as well as in the amounts and levels of certain supplier support benefits and expenses being allocated to the segments. The expenses being allocated include corporate charges for working capital, logistics support and other items.

Product Category

Net sales by product category are as follows:

Year Ended June 30,	**2018**	2017	2016
Industrial	**$ 2,085,571**	$ 1,855,437	$ 1,836,484
Fluid power & flow control	**987,703**	738,309	682,944
Net sales	**$ 3,073,274**	$ 2,593,746	$ 2,519,428

The fluid power & flow control product category includes sales of hydraulic, pneumatic, lubrication, filtration, and flow control components and systems, and repair services through the Company's Fluid Power & Flow Control segment as well as the Service Center Based Distribution segment.

Geographic Information

Net sales are presented in geographic areas based on the location of the facility shipping the product. Long-lived assets are based on physical locations and are comprised of the net book value of property and intangible assets. Information by geographic area is as follows:

Year Ended June 30,	**2018**	2017	2016
Net Sales:			
United States	**$ 2,615,041**	$ 2,182,552	$ 2,117,485
Canada	**273,622**	251,999	257,797
Other Countries	**184,611**	159,195	144,146
Total	**$ 3,073,274**	$ 2,593,746	$ 2,519,428

June 30,	**2018**	2017	2016
Long-Lived Assets:			
United States	**$ 501,373**	$ 207,126	$ 225,538
Canada	**50,261**	57,947	66,304
Other Countries	**5,656**	6,558	7,163
Total	**$ 557,290**	$ 271,631	$ 299,005

Other countries consist of Mexico, Australia, New Zealand, and Singapore.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The Company is a party to various pending judicial and administrative proceedings. Based on circumstances currently known, the Company believes the likelihood is remote that the ultimate resolution of any of these matters will have, either individually or in the aggregate, a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

NOTE 14: OTHER (INCOME) EXPENSE, NET

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

Year Ended June 30,	**2018**	2017	2016
Unrealized gain on assets held in rabbi trust for a non-qualified deferred compensation plan	**$ (785)**	$ (1,188)	$ (87)
Foreign currency transaction (gains) losses	**(210)**	209	1,039
Net other periodic post-employment costs	**245**	796	981
Life insurance (income) expense, net	**(1,628)**	107	108
Other, net	**2**	(45)	—
Total other (income) expense, net	**$ (2,376)**	$ (121)	$ 2,041

QUARTERLY OPERATING RESULTS

(In thousands, except per share amounts)
(UNAUDITED)

	Net Sales	Gross Profit	Operating Income	Net Income	Per Common Share Net Income	Per Common Share Cash Dividend
2018						
First Quarter	**$ 680,701**	**$ 192,424**	**$ 51,837**	**$ 33,721**	**$ 0.86**	**$ 0.29**
Second Quarter	**667,187**	**188,360**	**46,715**	**30,950**	**0.79**	**0.29**
Third Quarter	**827,665**	**239,524**	**56,444**	**36,592**	**0.93**	**0.30**
Fourth Quarter	**897,721**	**263,687**	**70,831**	**40,362**	**1.03**	**0.30**
	$ 3,073,274	**$ 883,995**	**$ 225,827**	**$ 141,625**	**$ 3.61**	**$ 1.18**
2017						
First Quarter	$ 624,848	$ 178,330	$ 43,218	$ 27,371	$ 0.70	$ 0.28
Second Quarter	608,123	172,456	37,656	24,085	0.61	0.28
Third Quarter	679,304	190,802	45,467	29,494	0.75	0.29
Fourth Quarter	681,471	196,107	48,249	52,960	1.34	0.29
	$ 2,593,746	$ 737,695	$ 174,590	$ 133,910	$ 3.40	$ 1.14
2016						
First Quarter	$ 641,904	$ 181,012	$ 41,026	$ 24,291	$ 0.61	$ 0.27
Second Quarter	610,346	173,167	38,362	23,947	0.61	0.27
Third Quarter	633,172	174,793	(33,032)	(44,728)	(1.14)	0.28
Fourth Quarter	634,006	178,450	42,445	26,067	0.66	0.28
	$ 2,519,428	$ 707,422	$ 88,801	$ 29,577	$ 0.75	$ 1.10

On August 10, 2018, there were 4,307 shareholders of record including 2,914 shareholders in the Applied Industrial Technologies, Inc. Retirement Savings Plan. The Company's common stock is listed on the New York Stock Exchange. The closing price on August 10, 2018 was $72.20 per share.

The sum of the quarterly per share amounts may not equal per share amounts reported for year-to-date. This is due to changes in the number of weighted shares outstanding and the effects of rounding for each period.

Cost of sales for interim financial statements are computed using estimated gross profit percentages which are adjusted throughout the year based upon available information. Adjustments to actual cost are primarily made based on periodic physical inventory and the effect of year-end inventory quantities on LIFO costs.

Fiscal 2018

During the second quarter of fiscal 2018, the Tax Cuts and Jobs Act (the "Act") was enacted in the U.S., making significant changes to U.S. tax law. The Company revised its estimated annual effective tax rate to reflect the change in the federal statutory rate to a blended statutory rate for the annual period of 28.1%. The corporate income tax rate change had a favorable impact to the Company of $12.1 million for fiscal 2018. Further, we recognized provisional amounts for the one-time transition tax of $3.9 million and for the re-measurement of the applicable deferred tax assets and liabilities based on the rates at which they are expected to reverse of $2.4 million. Overall, the Act resulted in a net tax benefit of $5.8 million for fiscal 2018, which is included as a component of income tax expense in the statements of consolidated income.

During the third quarter of fiscal 2018, the Company completed the acquisition of all of the outstanding shares of FCX Performance, Inc. (FCX), a Columbus, Ohio based distributor of specialty process flow control products and services. At the time of closing, FCX operated 68 locations with approximately 1,000 employees. The total consideration transferred for the acquisition was approximately $782 million, which was financed by cash-on-hand and a new credit facility comprised of a $780 million Term Loan A and $250 million revolver (the Credit Facility), effective with the transaction closing. This Credit Facility was used to finance the transaction, as well as to repay the Company's existing term loan outstanding prior to the acquisition date.

Fiscal 2017

During the fourth quarter of fiscal 2017, the Company recorded a tax benefit pertaining to a worthless stock tax deduction of $22.2 million, or $0.56 per share. This deduction is based on the write-off of its investment in one of its Canadian subsidiaries for U.S. tax purposes.

In fiscal 2017 reductions in U.S. inventories in the bearings pool resulted in liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years. A portion of these reductions resulted from the scrapping of $6.0 million of bearings inventory which resulted in a similar amount of scrap expense being recognized in the fourth quarter of fiscal 2017. The overall impact of the fiscal 2017 LIFO layer liquidations increased gross profit by $9.4 million in the fourth quarter of fiscal 2017. The net benefit of the bearings products LIFO layer liquidation benefit, less the bearing product scrap expense was $3.4 million.

Fiscal 2016

During the third quarter of fiscal 2016, the Company recorded goodwill impairment of $64.8 million related to the Canada and Australia/New Zealand service center reporting units within the Service Center Based Distribution reportable segment. After taxes, the impairment had a negative impact on earnings of $63.8 million and reduced earnings per share by $1.62 per share.

During fiscal 2016, the Company incurred certain restructuring charges. During the third quarter, a reserve of $3.6 million was recorded within cost of sales for potential non-salable, non-returnable and excess inventory due to declining demand, primarily for Canada oil and gas operations. SD&A included expenses of $5.2 million during the fiscal year related to severance and facility consolidations, primarily for oil and gas operations. Total restructuring charges reduced gross profit for the year by $3.6 million, operating income by $8.8 million, net income by $6.2 million and earnings per share by $0.16.

During the fourth quarter of fiscal 2016, the Company realized LIFO layer liquidation benefits of $2.1 million from certain inventory quantity levels decreasing.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

On January 31, 2018, the Company completed the acquisition of FCX Performance, Inc ("FCX"). As permitted by SEC guidance, the scope of management’s evaluation of internal control over financing reporting as of June 30, 2018 did not include the internal control over financial reporting of FCX. However, we are extending our oversight and monitoring processes that support our internal control over financial reporting to include FCX's operations.

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

Management's Report on Internal Control over Financial Reporting

The Management of Applied Industrial Technologies, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President & Chief Executive Officer and the Vice President - Chief Financial Officer & Treasurer, and effected by the Company’s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company’s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company’s Management and Board of Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

Because of inherent limitations, internal control over financial reporting can provide only reasonable, not absolute, assurance with respect to the preparation and presentation of the consolidated financial statements and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting as of June 30, 2018. This evaluation was based on the criteria set forth in the framework "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management determined that the Company’s internal control over financial reporting was effective as of June 30, 2018.

The Company acquired FCX Performance Inc. ("FCX") on January 31, 2018. Management has excluded FCX from its assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2018. FCX represents approximately 39.5% and 8.1% of total assets and net sales, respectively, of the consolidated financial statement amounts as of and for the year ended June 30, 2018.

The effectiveness of the Company’s internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Neil A. Schrimsher	/s/ David K. Wells
President & Chief Executive Officer	Vice President - Chief Financial Officer & Treasurer

August 17, 2018

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Applied Industrial Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2018, of the Company and our report dated August 17, 2018, expressed an unqualified opinion on those consolidated financial statements.

As described in Management's Report on Internal Controls Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at FCX Performance Inc. ("FCX"), which was acquired on January 31, 2018 and whose financial statements constitute 39.5% of total assets and 8.1% of net sales of the consolidated financial statements as of and for the year ended June 30, 2018. Accordingly, our audit did not include the internal control over financial reporting at FCX.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Cleveland, Ohio

August 17, 2018

Changes in Internal Control Over Financial Reporting

There have not been any changes in internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item as to Applied's directors is incorporated by reference to Applied's proxy statement relating to the annual meeting of shareholders to be held October 30, 2018, under the caption “Item 1 - Election of Directors.” The information required by this Item as to Applied's executive officers has been furnished in this report in Part I, after Item 4, under the caption “Executive Officers of the Registrant.”

The information required by this Item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to Applied's proxy statement, under the caption “Section 16(a) Beneficial Ownership Reporting Compliance.”

Applied has a code of ethics, named the Code of Business Ethics, that applies to our employees, including our principal executive officer, principal financial officer, and principal accounting officer. The Code of Business Ethics is posted via hyperlink at the investor relations area of our *www.applied.com* website. In addition, amendments to and waivers from the Code of Business Ethics will be disclosed promptly at the same location.

Information regarding the composition of Applied’s audit committee and the identification of audit committee financial experts serving on the audit committee is incorporated by reference to Applied's proxy statement, under the caption “Corporate Governance.”

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 30, 2018, under the captions “Executive Compensation” and “Compensation Committee Report.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Applied's shareholders have approved the following equity compensation plans: the 2007 Long-Term Performance Plan, the 2011 Long-Term Performance Plan, the 2015 Long-Term Performance Plan, the Deferred Compensation Plan, and the Deferred Compensation Plan for Non-Employee Directors. All of these plans are currently in effect.

The following table shows information regarding the number of shares of Applied common stock that may be issued pursuant to equity compensation plans or arrangements of Applied as of June 30, 2018.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	1,378,637	$45.22	*
Equity compensation plans not approved by security holders	—	—	—
Total	1,378,637	$45.22	*

* The 2015 Long-Term Performance Plan was adopted to replace the 2011 Long-Term Performance Plan and the 2011 Long-Term Performance Plan was adopted to replace the 2007 Long-Term Performance Plan. Stock options and stock appreciation rights remain outstanding under each of the 2007 and 2011 plans, but no new awards are made under those plans. The aggregate number of shares that remained available for awards under the 2015 Long-Term Performance Plan at June 30, 2018 was 1,665,033.

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 30, 2018, under the caption “Holdings of Major Shareholders, Officers, and Directors.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 30, 2018, under the caption “Corporate Governance.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 30, 2018, under the caption “Item 3 - Ratification of Auditors.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE.

(a)1. Financial Statements.

The following consolidated financial statements, notes thereto, the reports of independent registered public accounting firm, and supplemental data are included in Item 8 of this report:

- Report of Independent Registered Public Accounting Firm
- Statements of Consolidated Income for the Years Ended June 30, 2018, 2017, and 2016
- Statements of Consolidated Comprehensive Income for the Years Ended June 30, 2018, 2017, and 2016
- Consolidated Balance Sheets at June 30, 2018 and 2017
- Statements of Consolidated Cash Flows for the Years Ended June 30, 2018, 2017, and 2016
- Statements of Consolidated Shareholders' Equity For the Years Ended June 30, 2018, 2017, and 2016
- Notes to Consolidated Financial Statements for the Years Ended June 30, 2018, 2017, and 2016
- Supplementary Data:
  - Quarterly Operating Results

(a)2. Financial Statement Schedule.

The following schedule is included in this Part IV, and is found in this report at the page indicated:

Page No.

Schedule II - Valuation and Qualifying Accounts: Pg. 70

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission have been omitted because they are not required under the related instructions, are not applicable, or the required information is included in the consolidated financial statements and notes thereto.

(a)3. Exhibits.

* Asterisk indicates an executive compensation plan or arrangement.

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Applied Industrial Technologies, Inc., as amended on October 25, 2005 (filed as Exhibit 3(a) to Applied's Form 10-Q for the quarter ended December 31, 2005, SEC File No. 1-2299, and incorporated here by reference).
3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to Applied's Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to Applied's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Private Shelf Agreement dated as of November 27, 1996, as amended through June 29, 2018, between Applied and PGIM, Inc. (formerly known as Prudential Investment Management, Inc.), conformed to show all amendments.
4.3	Request for Purchase dated May 30, 2014 and 3.19% Series C Notes dated July 1, 2014, under Private Shelf Agreement dated November 27, 1996, as amended, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (filed as Exhibit 10.1 to Applied's Form 8-K filed July 2, 2014, SEC File No. 1-2299, and incorporated here by reference).

4.4	Request for Purchase dated October 22, 2014 and 3.21% Series D Notes dated October 30, 2014, under Private Shelf Agreement dated November 27, 1996, as amended, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (filed as Exhibit 4.5 to Applied's Form 10-Q for the quarter ended September 30, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.5	Credit Agreement dated as of January 31, 2018, among Applied Industrial Technologies, Inc., KeyBank National Association as Agent, and various financial institutions (filed as Exhibit 10.1 to Applied's Form 8-K filed February 6, 2018, SEC File No. 1-2299, and incorporated here by reference).
*10.1	A written description of Applied's director compensation program is incorporated by reference to Applied’s proxy statement for the annual meeting of shareholders to be held October 30, 2018 under the caption “Director Compensation.”
*10.2	Deferred Compensation Plan for Non-Employee Directors (September 1, 2003 Restatement), the terms of which govern benefits vested as of December 31, 2004, for Peter A. Dorsman, an Applied director (filed as Exhibit 10(c) to Applied's Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.3	Deferred Compensation Plan for Non-Employee Directors (Post-2004 Terms) (filed as Exhibit 10.2 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.4	Amendment to the Applied Industrial Technologies, Inc. Deferred Compensation Plan for Non-Employee Directors (Post-2004 Terms) (filed as Exhibit 10.1 to Applied’s Form 10-Q for the quarter ended March 31, 2014, SEC File No. 1-2299, and incorporated here by reference).
*10.5	Form of Director and Officer Indemnification Agreement entered into between Applied and each of its directors and executive officers (filed as Exhibit 10(g) to Applied's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
*10.6	2007 Long-Term Performance Plan (filed as Exhibit 10 to Applied's Form 8-K filed October 23, 2007, SEC File No. 1-2299, and incorporated here by reference).
*10.7	Section 409A Amendment to the 2007 Long-Term Performance Plan (filed as Exhibit 10.5 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.8	2011 Long-Term Performance Plan (filed as Appendix to Applied’s proxy statement for the annual meeting of shareholders held on October 25, 2011, SEC File No. 1-2299, and incorporated here by reference).
*10.9	2015 Long-Term Performance Plan (filed as Appendix to Applied's proxy statement for the annual meeting of shareholders held on October 27, 2015, SEC File No. 1-2299, and incorporated here by reference).
*10.10	Non-Statutory Stock Option Award Terms and Conditions (Directors) (filed as Exhibit 10 to Applied's Form 8-K filed November 30, 2005, SEC File No. 1-2299, and incorporated here by reference).
*10.11	Restricted Stock Award Terms and Conditions (Directors) (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended March 31, 2018, SEC File No. 1-2299, and incorporated here by reference).
*10.12	Stock Appreciation Rights Award Terms and Conditions (Officers) (August 2017 revision) (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
*10.13	Restricted Stock Units Terms and Conditions (filed as Exhibit 10.2 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
*10.14	Performance Shares Terms and Conditions (filed as Exhibit 10.3 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
*10.15	Management Incentive Plan General Terms (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended September 30, 2016, SEC File No. 1-2299, and incorporated here by reference).
*10.16	Key Executive Restoration Plan, as amended and restated, in which Applied's executive officers participate (filed as Exhibit 10.1 to Applied's Form 8-K filed August 16, 2013, SEC File No. 1-2299, and incorporated here by reference).
*10.17	Schedule of executive officer participants in the Key Executive Restoration Plan, as amended and restated (filed as Exhibit 10.4 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
*10.18	Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) in which Fred D. Bauer, as well as Todd A. Barlett and Mark O. Eisele (executive officers who retired in the year ended June 30, 2018) participate (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).

*10.19	First Amendment to the Applied Industrial Technologies, Inc. Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) (filed as Exhibit 10.1 to Applied's Form 8-K filed December 22, 2011, SEC File No. 1-2299, and incorporated here by reference).
*10.20	Second Amendment to the Applied Industrial Technologies, Inc. Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) (filed as Exhibit 10.1 to Applied's Form 8-K filed October 26, 2012, SEC File No. 1-2299, and incorporated here by reference).
*10.21	Deferred Compensation Plan (September 1, 2003 Restatement), the terms of which govern benefits vested as of December 31, 2004, for Mark O. Eisele (filed as Exhibit 10(h) to Applied's Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.22	First Amendment to Deferred Compensation Plan (September 1, 2003 Restatement) (filed as Exhibit 10 to Applied's Form 10-Q for the quarter ended December 31, 2003, SEC File No. 1-2299, and incorporated here by reference).
*10.23	Deferred Compensation Plan (Post-2004 Terms) (filed as Exhibit 10.3 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.24	Supplemental Defined Contribution Plan (January 1, 1997 Restatement) the terms of which govern benefits vested as of December 31, 2004, for Todd A. Barlett, Fred D. Bauer and Mark O. Eisele (filed as Exhibit 10(m) to Applied's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
*10.25	First Amendment to Supplemental Defined Contribution Plan effective as of October 1, 2000 (filed as Exhibit 10(a) to Applied's Form 10-Q for the quarter ended September 30, 2000, SEC File No. 1-2299, and incorporated here by reference).
*10.26	Second Amendment to Supplemental Defined Contribution Plan effective as of January 16, 2001 (filed as Exhibit 10(a) to Applied's Form 10-Q for the quarter ended March 31, 2001, SEC File No. 1-2299, and incorporated here by reference).
*10.27	Supplemental Defined Contribution Plan (Post-2004 Terms), restated effective as of January 1, 2017 (filed as Exhibit 10.27 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference.)
*10.28	Severance Agreement for Neil A. Schrimsher (filed as Exhibit 10.2 to Applied's Form 8-K filed October 31, 2011, SEC File No. 1-2299, and incorporated here by reference).
*10.29	Amendment to Severance Agreement for Neil A. Schrimsher (filed as Exhibit 10.2 to Applied's Form 8-K filed October 26, 2012, SEC File No. 1-2299, and incorporated here by reference).
*10.30	Change in Control Agreement for Neil A. Schrimsher (filed as Exhibit 10.3 to Applied's Form 8-K filed October 31, 2011, SEC File No. 1-2299, and incorporated here by reference).
*10.31	Change in Control Agreement for Fred D. Bauer (filed as Exhibit 99.1 to Applied's Form 8-K filed April 25, 2008, SEC File No. 1-2299, and incorporated here by reference).
*10.32	Form of Change in Control Agreement for executive officers newly hired since 2012 (filed as Exhibit 10.3 to Applied's Form 10-Q for the quarter ended September 30, 2013, SEC File No. 1-2299, and incorporated here by reference).
*10.33	A written description of Applied's Life and Accidental Death and Dismemberment Insurance for executive officers (filed as Exhibit 10.33 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
*10.34	A written description of Applied's Long-Term Disability Insurance for executive officers (filed as Exhibit 10.34 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
*10.35	A written description of Applied's Retiree Health Care Coverage for Neil A. Schrimsher, Todd A. Barlett, Fred D.Bauer and Mark O. Eisele (filed as Exhibit 10.35 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
10.36	Agreement and Plan of Merger by and among Applied Industrial Technologies, Inc., Fortress Merger Sub Holding LLC, Fortress Merger Sub LP, FCX Group Holdings, LP, FCX Group GP, LLC, and Harvest Partners, LP (filed as Exhibit 10.1 to Applied's Form 8-K filed January 9, 2018, SEC File No. 1-2299, and incorporated here by reference).
21	Applied's subsidiaries at June 30, 2018.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of attorney.
31	Rule 13a-14(a)/15d-14(a) certifications.
32	Section 1350 certifications.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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

ITEM 16. FORM 1O-K SUMMARY.

Not applicable.

Table of Contents

APPLIED INDUSTRIAL TECHNOLOGIES, INC. & SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2018, 2017, AND 2016
(in thousands)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
DESCRIPTION	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Additions (Deductions) Charged to Other Accounts	Deductions from Reserve	Balance at End of Period
Year Ended June 30, 2018					
Reserve deducted from assets to which it applies — accounts receivable allowances	$ 9,628	$ 2,803	$ 4,578 (A)	$ 3,443 (B)	$ 13,566
Year Ended June 30, 2017					
Reserve deducted from assets to which it applies — accounts receivable allowances	$ 11,034	$ 2,071	$ (133) (A)	$ 3,344 (B)	$ 9,628
Year Ended June 30, 2016					
Reserve deducted from assets to which it applies — accounts receivable allowances	$ 10,621	$ 4,303	$ (46) (A)	$ 3,844 (B)	$ 11,034

(A) Amounts in the year ending June 30, 2018 represent reserves recorded through purchase accounting for acquisitions made during the year of $3,549 and for the return of merchandise by customers of $1,029. Amounts in prior fiscal years represent reserves for the return of merchandise by customers.

(B) Amounts represent uncollectible accounts charged off.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

/s/ Neil A. Schrimsher	/s/ David K. Wells
Neil A. Schrimsher President & Chief Executive Officer	David K. Wells Vice President-Chief Financial Officer & Treasurer
/s/ Christopher Macey	
Christopher Macey Corporate Controller (Principal Accounting Officer)	

Date: August 17, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

*	*
Peter A. Dorsman, Director	L. Thomas Hiltz, Director
*	*
Edith Kelly-Green, Director	Dan P. Komnenovich, Director
*	*
Robert J. Pagano, Jr., Director	Vincent K. Petrella, Director
*	/s/ Neil A. Schrimsher
Joe A. Raver, Director	Neil A. Schrimsher, President & Chief Executive Officer and Director
*	*
Dr. Jerry Sue Thornton, Director	Peter C. Wallace, Director and Chairman

/s/ Fred D. Bauer

Fred D. Bauer, as attorney in fact
for persons indicated by "*"

Date: August 17, 2018

[CONFORMED COPY, including Amendments dated January 30, 1998, October 24, 2000, November 14, 2003, February 25, 2004, March 30, 2007, February 16, 2010, February 4, 2013, October 30, 2014, October 23, 2015, December 23, 2015, January 31, 2018 and June 29, 2018]

BEARINGS, INC.
3600 Euclid Avenue
Cleveland, Ohio 44115-2515

As of November 27, 1996

PGIM, Inc.
(herein called "PRUDENTIAL")
Each Prudential Affiliate which becomes bound by this Agreement as hereinafter provided (together with Prudential, the "PURCHASERS")
c/o Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Gentlemen:

The undersigned, BEARINGS, INC., an Ohio corporation (herein called the "COMPANY"), hereby agrees with you as set forth below. Reference is made to paragraph 10 hereof for definitions of capitalized terms used herein and not otherwise defined herein.

1. AUTHORIZATION OF ISSUE OF PRIVATE SHELF NOTES. The Company will authorize the issue of its senior promissory notes (herein called the "PRIVATE SHELF NOTES") in the aggregate principal amount of $270,000,000, to be dated the date of issue thereof, to mature, in the case of each Private Shelf Note so issued, no more than fifteen (15) years after the issuance thereof, to have an average life, in the case of each Note so issued, of no more than twelve (12) years after the date of original issuance thereof, to bear interest on the unpaid balance thereof from the date thereof at the rate per annum (and to have such other particular terms consistent with the terms of this Agreement) as shall be set forth in the Confirmation of Acceptance with respect to such Private Shelf Note delivered pursuant to paragraph 2E, and to be substantially in the form of EXHIBIT A attached hereto. The terms "Private Shelf Note" and "Private Shelf Notes" as used herein shall include each Private Shelf Note delivered pursuant to any provision of this Agreement and each Private Shelf Note delivered in substitution or exchange for any such Private Shelf Note pursuant to any such provision. The terms "NOTE" or "NOTES" as used herein shall include each Private Shelf Note (whether designated a Series A Note, Series B Note or Series C Note, etc.) delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Notes which have (i) the same final maturity, (ii) the same principal

prepayment dates, (iii) the same principal prepayment amounts (as a percentage of the original principal amount of each Note), (iv) the same interest rate, (v) the same interest payment periods, and (vi) which are otherwise designated a "Series" hereunder or in the Confirmation of Acceptance whether or not the foregoing conditions are satisfied, are herein called a "SERIES" of Notes.

2. PURCHASE AND SALE OF NOTES.

2A. FACILITY. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties set forth herein, Prudential is willing to consider, in its sole discretion and within limits which may be authorized for purchase by Prudential and Prudential Affiliates from time to time, the purchase of Private Shelf Notes pursuant to this Agreement. The willingness of Prudential to consider such purchase of Private Shelf Notes is herein called the "FACILITY". At any time, \$50,000,000, minus the aggregate principal amount of Private Shelf Notes purchased and sold pursuant to this Agreement prior to such time, minus the aggregate principal amount of "ACCEPTED NOTES" (as hereinafter defined) which have not yet been purchased and sold hereunder prior to such time, is herein called the "AVAILABLE FACILITY AMOUNT" at such time. NOTWITHSTANDING THE WILLINGNESS OF PRUDENTIAL TO CONSIDER PURCHASES OF PRIVATE SHELF NOTES, THIS AGREEMENT IS ENTERED INTO ON THE EXPRESS UNDERSTANDING THAT NEITHER PRUDENTIAL NOR ANY PRUDENTIAL AFFILIATE SHALL BE OBLIGATED TO MAKE OR ACCEPT OFFERS TO PURCHASE PRIVATE SHELF NOTES, OR TO QUOTE RATES, SPREADS OR OTHER TERMS WITH RESPECT TO SPECIFIC PURCHASES OF PRIVATE SHELF NOTES, AND THE FACILITY SHALL IN NO WAY BE CONSTRUED AS A COMMITMENT BY PRUDENTIAL OR ANY PRUDENTIAL AFFILIATE.

2B. ISSUANCE PERIOD. Private Shelf Notes may be issued and sold pursuant to this Agreement until the earlier of (i) October 30, 2017 and (ii) the thirtieth day after Prudential shall have given to the Company, or the Company shall have given to Prudential, a written notice stating that it elects to terminate the Facility. The period during which Private Shelf Notes may be issued and sold pursuant to this Agreement is herein called the "ISSUANCE PERIOD".

2C. REQUEST FOR PURCHASE. The Company may from time to time during the Issuance Period make requests for purchases of Private Shelf Notes (each such request being herein called a "REQUEST FOR PURCHASE"). Each Request for Purchase shall be made to Prudential by telecopier and confirmed by nationwide overnight delivery service, and shall (i) specify the aggregate principal amount of Private Shelf Notes covered thereby, which shall not be less than \$5,000,000 and shall not be greater than the Available Facility Amount at the time such Request for Purchase is made, (ii) specify the principal amounts, final maturities, principal prepayment dates and amounts and interest payment periods (quarterly in arrears) of the Private Shelf Notes covered thereby, (iii) specify the use of proceeds of such Private Shelf Notes, (iv) specify the proposed day for the closing of the purchase and sale of such Private Shelf Notes, which shall be a Business Day during the Issuance Period not more than thirty (30) days after the making of such Request for Purchase and in any event not less than three (3) days after any Acceptance with respect to such Request for Purchase under paragraph 2E, (v) specify the number of the account and the name and address of the depository institution to which the purchase prices of such Private Shelf Notes are to be transferred on the Private Shelf Closing Day for such purchase and sale, (vi) certify that the representations and warranties contained in paragraph 8 hereof are true on and as of the date of such Request for Purchase except to the extent of changes caused by the transactions herein contemplated and that there exists on the date of such Request for Purchase no Event of Default or Default (and that no Event of Default or

Default shall arise as the result of the purchase and sale of such Private Shelf Notes), and (vii) be substantially in the form of EXHIBIT B attached hereto. Each Request for Purchase shall be in writing and shall be deemed made when received by Prudential.

2D. RATE QUOTES. As soon as practicable and in any event not later than five (5) Business Days after the Company shall have given Prudential a Request for Purchase pursuant to paragraph 2C, Prudential may, but shall be under no obligation to, provide (by telephone and promptly thereafter confirmed by telecopier, in each case no earlier than 9:30 A.M. and no later than 1:30 P.M. New York City local time) interest rate quotes for the several principal amounts, maturities, prepayment schedules and interest payment periods of Private Shelf Notes specified in such Request for Purchase. Each quote shall represent the interest rate per annum payable on the outstanding principal balance of such Private Shelf Notes until such balance shall have become due and payable, at which Prudential or a Prudential Affiliate would be willing to purchase such Private Shelf Notes at 100% of the principal amount thereof. Such rate quotes shall be made and determined by Prudential in accordance with the internal methods and procedures then used by Prudential to price comparable transactions with companies similarly situated with similar credit risks.

2E. ACCEPTANCE. Within the Acceptance Window, the Company may, subject to the terms of paragraph 2F, elect to accept such interest rate quotes as to not less than $5,000,000 aggregate principal amount of the Private Shelf Notes specified in the applicable Request for Purchase. Such election shall be made by an Authorized Officer of the Company notifying Prudential by telephone or telecopier within the Acceptance Window (but not earlier than 9:30 A.M. or later than 2:00 P.M., New York City local time) that the Company elects to accept such interest rate quotes, specifying the Private Shelf Notes (each such Private Shelf Note being herein called an “ACCEPTED NOTE”) as to which such acceptance (herein called an “ACCEPTANCE”) relates. The day the Company notifies Prudential of an Acceptance with respect to any Accepted Notes is herein called the “ACCEPTANCE DAY” for such Accepted Notes. Any interest rate quotes as to which Prudential does not receive an Acceptance within the Acceptance Window shall expire, and no purchase or sale of Private Shelf Notes hereunder shall be made based on such expired interest rate quotes. Subject to paragraph 2F and the other terms and conditions hereof, the Company agrees to sell to Prudential or a Prudential Affiliate, and Prudential agrees to purchase, or to cause the purchase by a Prudential Affiliate of, the Accepted Notes at 100% of the principal amount of such Notes. As soon as practicable following the Acceptance Day, the Company, Prudential and each Prudential Affiliate which is to purchase any such Accepted Notes will execute a confirmation of such Acceptance substantially in the form of EXHIBIT C attached hereto (herein called a “CONFIRMATION OF ACCEPTANCE”). If the Company should fail to execute and return the applicable Confirmation of Acceptance to Prudential within three Business Days following receipt of a Confirmation of Acceptance with respect to any Accepted Notes, Prudential may at its election at any time prior to its receipt thereof cancel the closing with respect to such Accepted Notes by so notifying the Company in writing.

2F. MARKET DISRUPTION. Notwithstanding the provisions of paragraph 2E, if Prudential shall have provided interest rate quotes pursuant to paragraph 2E and thereafter, prior to the time an Acceptance with respect to such quotes shall have been notified to Prudential in accordance with paragraph 2E, the domestic market for U.S. Treasury securities or derivatives shall have closed or there shall occur a general suspension, material limitation, or significant disruption of trading in securities generally on the New York Stock Exchange or in the domestic market for U.S. Treasury securities, then such interest rate quotes shall expire, and no purchase or sale of Private Shelf Notes hereunder shall be made based on such expired interest rate quotes. If the Company thereafter notifies Prudential of the Acceptance of any such interest rate quotes, such Acceptance shall be ineffective for all purposes of this Agreement, and Prudential shall promptly notify the Company that the provisions of this paragraph 2F are applicable with respect to such Acceptance.

2G. PRIVATE SHELF CLOSING. Not later than 11:30 A.M. (New York City local time) on the Private Shelf Closing Day for any Accepted Notes, the Company will deliver to each Purchaser listed in the Confirmation of Acceptance relating thereto at the offices of Prudential Capital Group, Two Prudential Plaza, Suite 5600, Chicago, Illinois 60601, Attention: Law Department, the Private Shelf Notes to be purchased by such Purchaser in the form of a single Accepted Note for the Accepted Notes which have exactly the same terms (or such greater number of Notes in authorized denominations as such Purchaser may request) dated the Private Shelf Closing Day and registered in such Purchaser's name (or in the name of its nominee), against payment of the purchase price thereof by transfer of immediately available funds for credit to the Company's account specified in the Request for Purchase of such Private Shelf Notes. If the Company fails to tender to any Purchaser the Accepted Notes to be purchased by such Purchaser on the scheduled Private Shelf Closing Day for such Accepted Notes as provided above in this paragraph 2G, or any of the conditions specified in paragraph 3A shall not have been fulfilled by the time required on such scheduled Private Shelf Closing Day, the Company shall, prior to 1:00 P.M., New York City local time, on such scheduled Private Shelf Closing Day notify such Purchaser in writing whether (x) such closing is to be rescheduled (such rescheduled date to be a Business Day during the Issuance Period not less than one Business Day and not more than 30 Business Days after such scheduled Private Shelf Closing Day (the “RESCHEDULED CLOSING DAY”)) and certify to such Purchaser that the Company reasonably believes that it will be able to comply with the conditions set forth in paragraph 3 on such Rescheduled Closing Day and that the Company will pay the Delayed Delivery Fee, if any, in accordance with paragraph 2H(2) or (y) such closing is to be cancelled as provided in paragraph 2H(3). In the event that the Company shall fail to give such notice referred to in the preceding sentence, such Purchaser may at its election, at any time after 1:00 P.M., New York City local time, on such scheduled Private Shelf Closing Day, notify the Company in writing that such closing is to be cancelled as provided in paragraph 2H(3). Notwithstanding anything to the contrary contained in this Agreement, the Company may not elect to reschedule a closing with respect to any given Accepted Notes on more than one occasion, unless Prudential shall have otherwise consented in writing which consent shall not be unreasonably denied.

2H. FEES.

2H(1). ISSUANCE FEE. On each Private Shelf Closing Day, the Company agrees to pay Prudential in immediately available funds a fee (the “ISSUANCE FEE”) in an amount equal to 0.10% of the aggregate principal amount of Notes sold on such Private Shelf Closing Day. The issuance Fee for the Series B Notes has been previously paid in full as agreed by the parties.

2H(2). DELAYED DELIVERY FEE. If the closing of the purchase and sale of any Accepted Note is delayed for any reason beyond the original Private Shelf Closing Day for such Accepted Note, the Company will pay to Prudential (a) on the Cancellation Date or actual closing date of such purchase and sale and (b) if earlier, the next Business Day following 90 days after the Acceptance Day for such Accepted Note and on each Business Day following 90 days after the prior payment hereunder, a fee (herein called the “DELAYED DELIVERY FEE”) calculated as follows:

(BEY - MMY) X DTS/360 X Full Price

where “BEY” means Bond Equivalent Yield, i.e., the bond equivalent yield per annum of such Accepted Note; “MMY” means Money Market Yield, i.e., the yield per annum on a commercial paper investment of the highest quality selected by Prudential on the date Prudential receives notice of the delay in the closing for such Accepted Notes having a maturity date or dates the same as, or closest to, the Rescheduled Closing Day or Rescheduled Closing Days (a new alternative investment being selected by Prudential each time such closing is delayed); “DTS” means Days to Settlement, i.e., the number of actual days elapsed from and including the original Private Shelf Closing Day with respect to such Accepted Note (in the case of the first such payment with respect to such Accepted Note) or from and including the date of the immediately preceding payment (in the case of any subsequent delayed delivery fee payment with respect to such Accepted Note) to but excluding the date of such payment; and “FULL PRICE” means the principal amount, i.e., the principal amount of the Accepted Note for which such calculation is being made. If the Delayed Delivery Fee is zero or negative, there will be no Delayed Delivery Fee. Nothing contained herein shall obligate any Purchaser to purchase any Accepted Note on any day other than the Private Shelf Closing Day for such Accepted Note, as the same may be rescheduled from time to time in compliance with paragraph 2G.

2H(3). CANCELLATION FEE. If the Company at any time notifies Prudential in writing that the Company is canceling the closing of the purchase and sale of any Accepted Note, or if Prudential notifies the Company in writing under the circumstances set forth in the last sentence of paragraph 2E or the penultimate sentence of paragraph 2G that the closing of the purchase and sale of such Accepted Note is to be canceled, or if the closing of the purchase and sale of such Accepted Note is not consummated on or prior to the last day of the Issuance Period (the date of any such notification, or the last day of the Issuance Period, as the case may be, being herein called the “CANCELLATION DATE”), the Company will pay Prudential in immediately available funds an amount (the “CANCELLATION FEE”) calculated as follows:

PI X Full Price

where “PI” means Price Increase, i.e., the quotient (expressed in decimals) obtained by dividing (a) the excess of the ask price (as determined by Prudential) of the Hedge Treasury Note(s) on the Cancellation Date over the bid price (as determined by Prudential) of the Hedge Treasury Note(s) on the Acceptance Day for such Accepted Note by (b) such bid price; and “FULL PRICE” has the meaning set forth in paragraph 2H(2), above. The foregoing bid and ask prices shall be as reported by Telerate Systems, Inc. (or, if such data for any reason ceases to be available through Telerate Systems, Inc., any publicly available source of similar market data selected by Prudential). Each price shall be based on a U.S. Treasury security having a par value of $100.00 and shall be rounded to the second decimal place. If the Price Increase is zero or negative, there will be no Cancellation Fee.

2H(4). STRUCTURING FEE. In consideration for the time, effort and expense involved in the preparation, negotiation and execution of this Agreement and the amendment of the Existing Agreement, the Company agrees to pay Prudential on the date of the execution of this Agreement in immediately available funds a fee (the “STRUCTURING FEE”) in the amount of $10,000.

3. CONDITIONS OF CLOSING. Prudential's and any Purchaser's obligation to purchase and pay for any Private Shelf Notes, is subject in each case to the satisfaction, on or before the applicable Closing Day for such Notes, of the conditions set forth in paragraph 3A.

3A(1). OPINION OF COMPANY'S COUNSEL. On the Initial Closing Day, Prudential shall have received from Robert C. Stinson, Esq., general counsel of the Company, a favorable opinion satisfactory to Prudential and substantially in the form of EXHIBIT D-1 attached hereto.

3A(2). OPINION OF COMPANY'S COUNSEL. On each Private Shelf Closing Day, each Purchaser shall have received from Robert C. Stinson, Esq., general counsel of the Company (or other counsel reasonably acceptable to the Purchasers), a favorable opinion satisfactory to the Purchasers and substantially in the form of EXHIBIT D-2 attached hereto.

3A(3). REPRESENTATIONS AND WARRANTIES; NO DEFAULT. The representations and warranties contained in paragraph 8 hereof shall be true on and as of the applicable Closing Day, except to the extent of changes caused by the transactions herein contemplated; there shall exist on the applicable Closing Day no Event of Default or Default; and the Company shall have delivered to each Purchaser an Officer's Certificate, dated the applicable Closing Day, to both such effects.

3A(4). FEES. On or before the Initial Closing Day, the Company shall have paid in full to Prudential the Structuring Fee required by paragraph 2H(4). On or before each Private Shelf Closing Day, the Company shall have paid in full to Prudential any Issuance Fee required by paragraph 2H(1) and to the Purchasers any Delayed Delivery Fee or Cancellation Fee required by paragraph 2H(2) or 2H(3).

3A(5). PURCHASE PERMITTED BY APPLICABLE LAWS. The purchase of and payment for the Notes to be purchased on the applicable Private Shelf Closing Day on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject any Purchaser to any material tax (other than ordinary income taxes), material penalty, material liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as such Purchaser may have requested no less than 5 days before any scheduled closing to establish compliance with this condition.

3A(6). LEGAL MATTERS. Counsel for the Purchasers shall be satisfied as to all legal matters in all material respects relating to such purchase and sale.

3A(7). PROCEEDINGS. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be reasonably satisfactory in substance and form to each Purchaser, and each Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3A(8). SALE OF NOTES OF SAME SERIES TO OTHER PURCHASERS. The Company shall have tendered to the other Purchasers (if any) the Notes of the same Series to be purchased by them at the closing.

4. PREPAYMENTS. The Notes shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and under the circumstances specified in paragraphs 4B and 4E.

4A. REQUIRED PREPAYMENT OF PRIVATE SHELF NOTES. Until each respective Series of Private Shelf Notes shall be paid in full, each respective Series of Private Shelf Notes shall be subject to such required prepayments, if any, as are specified for such Series of Private Shelf Notes in accordance with the provisions of paragraph 2C hereof. Any prepayment made by the Company pursuant to any other provision of this paragraph 4 shall not reduce or otherwise affect its obligation to make any prepayment as specified in the respective Series of Private Shelf Notes.

4B. OPTIONAL PREPAYMENT WITH YIELD-MAINTENANCE AMOUNT. Subject to the limitations set forth below, the Notes shall be subject to prepayment, in whole at any time or from time to time in part (in $100,000 increments and not less than $2,000,000 per occurrence), at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each Note so prepaid. Any partial prepayment of the Notes pursuant to this paragraph 4B shall be applied in satisfaction of required payments of principal in the inverse order of their scheduled due dates.

4C. NOTICE OF OPTIONAL PREPAYMENT. The Company shall give to the holder of each Note of a Series irrevocable written notice of any optional prepayment pursuant to paragraph 4B with respect to such Series not less than 30 days prior to the prepayment date, specifying (i) such prepayment date, (ii) the aggregate principal amount of the Notes of such Series to be prepaid on such date, (iii) the principal amount of the Notes of such holder to be prepaid on that date, and (iv) stating that such optional prepayment is to be made pursuant to paragraph 4B. Notice of optional prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, with respect thereto, shall become due and payable on such prepayment date.

4D. PARTIAL PAYMENTS PRO RATA. In the case of each prepayment pursuant to paragraphs 4A or 4B of less than the entire unpaid principal amount of all outstanding Notes of any Series, the amount to be prepaid shall be applied prorata to all outstanding Notes of such Series (including, for the purpose of this paragraph 4D only, all Notes of such Series prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates other than by prepayment pursuant to paragraphs 4A or 4B) according to the respective unpaid principal amounts thereof.

4E. RETIREMENT OF NOTES. The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than (i) by prepayment pursuant to paragraphs 4A or 4B or (ii) upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes held by any holder unless the Company or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of Notes held by each other holder of Notes at the time outstanding upon the same terms and conditions. Any Notes so prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement, except as provided in paragraph 4D. In the event that (i) the Company at any time requests in writing the approval by the holders of the Notes of a merger, acquisition, recapitalization or reorganization, the consummation of which would result in an Event of Default or Default hereunder, and (ii) the Required Holders shall have failed to grant such approval within ninety (90) days of the date of such written request, then the Company may, subject to the terms of the first sentence of this paragraph 4E and simultaneously with the consummation of such prohibited transaction, prepay the Notes of the nonconsenting holders at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to such Note within one hundred fifty (150) days of the date of the written request.

5. AFFIRMATIVE COVENANTS.

5A. FINANCIAL STATEMENTS. The Company covenants that it will deliver to each Significant Holder in triplicate:

(i) as soon as practicable and in any event within 60 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, consolidated statements of income, stockholders' equity and cash flows of the Company and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments; provided, however, that delivery (which may be by delivery of an electronic version or by providing notice and access to a version that may be downloaded from the Company's website) pursuant to clause (iii) below of copies of the Quarterly Report on Form lO-Q of the Company for such quarterly period filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this clause (i);

(ii) as soon as practicable and in any event within 120 days after the end of each fiscal year, consolidated statements of income, stockholders' equity, and cash flows of the Company and its Subsidiaries for such year, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in form to the Required Holder(s) and, reported on by independent public accountants of recognized national standing selected by the Company whose report shall be without limitation as to scope of the audit and satisfactory in substance to the Required Holder(s); provided, however, that delivery (which may be by delivery of an electronic version or by providing notice and access to a version that may be downloaded from the Company's website) pursuant to clause (iii) below of copies of the Annual Report on Form 10-K of the Company for such fiscal year filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this clause (ii);

(iii) promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its public stockholders and copies of all registration statements (without exhibits) and all reports which it files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission), excluding registration statements on Form S-8; provided, however, that the delivery requirement with respect to any such financial statements, proxy statements, notices and reports may be satisfied by delivery of an electronic version or by providing notice and access to a version that may be downloaded from the Company's website;

(iv) promptly upon receipt thereof, a copy of each other report submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company or any Subsidiary; and

(v) with reasonable promptness, such other financial data as such Significant Holder may reasonably request.

Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to each Significant Holder an Officer's Certificate demonstrating (with computations in reasonable detail) compliance by the Company and its Subsidiaries with the provisions of paragraph 6 and stating that, to the best of their knowledge based upon reasonable inquiry, there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to each Significant Holder a report of such accountants stating that, in making the audit necessary for their report on such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature and period of existence thereof. Such accountants, however, shall not be liable to anyone by reason of their failure to obtain knowledge of any Event of Default or Default which would not be disclosed in the course of an audit conducted in accordance with generally accepted auditing standards.

The Company also covenants that immediately after any Responsible Officer obtains knowledge of an Event of Default or Default, it will deliver to each Significant Holder an Officer's Certificate specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto.

5B. INFORMATION REQUIRED BY RULE 144A. The Company covenants that it will, upon the request of the holder of any Note, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act. For the purpose of this paragraph 5B, the term “qualified institutional buyer” shall have the meaning specified in Rule 144A under the Securities Act.

5C. INSPECTION OF PROPERTY. The Company covenants that it will permit any Person designated by any Significant Holder in writing, at such Significant Holder's expense, to visit and inspect any of the properties of the Company and its Subsidiaries, to discuss the affairs, finances and accounts of any of such corporations with the principal officers of the Company and its independent public accountants and, if a Default or Event of Default shall be continuing, to examine the corporate books and financial records of the Company and its Subsidiaries and obtain copies thereof or extracts therefrom, all at such reasonable times as the Company and such Significant Holder shall agree but in any event within three Business Days from request of any Purchaser and during normal business hours.

5D. COVENANT TO SECURE NOTES EQUALLY. The Company covenants that, if it or any Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens permitted by the provisions of paragraph 6B(1) (unless the prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), it will make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Debt thereby secured so long as any such other Debt shall be so secured.

5E. MAINTENANCE OF INSURANCE. The Company covenants that it and each Subsidiary shall maintain, with financially sound and reputable insurers, insurance in such amounts and against such liabilities and hazards as is ordinarily carried by companies similarly situated in the same or similar lines of business.

5F. COMPLIANCE WITH LAWS. Without limited Paragraph 6B(11), the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that noncompliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

5G. PAYMENT OF TAXES AND CLAIMS. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent the same have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, *provided* that neither the Company nor any Subsidiary need file any such return or pay any such tax, assessment, charge, levy or claim if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the failure to file such return or the nonpayment of all such taxes, assessments, charges, levies and claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

5H. EXCESS LEVERAGE FEE. Without limiting the Company's obligations under paragraph 6A(2) hereof:

(i) If the Leverage Ratio is greater than (A) from March 31, 2019 through March 30, 2020, 4.00 to 1.00 or (B) from and after March 31, 2020, 3.75 to 1.00 as of the last day of any fiscal quarter as reflected on the compliance certificate for such fiscal quarter (or, in the case of the fourth fiscal quarter of a fiscal year, such fiscal year) required by paragraph 5A during a Leverage Ratio Step-Up Period, then, in addition to the interest accruing on the Notes, the Company agrees to pay to each holder of a Note a fee (an "ACQUISITION EXCESS LEVERAGE FEE") computed on the daily average outstanding principal amount of such Notes during the fiscal quarter immediately succeeding such fiscal quarter (such succeeding fiscal quarter, an "APPLICABLE QUARTER") at a rate of 1.25% per annum. The Acquisition Excess Leverage Fee with respect to each Note for any period during which such fee accrues shall be calculated on the same basis as interest on such Note is calculated and shall be paid in arrears within three Business Days after the earlier of (A) the date the financial statements and related compliance certificate for such fiscal quarter (or, in the case of the fourth fiscal quarter of a fiscal year, such fiscal year) are delivered pursuant to paragraph 5A and (B) the date such financial statements and related compliance certificate are required to be delivered pursuant to paragraph 5A. The payment and acceptance of any Acquisition Excess Leverage Fee shall not constitute a waiver of any Default or Event of Default. If for any reason the Company fails to deliver the financial statements required by paragraph 5A(i) or 5A(ii) hereof or the related compliance certificate required by paragraph 5A hereof for a fiscal quarter or fiscal year for which the Leverage Ratio Step-Up Period is in effect by the date such financial statements and compliance certificate are required to be delivered, then the Company shall be deemed to have a Leverage Ratio as of the end of such fiscal quarter or fiscal year of greater than 4.00 to 1.00 solely for the purposes of this paragraph 5H(i).

(ii) Without limiting the provisions of paragraph 5H(i), (A) during the period from January 1, 2018 through December 31, 2018 (the "INITIAL PERIOD") and (B) during each fiscal quarter thereafter for which the Leverage Ratio is greater than or equal to 2.00 to 1.00 as of the last day of any fiscal quarter as reflected on the compliance certificate for such fiscal quarter (or, in the case of the fourth fiscal quarter of a fiscal year, such fiscal year) required by paragraph 5A, (each such fiscal quarter being an "ADDITIONAL FISCAL QUARTER" and, together with the Initial Period, each an "APPLICABLE PERIOD") in addition to the interest accruing on the Notes, the Company agrees to pay to each holder of a Note a fee (an "ADDITIONAL EXCESS LEVERAGE FEE"; the Additional Excess Leverage Fee and the Acquisition Excess Leverage Fee are collectively referred to herein as the "EXCESS LEVERAGE FEE") computed on the daily average outstanding principal amount of such Notes during (x) the Initial Period at the rate per annum equal to 1.25% and (y) any Additional Fiscal Quarter at the rate per annum as set forth in the table below:

Leverage Ratio	**Additional Excess Leverage Fee**
Greater than or equal to 3.50 to 1.00	1.25%
Greater than or equal to 3.00 to 1.00 and less than 3.50 to 1.00	0.50%
Greater than or equal to 2.00 to 1.00 and less than 3.00 to 1.00	0.25%

The Additional Excess Leverage Fee with respect to each Note for any Applicable Period shall be calculated on the same basis as interest on such Note is calculated and shall be paid in arrears within three Business Days after (I) with respect to the Initial Period, the end of each fiscal quarter ending during the Initial Period and (II) with respect to each Additional Fiscal Quarter, upon the earlier of (A) the date the financial statements and related compliance certificate for such fiscal quarter (or, in the case of the fourth fiscal quarter of a fiscal year, such fiscal year) are delivered pursuant to paragraph 5A and (B) the date such financial statements and related compliance certificate are required to be delivered pursuant to paragraph 5A. The payment and acceptance of any Additional Excess Leverage Fee shall not constitute a waiver of any Default or Event of Default. If for any reason the Company fails to deliver the financial statements required by paragraph 5A(i) or 5A(ii) hereof or the related compliance certificate required by paragraph 5A hereof for a fiscal quarter or fiscal year by the date such financial statements and compliance certificate are required to be delivered, then the Company shall be deemed to have a Leverage Ratio as of the end of such fiscal quarter or fiscal year of greater than 3.50 to 1.00 solely for the purposes of this paragraph 5H(ii).

6. NEGATIVE COVENANTS. Unless the Required Holders shall otherwise consent in writing, the Company agrees to observe and perform each of the negative covenants set forth below so long as any Note shall remain outstanding.

6A(1). INTEREST COVERAGE RATIO. The Company shall not suffer or permit at any time the Interest Coverage Ratio to be less than 3.00 to 1.00.

6A(2). LEVERAGE RATIO. The Company shall not suffer or permit at any time the Leverage Ratio to exceed the lesser of (i) the maximum amount then permitted pursuant to any Material Indebtedness Agreement and (ii)(A) 4.25 to 1.00 from the Amendment (2018) Effective Date through March 30, 2019, (B) 4.00 to 1.00 from March 31, 2019 through March 30, 2020, and (C) 3.75 to 1.00 from March 31, 2020 and thereafter. Notwithstanding the foregoing, during any Leverage Ratio Step-Up period, the applicable ratio set forth in clauses (ii)(B) and (ii)(C) above shall increase by 0.25 to 1.00 so long as the Credit Agreement includes a substantially similar ability to increase the maximum permitted leverage ratio contained therein on account of a Material Acquisition Event.

6A(3). [RESERVED]

6B. CREDIT AND OTHER RESTRICTIONS. The Company covenants that it will not and will not permit any Subsidiary to:

6B(1). LIEN RESTRICTIONS. Create, incur, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired (whether or not provision is made for the equal and ratable securing of Notes in accordance with the provisions of paragraph 5D hereof), except:

(i) Liens for taxes or other governmental charges not yet due or which are being actively contested in good faith by appropriate proceedings;

(ii) Liens incidental to the conduct of its business or the ordinary operation or use of its property which were not incurred in connection with the borrowing of money or obtaining credit or advances;

(iii) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to the Company or another Subsidiary;

(iv) Liens identified on EXHIBIT G to the Existing Agreement a copy of which is attached hereto;

(v) Liens relating to the ledger balances, consignments, and other similar arrangements and other Liens (including Liens consisting of Capitalized Lease Obligations and/or purchase money security interests) to secure Debt, provided that (x) the Debt to which the Lien relates is permitted by paragraph 6B(2) and (y) the aggregate amount of Debt (plus, without duplication, the aggregate amount of such ledger balances, consignments and other similar arrangements) secured by such Liens does not exceed at any time $75,000,000;

(vi) Liens consisting of survey exceptions, minor encumbrances, easements and rights of way, or zoning or other restrictions as to the use of real properties; provided, however, that such

Liens in the aggregate do not materially impair the usefulness of such property in the business of the Company and its Subsidiaries, taken as a whole;

(vii) pledges or deposits in the ordinary course of business in connection with (A) workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA, and (B) public utility services provided to the Company or a Subsidiary;

(viii) deposits to secure the performance of bids, trade contracts and leases (other than Debt), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(ix) Liens securing judgments for the payment of money not constituting an Event of Default under paragraph 7A(xii) hereof;

(x) Liens (A) of a collecting bank arising under Section 4-210 of the Uniform Commercial Code on items in the course of collection, and (B) in favor of a banking institution arising as a matter of law encumbering deposits (including the right of setoff) that are customary in the banking industry;

(xi) any interest or title of a lessor, sublessor, licensor or sublicensor under leases or licenses permitted by this Agreement that are entered into in the ordinary course of business;

(xii) leases, licenses, subleases or sublicenses granted to others in the ordinary course of business that do not (A) interfere in any material respect with the ordinary conduct of the business of the Company and its Subsidiaries, or (B) secure any Debt; and

(xiii) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods in the ordinary course of business.

Except for guaranties permitted or contemplated by paragraph 6B(10) or with respect to banker's liens arising by operation of law or pledges of cash collateral to secure a defaulting lender's letter of credit funding obligations under the Credit Agreement (so long as, in the case of such banker's liens and cash collateral pledges, the Company is in compliance with clause (v) of this paragraph 6B(1), with the amount of Debt secured by such banker's liens and cash collateral pledges being equal, for the purpose of determining compliance with such clause (v), to the lesser of (A) the value of assets subject to such banker's liens and cash collateral pledges or (B) the outstanding amount of the Debt as to which such banker's liens or cash collateral pledges may be exercised), neither the Company nor any Subsidiary is permitted to create, incur, assume or suffer to exist any Lien upon any property or assets to secure any obligations under the Credit Agreement.

6B(2). DEBT RESTRICTION. Create, incur, assume or suffer to exist any Debt, except:

(i) Debt in existence on March 28, 1996;

(ii) Debt of any Subsidiary to the Company or to any other Subsidiary; and

(iii) additional Debt of the Company and/or any Subsidiary subject to the proviso set forth below;

provided, however, (x) that the aggregate principal amount of consolidated Debt of the Company and its Subsidiaries shall not exceed at any time an amount equal to 70% of Consolidated Capitalization and (y) Priority Debt shall not exceed at any time an amount equal to 20% of Consolidated Net Worth.

6B(3). LOANS, ADVANCES AND INVESTMENTS. Make or permit to remain outstanding loans or advances to, or own, purchase or acquire any stock obligations or securities of, or any other interest in, or make any capital contributions to, any Person (collectively, "INVESTMENTS"), except that the Company or any Subsidiary may:

(i) make or permit to remain outstanding loans or advances to any Subsidiary;

(ii) own, purchase or acquire stock, obligations or securities of a Subsidiary or of a corporation which immediately after such purchase or acquisition will be a Subsidiary;

(iii) acquire and own (a) stock of the Company so long as no Default or Event of Default exists after giving effect to the acquisition thereof and (b) stock, obligations or securities received in settlement of debts (created in the ordinary course of business) owing to the Company or any Subsidiary;

(iv) own, purchase or acquire prime commercial paper, banker's acceptances and certificates of deposit in the United States and Canadian commercial banks (having capital resources in excess of $100 million U.S.), repurchase agreements with respect to the foregoing, in each case due within one year from the date of purchase and payable in the United States in United States dollars, obligations of the United States Government or any agency thereof, and obligations guaranteed by the United States Government;

(v) make or permit to remain outstanding relocation, travel and other like advances to officers and employees in the ordinary course of business;

(vi) permit to remain outstanding Investments existing on March 28, 1996; and

(vii) make other Investments not in excess of 20% of Consolidated Net Worth.

6B(4). DISPOSITION OF CERTAIN ASSETS. Sell, lease, transfer or otherwise dispose of any assets of the Company or any Subsidiary other than in an Excluded Transfer, unless the net book value of the assets sold, leased, transferred or otherwise disposed of outside of the ordinary course of business in the then most recent 24 month period together with the net book value of any assets then proposed to be sold, leased, transferred or otherwise disposed of outside of the ordinary course of business do not exceed 30% of Consolidated Net Worth. For purposes of this paragraph and paragraph 6B(2), a sale of the Company's or its Subsidiaries' receivables in connection with financing of the Company or any of its Subsidiaries under a securitization program shall be deemed to constitute Debt of the Company or any such Subsidiary and not a sale of assets

6B(5). SALE OF STOCK AND DEBT OF SUBSIDIARIES. Sell or otherwise dispose of, or part with control of, any shares of stock or debt of any Subsidiary, except to the Company or any Subsidiary, and except that all shares of stock and debt of any Subsidiary at the time owned by or owed to the Company and all Subsidiaries may be sold as an entirety for fair market value (as determined in good faith by the Board of Directors of the Company) provided that the net book value of the assets of such Subsidiary, together with the net book value of the assets of the Company and any other Subsidiaries sold during the then most recent 24 month period do not exceed 30% of Consolidated Net Worth.

6B(6). MERGER AND CONSOLIDATION. Merge with or consolidate into any other company, except (i) Subsidiaries may be merged into the Company, (ii) the Company may merge with another entity provided that the Company is the surviving corporation and no Default or Event of Default under this Agreement would exist after giving effect to the merger or as a result thereof, (iii) any Subsidiary may be merged with or into another corporation provided that the surviving corporation is a Subsidiary (in the case of a merger that does not involve the Company) or the Company and no Default or Event of Default would exist after giving effect to the merger or as a result thereof, or (iv) the Company may be merged into a Subsidiary or a newly created entity organized under the laws of any state of the United States which has conducted no previous business and at the time of such merger shall have no liabilities, if, in either case, the surviving corporation assumes the obligations of the Company under the Notes in a manner reasonably satisfactory to the Required Holders of the Notes and no Default or Event of Default shall exist after giving effect to the merger or as a result thereof.

6B(7). SALE OR DISCOUNT OF RECEIVABLES. Sell with recourse, discount or pledge any of its notes receivable or accounts receivable other than receivables sold constituting Debt under clause (vii) of the definition thereof provided that (i) the aggregate face amount of all such receivables sold shall not exceed $200,000,000, and (ii) after giving effect to such sale, the Company is in compliance with paragraph 6B(2).

6B(8). LEASE OBLIGATIONS. Lease real property or personal property (excluding data processing equipment, vehicles, and other equipment leased in the ordinary course of business) for terms exceeding three years if after giving effect thereto the aggregate amount of all payments in any fiscal year payable by the Company and its Subsidiaries would exceed an aggregate of 15% of Consolidated Net Worth.

6B(9). RESTRICTED TRANSACTIONS. Deal directly or indirectly with an Affiliate, any Person related by blood, adoption, or marriage to any Affiliate or any Person owning 5% or more of the Company's stock, provided that (i) the Company may deal with such Persons in the ordinary course of business at arm's length, (ii) the Company may make loans or advances to officers permitted by paragraph 6B(3) and (iii) in addition to the foregoing, so long as the stock of the Company is publicly held, the Company may deal with such Persons so long as the aggregate amount of such transactions does not exceed $3,000,000 in any fiscal year.

6B(10). OTHER SUBSIDIARY GUARANTIES. The Company covenants that it will not permit any Subsidiary organized under the laws of the United States or any state thereof (a "U.S. SUBSIDIARY") to create, issue, incur, assume or become subject to or liable under any guarantee with respect to any Material Indebtedness Agreement unless such U.S. Subsidiary promptly executes and delivers to the holders of the Notes a Guaranty of Payment of Debt substantially in the form of Exhibit I hereto. Notwithstanding the foregoing, the Company covenants that it will not permit any Subsidiary to create, issue, incur, assume or become subject to or liable under any guarantee with respect to the Credit Agreement unless such Subsidiary promptly executes and delivers to the holders of the Notes a Guaranty of Payment of Debt substantially in the form of Exhibit I hereto; provided, however, that the foregoing shall not apply to any guaranty created, issued, incurred or assumed by a Subsidiary organized under the laws of a jurisdiction other than the United States or any state thereof (a "NON-U.S. SUBSIDIARY") in respect of Debt incurred by any other Non-U.S. Subsidiary pursuant to the Credit Agreement so long as such Non-U.S. Subsidiary that creates, issues, incurs or assumes such guaranty has not also created, issued, incurred or assumed a guaranty in respect of Debt incurred by the Company or any U.S. Subsidiary pursuant to the Credit Agreement.

6B(11). TERRORISM SANCTIONS REGULATIONS. The Company will not and will not permit any Controlled Entity (i) to become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or any Person that is the target of sanctions imposed by the United Nations or by the European Union, or (ii) directly or indirectly to have any investment in or engage in any dealing or transaction (including, without limitation, any investment, dealing or transaction involving the proceeds of the Notes) with any Person if such investment, dealing or transaction (a) would cause any holder to be in violation of any law or regulation applicable to such holder, or (b) is prohibited by or subject to sanctions under any U.S. Economic Sanctions, or (iii) to engage, nor shall any Affiliate of either engage, in any activity that could subject such Person or any holder to sanctions under the Comprehensive Iran Sanctions, Accountability and Divestment Act or any similar law or regulation with respect to Iran or any other country that is subject to U.S. Economic Sanctions.

6B(12). OTHER COVENANTS. In the event that the Company or any of its Subsidiaries shall enter into, or shall have entered into, any Material Indebtedness Agreement, wherein the covenants contained therein shall be more restrictive than the covenants set forth herein, then the Company and its Subsidiaries shall be bound hereunder by such more restrictive covenants with the same force and effect as if such covenants were written herein; *provided, however* that the mandatory prepayments set forth in Section 2.12(c) of the Credit Agreement (as in effect on the Amendment (2018) Effective Date) shall not be considered covenants for the purposes of this paragraph 6B(12).

6B(13). ACQUISITIONS. Effect an Acquisition; *provided* that the Company or a Subsidiary may effect (a) the FCX Acquisition on the Amendment (2018) Effective Date, and (b) any other Acquisition so long as:

(i) in the case of an Acquisition that involves a merger, amalgamation or other combination with the Company, the Company shall be the surviving entity;

(ii) in the case of an Acquisition that involves a merger, amalgamation or other combination with any Subsidiary that has provided a Guaranty of Payment of Debt, such Subsidiary shall be the surviving entity;

(iii) the Company and the Subsidiaries shall be in full compliance with this Agreement, the Notes and each Guaranty of Payment of Debt both prior to and after giving pro forma effect to such Acquisition; and

(iv) no Default or Event of Default shall exist prior to or, after giving pro forma effect to such Acquisition, thereafter shall begin to exist.

6B(14). RESTRICTED PAYMENTS. Make or commit itself to make any Capital Distribution at any time, except that (i) the Company may declare and pay dividends with respect to its equity interests payable solely in additional shares of its common stock, (ii) Subsidiaries may declare and pay dividends ratably with respect to their equity interests, (iii) the Company may make Capital Distributions pursuant to and in accordance with stock option plans or other benefit plans for management or employees of the Company and its Subsidiaries, (iv) the Company and each Subsidiary may pay withholding or similar taxes payable by any future, present or former employee, director or officer (or any spouses, former spouses, successors, executors, administrators, heirs, legatees or distributees of any of the foregoing) in connection with any repurchases of equity interests or the exercise of stock options, and (v) the Company may make other Capital Distributions so long as no Default or Event of Default shall then exist or, after giving pro forma effect to such payment, thereafter shall begin to exist.

7. EVENTS OF DEFAULT.

7A. ACCELERATION. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal of, or Yield-Maintenance Amount payable with respect to, any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) the Company defaults in the payment of any interest on or Excess Leverage Fee payable with respect to any Note for more than five (5) days after the date due; or

(iii) (A) (1) the Company or any Subsidiary defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (including any obligation under a conditional sale or other title retention agreement entered into as a means of acquiring the subject property, any obligation issued or assumed as full or partial payment for property if secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto, or (2) the Company or any Subsidiary fails to perform or observe any other agreement, term or condition contained in any agreement under which any of the foregoing obligations are issued or created (or if any other event thereunder or under any such agreement shall occur and be continuing), and the effect of such default under clause (1) above or failure or event under clause (2) above is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due (or to be repurchased by the Company or any Subsidiary) prior to any stated maturity, provided that the aggregate amount of all obligations as to which such a payment default shall occur and be continuing or such a failure or other event causing or permitting acceleration (or resale to the Company or any Subsidiary) shall occur and be continuing exceeds $30,000,000; or (B) the Company or any Subsidiary fails to perform or observe any term or condition of any agreement or lease (other than those specified in clause (A) of this paragraph 7A(iii)) beyond any applicable grace period with respect thereto (or if any other event thereunder shall occur and be continuing beyond any applicable grace period), if the effect of such failure or event is to cause, or permit the holder or holders of such obligation (or trustee on behalf of such holder or holders) to cause, such obligation to become due prior to any stated maturity or require the repurchase, redemption or defeasance of such obligation, provided that the aggregate amount of all obligations as to which such failure or other event causing or permitting acceleration or requiring the repurchase, redemption or defeasance shall exceed $30,000,000; or

(iv) any representation or warranty made by the Company herein or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement contained in paragraph 6; or

(vi) the Company fails to perform or observe any other agreement, term or condition contained herein and such failure shall not be remedied within 30 days after any Responsible Officer obtains actual knowledge thereof; or

(vii) the Company or any Material Subsidiary makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(viii) any decree or order for relief in respect of the Company or any Material Subsidiary is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the "Bankruptcy Law"), of any jurisdiction; or

(ix) the Company or any Material Subsidiary petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company or any Material Subsidiary, or of any substantial part of the assets of the Company or any Material Subsidiary, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Material Subsidiary) relating to the Company or any Material Subsidiary under the Bankruptcy Law of any other jurisdiction; or

(x) any such petition or application is filed, or any such proceedings are commenced, against the Company or any Material Subsidiary and the Company or such Material Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 30 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) any one or more unpaid or unsatisfied judgments or decrees in excess of $30,000,000 in the aggregate at any one time outstanding is entered against the Company and/or its Subsidiaries, excluding those judgments or decrees (A) that shall have been stayed, vacated or bonded, (B) which are not final and non-appealable, provided that the Company or such Subsidiary is contesting any such judgment or decree in good faith and by appropriate proceedings diligently pursued,(C) for and to the extent the Company or any Subsidiary is insured and with respect to which the insurer specifically has assumed responsibility in writing therefor, (D) for and to the extent the Company or any Subsidiary are otherwise indemnified if the terms of such indemnification are satisfactory to the Required Holders or (E) that have been outstanding for less than 60 days; or

(xiii) (A) the validity, binding effect or enforceability of this Agreement, any Note or any Guaranty of Payment of Debt against the Company or any Subsidiary party to a Guaranty of Payment of Debt shall be contested by the Company or any such Subsidiary; (B) the Company or any Subsidiary party to a Guaranty of Payment of Debt shall deny that it has any further liability or obligation thereunder; or (C) this Agreement, any Note or any Guaranty of Payment of Debt shall be terminated, invalidated or set aside, or be declared ineffective or inoperative or in any way cease to give or provide to be holders of the Notes the material benefits purported to be created thereby, in any such case except in accordance with its terms; or

(xiv) [RESERVED];

(xv) a Change in Control shall occur; or

(xvi) (A) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (B) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (C) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed an amount that could reasonably be expected to have a Material Adverse Effect, (D) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (E) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (F) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (A) through (F) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect. As used in this Paragraph 7A (xvi), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in section 3 of ERISA;

then (a) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, the holder of any Note (other than the Company or any of its Subsidiaries or Affiliates) may at its option, by notice in writing to the Company, declare such Note to be, and such Note shall thereupon be and become, immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, (b) if such event is an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A with respect to the Company, all of the Notes at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, and (c) if such event is not an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A with respect to the Company, the Required Holder(s) of any Series of Notes may at its or their option, by notice in writing to the Company, declare all of the Notes of such Series to be, and all of the Notes of such Series shall thereupon be and become, immediately due and payable together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note of such Series, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company, provided that the Yield-Maintenance Amount, if any, with respect to each Note of such Series shall be due and payable upon such declaration only if (x) such event is an Event of Default specified in any of clauses (i) to (vi),inclusive, or (xi) or (xii) of this paragraph 7A, (y) the Required Holders of such Series shall have given to the Company, at least 10 Business Days before such declaration, written notice stating its or their intention so to declare the Notes of such Series to be immediately due and payable and identifying one or more such Events of Default whose occurrence on or before the date of such notice permits such declaration, and (z) one or more of the Events of Default so identified shall be continuing at the time of such declaration.

7B. RESCISSION OF ACCELERATION. At any time after any or all of the Notes of a Series shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holder(s) of such Series may, by notice in writing to the Company, rescind and annul such declaration and its consequences if (i) the Company shall have paid all overdue interest on the Notes of such Series, the principal of and Yield-Maintenance Amount, if any, payable with respect to any Notes of such Series which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield-Maintenance Amount at the rate specified in the Notes of such Series, (ii) the Company shall not have paid any amounts which have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of such declaration, shall have been cured or waived pursuant to paragraph 11C, and (iv) no judgment or decree shall have been entered for the payment of any amounts due pursuant to the Notes of such Series or this Agreement (as this Agreement pertains to the Notes of such Series). No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. NOTICE OF ACCELERATION OR RESCISSION. Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Company shall forthwith give written notice thereof to the holder of each Note at the time outstanding.

7D. OTHER REMEDIES. If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon the holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

8. REPRESENTATIONS, COVENANTS AND WARRANTIES. The Company represents, covenants and warrants as follows:

8A. ORGANIZATION. The Company is a corporation duly organized and existing in good standing under the laws of the State of Ohio, each Subsidiary is a corporation or other legal entity existing and in good standing under the laws of the jurisdiction in which it is incorporated or organized, and the Company has and each Subsidiary has the corporate or other power to own its respective property and to carry on its respective business as now being conducted. The names and jurisdictions of incorporation of each Subsidiary are set forth on <u>Exhibit F</u> attached hereto.

8B. FINANCIAL STATEMENTS. The Company has furnished Prudential and each Purchaser of any Accepted Notes with the following financial statements, identified by a principal financial officer of the Company: (i) a consolidated balance sheet of the Company and its Subsidiaries as of the last day in each of the five fiscal years of the Company most recently completed prior to the date as of which this representation is made or repeated to such Purchaser (other than fiscal years completed within 120 days prior to such date for which audited financial statements have not been released) and a consolidated statement of income, stockholders' equity and statement of cash flows of the Company and its Subsidiaries for each such year, all certified by Deloitte & Touche LLP (or such other independent public accountants of recognized national standing selected by the Company or other accounting firm as may be reasonably acceptable to such Purchaser); and (ii) a consolidated balance sheet of the Company and its Subsidiaries as at the end of the quarterly period (if any) most recently completed prior to such date and after the end of such fiscal year (other than quarterly periods completed within 60 days prior to such date for which financial statements have not been released) and the comparable quarterly period in the preceding fiscal year and consolidated statements of income, stockholders' equity and cash flows of the Company and its Subsidiaries for the periods from the beginning of the fiscal years in which such quarterly periods are included to the end of such quarterly periods, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income and statements of cash flows fairly present the results of the operations of the Company and its Subsidiaries for the periods indicated. There has been no material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole since the end of the most recent fiscal year for which such audited financial statements have been furnished.

8C. ACTIONS PENDING. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary or any properties or rights of the Company or any Subsidiary, by or before any court, arbitrator or administrative or governmental body which could be reasonably expected to result in any material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

8D. OUTSTANDING DEBT. Neither the Company nor any Subsidiary has any Debt outstanding except as permitted by paragraph 6B(2). There exists no payment default or other default in any material respect under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

8E. TITLE TO PROPERTIES. To the best knowledge of the Responsible Officers based upon reasonable inquiry, the Company has, and each Subsidiary has, good and indefeasible title to its respective real properties (other than properties which it leases) and good title to all of its other properties and assets, including the properties and assets reflected in the most recent audited balance sheet referred to in paragraph 8B (other than properties and assets disposed of in the ordinary course of business or in compliance with paragraph 6B(4), provided, that in connection with the making of this representation in connection with the issuance of any Series of Private Shelf Notes, any such dispositions outside of the ordinary course shall have been disclosed to Prudential in the applicable Request for Purchase), subject to no Lien of any kind except Liens permitted by paragraph 6B(1). The Company and each Subsidiary enjoys peaceful and undisturbed possession of all leases necessary in any material respect for the conduct of their respective businesses, none of which contains any unusual or burdensome provisions which could be reasonably expected to materially affect or impair the operation of such businesses. All such leases are valid and subsisting and are in full force and effect.

8F. TAXES. To the best knowledge of the Responsible Officers based upon reasonable inquiry, the Company has, and each Subsidiary has, filed all Federal, State and other income tax returns which are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles.

8G. CONFLICTING AGREEMENTS AND OTHER MATTERS. Neither the execution nor delivery of this Agreement or the Notes, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries (other than Liens permitted by this Agreement) pursuant to, the charter or code of regulations of the Company or any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with stockholders), nor to the best of the Responsible Officers' knowledge based upon reasonable inquiry, any instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any of its Subsidiaries is a party to, or otherwise subject to any provision contained in, any instrument evidencing indebtedness of the Company or any of its Subsidiaries, any agreement relating thereto or any other contract or agreement (including its charter) which limits the amount of, or otherwise imposes restrictions on the incurring of, indebtedness of the Company of the type to be evidenced by the Notes except as set forth in the agreements listed in EXHIBIT E attached hereto (as such EXHIBIT E may have been modified from time to time by written supplements thereto delivered by the Company and accepted in writing by Prudential).

8H. OFFERING OF NOTES. Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than Institutional Investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the registration provisions of any securities or Blue Sky law of any applicable jurisdiction.

8I. USE OF PROCEEDS. The proceeds of the sale of any Private Shelf Notes will be used for the purposes stated in the relevant Request for Purchase. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any “margin stock” as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called “margin stock”) or for the purpose of maintaining, reducing or retiring any indebtedness which was originally incurred to purchase or carry any stock that is then currently a margin stock or for any other purpose which might constitute the purchase of such Notes transaction a “purpose credit” within the meaning of such Regulation U, unless the Company shall have delivered to the Purchaser which is purchasing such Notes, on the Private Shelf Closing Day for such Notes an opinion of counsel satisfactory to such Purchaser stating that the purchase of such Notes does not constitute a violation of such Regulation U. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation T, Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934, as amended, in each case as in effect now or as the same may hereafter be in effect. The Company is not a Person described in Section 1 of the Anti-Terrorism Order and none of the proceeds from the issuance of the Notes will, to the Company's knowledge, directly or indirectly, be transferred to or used for the benefit of any such Person.

8J. ERISA. No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Plan (other than a Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. Neither the Company, any Subsidiary or any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the Company and its Subsidiaries taken as a whole. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to the prohibitions of, section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of each Purchaser's representation in paragraph 9B.

8K. GOVERNMENTAL CONSENT. Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions of this Agreement.

8L. ENVIRONMENTAL COMPLIANCE. To the best knowledge of the Responsible Officers based upon reasonable inquiry, the Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all applicable federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations relating to protection of the environment except, in any such case, where failure to comply would not result in a material adverse effect on the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole or the ability of the Company to perform its obligations under this Agreement.

8M. HOSTILE TENDER OFFERS. None of the proceeds of the sale of any Notes will be used to finance a Hostile Tender Offer.

8N. DISCLOSURE. Neither this Agreement nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future can be reasonably expected to (so far as the Company can now reasonably foresee) materially adversely affect the business, property or assets, or financial condition of the Company and its Subsidiaries taken as a whole and which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to the Purchasers by the Company prior to the date hereof in connection with the transactions contemplated hereby

8O. SECTION 144A. The Notes are not of the same class as securities, if any, of the Company listed on a national securities exchange registered under Section 6 of the Exchange Act or quoted in a U.S. automated inter-dealer quotation system.

8P. FOREIGN ASSETS CONTROL REGULATIONS, ETC.

(1) Neither the Company nor any Controlled Entity (i) is a Blocked Person, (ii) has been notified that its name appears or may in the future appear on a State Sanctions List or (iii) is a target of sanctions that have been imposed by the United Nations or the European Union.

(2) Neither the Company nor any Controlled Entity (i) has violated, been found in violation of, or been charged or convicted under, any applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws or (ii) to the Company's knowledge, is under investigation by any Governmental Authority for possible violation of any U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws.

(3) No part of the proceeds from the sale of the Notes hereunder:

(i) constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used by the Company or any Controlled Entity, directly or indirectly, (1) in connection with any investment in, or any transactions or dealings with, any Blocked Person, (2) for any purpose that would cause any Purchaser to be in violation of any U.S. Economic Sanctions Laws or (3) otherwise in violation of any U.S. Economic Sanctions Laws;

(ii) will be used, directly or indirectly, in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Money Laundering Laws; or

(iii) will be used, directly or indirectly, for the purpose of making any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would be in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Corruption Laws.

(4) The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws and Anti-Corruption Laws.

9. REPRESENTATIONS OF THE PURCHASERS.

Each Purchaser represents as follows:

9A. NATURE OF PURCHASE. Such Purchaser is not acquiring the Notes to be purchased by it hereunder with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act, provided that the disposition of such Purchaser's property shall at all times be and remain within its control.

9B. SOURCE OF FUNDS. At least one of the following statements is an accurate representation as to each source of funds (a "SOURCE") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(i) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("PTE") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC ANNUAL STATEMENT")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(ii) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(iii) the Source is either (a) an insurance company pooled separate account, within the meaning of PTE 90-1 or (b) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (iii), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(iv) the Source constitutes assets of an "investment fund" (within the meaning of Part VI of PTE 84-14 (the "QPAM EXEMPTION")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan's assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be "related" within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (iv); or

(v) the Source constitutes assets of a "plan(s)" (within the meaning of Part IV(h) of PTE 96-23 (the "INHAM EXEMPTION")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (v); or

(vi) the Source is a governmental plan; or

(vii) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (vii); or

(viii) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this paragraph 9B, the terms "employee benefit plan", "governmental plan", and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

10. DEFINITIONS. For the purpose of this Agreement, the terms defined in paragraphs 1 and 2 shall have the respective meanings specified therein, and the following terms shall have the meanings specified with respect thereto below:

10A. YIELD-MAINTENANCE TERMS.

"CALLED PRINCIPAL" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4B or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"DESIGNATED SPREAD" shall mean (i) 0% with respect to the Series A Notes, (ii) 0.50% with respect to the Series B Notes and Series C Notes and (iii) unless otherwise specified in the Confirmation of Acceptance with respect thereto, 0.50% for any other Series of Notes.

"DISCOUNTED VALUE" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (as converted to reflect the periodic basis on which interest on such Note is payable, if payable other than on a semi-annual basis) equal to the Reinvestment Yield with respect to such Called Principal.

"REINVESTMENT YIELD" shall mean, with respect to the Called Principal of any Note, the Designated Spread over the yield to maturity implied by (i) the ask-side yields reported as of 10:00 a.m. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal for the most recent actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date on the display designated as "Page PX1" on Bloomberg Financial Markets (or such other display as may replace Page PX1 on Bloomberg Financial Markets or, if Bloomberg Financial Markets shall cease to report such yields or shall cease to be Prudential Capital Group's customary source of information for calculating yield-maintenance amounts on privately placed notes, then such source as is then Prudential Capital Group's customary source of such information), or (ii) if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable (including by way of interpolation), the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or (ii) of the preceding sentence, such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to that number of decimal places as appears in the coupon of the applicable Note.

"REMAINING AVERAGE LIFE" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"REMAINING SCHEDULED PAYMENTS" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"SETTLEMENT DATE" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4B or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"YIELD-MAINTENANCE AMOUNT" shall mean, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. OTHER TERMS.

"ACCEPTANCE" shall have the meaning specified in paragraph 2E.

"ACCEPTANCE DAY" shall have the meaning specified in paragraph 2E.

"ACCEPTANCE WINDOW" shall mean, with respect to any interest rate quote made by Prudential pursuant to paragraph 2D, the time period designated by Prudential during which the Company may elect to accept such interest rate quote as to not less than $5,000,000 in aggregate principal amount of Private Shelf Note specified in the Request for Purchase.

"ACCEPTED NOTE" shall have the meaning specified in paragraph 2E.

"ACQUISITION" shall mean any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of any Person (other than the Company or any Subsidiary), or any business or division of any Person (other than the Company or any Subsidiary), (b) the acquisition of in excess of fifty percent (50%) of the outstanding capital stock (or other equity interest) of any Person (other than the Company or any Subsidiary), or (c) the acquisition of another Person (other than the Company or any Subsidiary) by a merger, amalgamation or consolidation or any other combination with such Person.

"AFFILIATE" of any Person shall mean (i) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with such Person (except, with respect to the Company, a Subsidiary) and (ii) with respect to Prudential, shall include any managed account, investment fund or other vehicle for which Prudential or any Prudential Affiliate acts as investment advisor or portfolio manager. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

"AGENT" shall mean the "Administrative Agent" as defined in the Credit Agreement.

"AMENDMENT (2018)" shall mean the Amendment to this Agreement dated as of January 31, 2018 by and among the Company, Prudential and the holders of the Notes.

"AMENDMENT (2018) EFFECTIVE DATE" shall mean the "Effective Date" as defined in the Amendment (2018).

"ANTI-CORRUPTION LAWS" shall mean any law or regulation in a U.S. or any non-U.S. jurisdiction regarding bribery or any other corrupt activity, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010.

"ANTI-MONEY LAUNDERING LAWS" shall mean any law or regulation in a U.S. or any non-U.S. jurisdiction regarding money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes, including the Currency and Foreign Transactions Reporting Act of 1970 (otherwise known as the Bank Secrecy Act) and the USA PATRIOT Act.

"ANTI-TERRORISM ORDER" means Executive Order No. 13,224, 66 Fed. Reg. 49,079 (2001) issued by the President of the U.S. (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism).

"AUTHORIZED OFFICER" shall mean (i) in the case of the Company, its chief executive officer, its chief operating officer, its chief financial officer, its corporate secretary, and any vice president of the Company designated as an "Authorized Officer" of the Company for the purpose of this Agreement in an Officer's Certificate executed by the Company's chief executive officer or chief financial officer and delivered to Prudential, and (ii) in the case of Prudential, any officer of Prudential designated as its "Authorized Officer" in the Information Schedule or any officer of Prudential designated as its "Authorized Officer" for the purpose of this Agreement in a certificate executed by one of its Authorized Officers.

"AVAILABLE FACILITY AMOUNT" shall have the meaning specified in paragraph 2A.

"BANKS" shall mean the "Lenders" as defined in the Credit Agreement.

"BANKRUPTCY LAW" shall have the meaning specified in clause (viii) of paragraph 7A.

"BLOCKED PERSON" shall mean (i) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by OFAC, (ii) a Person, entity, organization, country or regime that is blocked or a target of sanctions that have been imposed under U.S. Economic Sanctions Laws or (iii) a Person that is an agent, department or instrumentality of, or is otherwise beneficially owned by, controlled by or acting on behalf of, directly or indirectly, any Person, entity, organization, country or regime described in clause (i) or (ii).

"BUSINESS DAY" shall mean any day other than (i) a Saturday or a Sunday, (ii) a day on which commercial banks in New York City are required or authorized to be closed and (iii) for purposes of paragraph 2C hereof only, a day on which PGIM, Inc. is not open for business.

"CANADIAN BANKS" shall mean a Bank that is designated as a Canadian Bank on Schedule 1 to the Credit Agreement.

"CANADIAN BORROWER" shall mean each of the Subsidiaries of the Company set forth on Schedule 2 to the Credit Agreement.

"CANCELLATION DATE" shall have the meaning specified in paragraph 2H(3).

"CANCELLATION FEE" shall have the meaning specified in paragraph 2H(3).

"CAPITAL DISTRIBUTION" shall mean a payment made, liability incurred or other consideration given by the Company or a Subsidiary to any Person that is not the Company or a Subsidiary, (a) for the purchase, acquisition, redemption, repurchase, payment or retirement of any capital stock or other equity interest of the Company or such Subsidiary, or (b) as a dividend, return of capital or other distribution (other than any stock dividend, stock split or other equity distribution payable only in capital stock or other equity of the Company or such Subsidiary) in respect of the Company or such Subsidiary's capital stock or other equity interest.

"CAPITALIZED LEASE OBLIGATION" shall mean any rental obligation which, under generally accepted accounting principles, is or will be required to be capitalized on the books of the Company or any Subsidiary, taken at the amount thereof accounted for as indebtedness (net of interest expenses) in accordance with such principles.

"CISADA" shall mean the Comprehensive Iran Sanctions, Accountability and Divestment Act.

"CLOSING DAY" shall mean the Initial Closing Day or a Private Shelf Closing Day, as the case may be.

"CHANGE IN CONTROL" shall mean:

(a) the acquisition of, or, if earlier, the shareholder or director approval of the acquisition of, ownership or voting control, directly or indirectly, beneficially (within the meaning of Rules 13d-3 and 13d-5 of the Exchange Act) or of record, by any Person or group (within the meaning of Sections

13d and 14d of the Exchange Act), of shares representing more than thirty-three percent (33%) of the aggregate ordinary Voting Stock represented by the issued and outstanding equity interests of the Company;

(b) if, at any time during any period of twenty-four (24) consecutive months, a majority of the members of the board of directors of the Company cease to be composed of individuals (i) who were members of that board of directors on the first day of such period, (ii) whose election or nomination to that board of directors was approved by individuals referred to in subpart (i) hereof that constituted, at the time of such election or nomination, at least a majority of that board of directors, or (iii) whose election or nomination to that board of directors was approved by individuals referred to in subparts (i) and (ii) hereof that constituted, at the time of such election or nomination, at least a majority of that board of directors; or

(c) the occurrence of a change in control, or other similar provision, as defined in the Credit Agreement or any Material Indebtedness Agreement.

“CODE” shall mean the Internal Revenue Code of 1986, as amended.

“CONFIRMATION OF ACCEPTANCE” shall have the meaning specified in paragraph 2E.

“CONSIDERATION” shall mean, in connection with an Acquisition, the aggregate consideration paid or to be paid, including borrowed funds, cash, deferred payments, the issuance of securities or notes, the assumption or incurring of liabilities (direct or contingent), the payment of consulting fees or fees for a covenant not to compete and any other consideration paid or to be paid for such Acquisition.

“CONTROLLED ENTITY” means (i) any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates and (ii) if the Company has a parent company, such parent company and its Controlled Affiliates. As used in this definition, **“Control”** means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“CONSOLIDATED CAPITALIZATION” shall mean Consolidated Net Worth of the Company and its Subsidiaries plus Debt.

“CONSOLIDATED DEPRECIATION AND AMORTIZATION CHARGES” shall mean, for any period, the aggregate of all depreciation and amortization charges for fixed assets, leasehold improvements and general intangibles (specifically including goodwill) of the Company for such period, as determined on a consolidated basis and in accordance with generally accepted accounting principles.

“CONSOLIDATED EBITDA” shall mean, for any period:

(a) Consolidated Net Income for such period plus the aggregate amounts deducted in determining such Consolidated Net Income in respect of:

(i) Consolidated Interest Expense, including, to the extent not already captured therein, (A) any losses on hedging obligations or other derivative instruments entered into for the purpose of hedging interest rate risk, net of interest income and gains on such hedging obligations or such derivative instruments, and (B) any commissions, discounts, yield and other fees and charges (including any interest expense) related to any securitization facility permitted under this Agreement,

(ii) Consolidated Income Tax Expense,

(iii) Consolidated Depreciation and Amortization Charges,

(iv) stock option expenses, up to an aggregate amount of $5,000,000 per fiscal year of the Company, and

(v) expenses (to the extent reasonably documented) in connection with the Transactions incurred or expensed no later than four months after the Amendment (2018) Effective Date in an aggregate amount not to exceed $20,000,000;

(vi) prepayment premiums, make-whole amounts and similar costs (if any) paid on account of the refinancing of Debt existing as of the Amendment (2018) Effective Date in connection with the Transaction;

(vii) for the fiscal quarters ending March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018, the full pro forma “run rate” cost savings and synergies (collectively, “EXPECTED COST SAVINGS”) (net of actual amounts realized) that are reasonably identifiable and factually supportable (in the good faith determination of the Company, as certified by a Responsible Officer of the Company in the Officer’s Certificate required to be delivered in connection with the financial statements for such period) related to the Transactions, prior to, on or after the Amendment (2018) Effective Date; *provided* that (A) substantial steps toward the action necessary to realize such Expected Cost Savings are taken or expected to be taken within 12 months after the Amendment (2018) Effective Date, and (B) the aggregate amount of all such Expected Cost Savings added back in reliance on this subpart (vii) shall not exceed an amount equal to $10,000,000 for all periods;

(viii) non-capitalized transaction fees and expenses relating to the integration of FCX during the fiscal years of the Company ending June 30, 2018, June 30, 2019 and June 30, 2020, in an aggregate amount not to exceed $10,000,000 for all periods;

(ix) other amounts for items similar to the categories set forth in the foregoing subparts (vii) and (viii) incurred in connection with a material Acquisition, in each case as agreed to by the Required Holder(s) in its commercially reasonable discretion;

(x) all other non-cash charges and related tax effects thereon (excluding any such non-cash charge to the extent it represents an accrual or reserve for potential cash charge in any future period or amortization of a prepaid cash charge that was paid in a prior period);

(xi) unusual, non-recurring or extraordinary losses or charges and related tax effects thereon, in an aggregate amount not to exceed five percent (5%) of Consolidated EBITDA as calculated pursuant to this definition without reference to this clause (xi); and

(xii) indemnification or insurance payments (not already included in Consolidated Net Income) received in cash by a Company from third parties for charges, losses, expenses (including litigation expenses, fees and charges) or write offs that previously reduced Consolidated Net Income and were never added back to Consolidated EBITDA; minus

(b) to the extent included in Consolidated Net Income for such period, non-cash gains and related tax effects thereon, and unusual, non-recurring or extraordinary gains and related tax effects thereon;

provided that, for any period during which (1) an Acquisition is made with Consideration in excess of $2,500,000 or (2) a Disposition with Consideration in excess of $2,500,000 occurs, Consolidated EBITDA shall be recalculated to include (or exclude, as applicable) the “EBITDA” of the acquired company or attributable to the disposed assets (in each case, with appropriate pro forma adjustments acceptable to the Required Holder(s) and calculated on the same basis as set forth in this definition).

“CONSOLIDATED INCOME TAX EXPENSE” shall mean, for any period, all provisions for taxes based on the gross or net income of the Company (including, without limitation, any additions to such taxes, and any penalties and interest with respect thereto), and all franchise taxes of the Company, determined on a consolidated basis and in accordance with generally accepted accounting principles.

“CONSOLIDATED INTEREST EXPENSE” shall mean, for any period, the interest expense of the Company for such period, determined on a consolidated basis and in accordance with generally accepted accounting principles.

“CONSOLIDATED NET INCOME” shall mean consolidated net income of the Company and its Subsidiaries as determined in accordance with generally accepted accounting principles.

“CONSOLIDATED NET WORTH” shall mean, at any time, the stockholders’ equity of the Company determined as of such date on a consolidated basis and in accordance with generally accounting principles.

“COUNTY BONDS GUARANTY” shall have the meaning assigned to such term in the Inducement Agreement.

“CREDIT AGREEMENT” shall mean the Credit Agreement, dated as of January 31, 2018, among the Company, the lenders identified therein and KeyBank National Association, as Administrative Agent, as amended, modified, supplemented, restated, replaced or refinanced from time to time.

“DEBT” shall mean for the Company and its Subsidiaries (excluding in all cases trade payables payable in the ordinary course of business by the Company and its Subsidiaries and all earn-out, take-or-pay or similar obligations to the extent such obligation is not shown as a liability on the balance sheet of such Person in accordance with GAAP), without duplication, (a) all obligations to repay borrowed money, direct or indirect, incurred, assumed, or guaranteed, (b) all obligations in respect of the deferred purchase price of capital assets, (c) all obligations under conditional sales or other title retention agreements, (d) the fair value (as disclosed on the Company’s quarterly financial statements, prepared on a quarterly basis and reported to the Securities and Exchange Commission in 10-Q and 10-K reports) of all obligations (contingent or otherwise) under any letter of credit, banker’s acceptance, currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management or hedging device, (e) all synthetic leases, (f) all Capitalized Lease Obligations, (g) all obligations of the Company and its Subsidiaries with respect to asset securitization financing programs to the extent that there is recourse against the Company or any Subsidiary or the

Company or any Subsidiary is liable (contingent or otherwise) under any such program, (h) all obligations to advance funds to, or to purchase assets, property or services from, any other Person in order to maintain the financial condition of such Person, (i) any other transaction (including forward sale or purchase agreements) having the commercial effect of a borrowing of money entered into by the Company or any Subsidiary to finance its operations or capital requirements, and (j) any guaranty of any obligation described in subparts (a) through (i) above.

"DELAYED DELIVERY FEE" shall have the meaning specified in paragraph 2H(2).

"DOMESTIC SUBSIDIARY" shall mean a Subsidiary that is not a Foreign Subsidiary.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(c) of the Code.

"EVENT OF DEFAULT" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "DEFAULT" shall mean any of such events, whether or not any such requirement has been satisfied.

"EXCESS LEVERAGE FEE" shall have the meaning specified in paragraph 5H.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

"EXCLUDED TRANSFER" shall mean any sell, lease, transfer or other disposition of any assets of the Company or any Subsidiary which is either (i) made in the ordinary course of business or (ii) made to the Company or any Subsidiary and after giving effect to such transaction the Company's ultimate percentage ownership of the assets sold, leased, transferred or other disposed of has not been reduced (giving the Company appropriate credit for indirect ownership of assets by virtue of ownership through any Subsidiary but only to the extent of the Company's percentage ownership of such Subsidiary).

"EXISTING AGREEMENT" shall mean that certain Note Purchase and Private Shelf Agreement dated as of October 31, 1992 between the Company and Prudential.

"FACILITY" shall have the meaning specified in paragraph 2A.

"FCX" shall mean FCX Group Holdings, LP, a Delaware limited partnership.

"FCX ACQUISITION" shall mean the direct or indirect acquisition by the Company of all of the equity interests of FCX.

"FCX ACQUISITION DOCUMENTS" shall mean the FCX Purchase Agreement and each other contract and agreement entered into in connection with, and delivered pursuant to, the FCX Acquisition.

"FCX PURCHASE AGREEMENT" shall mean the Agreement and Plan of Merger, dated January 8, 2018, by and among the Company, Fortress Merger Holding Sub LLC, Fortress Merger Sub LP, FCX Group Holdings, LP, FCX Group GP, LLC and Harvest Partners, LP.

"FOREIGN SUBSIDIARY" shall mean a Subsidiary that is organized under the laws of any jurisdiction other than the United States of America, a State thereof or the District of Columbia.

"FUNDED DEBT" shall mean with respect to any Person, all Debt of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable, more than one year from, or is directly or indirectly renewable or extendible at the option of the debtor to a date more than one year (including an option of the debtor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year) from, the date on which Funded Debt is to be determined.

"GOVERNMENTAL AUTHORITY" shall mean

(a) the government of

(i) the United States of America or any state or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"GOVERNMENTAL OFFICIAL" shall mean any governmental official or employee, employee of any government-owned or government-controlled entity, political party, any official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity.

"GUARANTY OF PAYMENT OF DEBT" shall mean a Guaranty of Payment of Debt executed by one or more of the Subsidiaries of the Company substantially in the form of Exhibit I to this Agreement.

"HEDGE TREASURY NOTE(S)" shall mean, with respect to any Accepted Note, the United States Treasury Note or Notes whose duration (as determined by Prudential) most closely matches the duration of such Accepted Note.

"HOSTILE TENDER OFFER" shall mean, with respect to the use of proceeds of any Note, any offer to purchase, or any purchase of, shares of capital stock of any corporation or equity interests in any other entity, or securities convertible into or representing the beneficial ownership of, or rights to acquire, any such shares or equity interests, if such shares, equity interests, securities or rights are of a class which is publicly traded on any securities exchange or in any over-the-counter market, other than purchases of such shares, equity interests, securities or rights representing less than 5% of the equity interests or beneficial ownership of such corporation or other entity for portfolio investment purposes, and such offer or purchase has not been duly approved by the board of directors of such corporation or the equivalent governing body of such other entity prior to the date on which the Company makes the Request for Purchase of such Note.

"INDUCEMENT AGREEMENT" shall mean that certain Inducement Agreement dated as of March 1, 1996 between the Company and Prudential, a copy of which is attached hereto as EXHIBIT H.

"INITIAL CLOSING DAY" shall mean November 27, 1996.

"INSTITUTIONAL INVESTOR" shall mean Prudential, any Prudential Affiliate or any bank, bank affiliate, financial institution, insurance company, pension fund, endowment or other organization which regularly acquires debt instruments for investment.

"INTEREST COVERAGE RATIO" shall mean, for the most recently completed four fiscal quarters of the Company, on a consolidated basis and in accordance with GAAP, the ratio of (a) Consolidated EBITDA to (b) Consolidated Interest Expense.

"ISSUANCE FEE" shall have the meaning specified in paragraph 2H(1).

"ISSUANCE PERIOD" shall have the meaning specified in paragraph 2A.

"LEVERAGE RATIO" shall mean at any time, on a consolidated basis, the ratio of (a) Net Indebtedness (as of the end of the most recently completed fiscal quarter of the Company), to (b) Consolidated EBITDA (for the most recently completed four fiscal quarters of the Company).

"LEVERAGE RATIO STEP-UP PERIOD" shall mean a four consecutive fiscal quarter period of the Company that meets the following criteria: (a) a Material Acquisition Event shall have occurred during the first fiscal quarter of such period, and (b) by no later than thirty (30) days after the last day of the first fiscal quarter of such period, the Company shall have notified each Significant Holder that such period is to be designated a "Leverage Ratio Step-Up Period" in writing; provided that (i) the designation of a Leverage Ratio Step-Up Period shall be available to the Company only after each holder of Notes shall have received, with respect to each Acquisition that is a part of such Material Acquisition Event, (A) the historical financial statements of the target entity of such Acquisition, and (B) pro forma financial statements of the Company and its Subsidiaries accompanied by a certificate of an Authorized Officer showing pro forma compliance with paragraphs 6A(1) and 6A(2) hereof, both before and after (assuming implementation of the Leverage Ratio Step-Up Period) giving effect to such Acquisition and (ii) the Company shall not be entitled to designate more than two such Leverage Ratio Step-Up Periods during the term of this Agreement.

"LIEN" shall mean any mortgage, pledge, security interest, encumbrance, lien (statutory or otherwise) or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction) or any other type of preferential arrangement for the purpose, or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

"MATERIAL ACQUISITION EVENT" shall mean the date the Company or any Subsidiary that has provided a Guaranty of Payment of Debt to the holders of Notes completes an Acquisition the Consideration for which is greater than or equal to Fifty Million Dollars ($50,000,000).

"MATERIAL ADVERSE EFFECT" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its

Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement and the Notes, (c) the ability of any Subsidiary Guarantor to perform its obligations under its Subsidiary Guaranty, or (d) the validity or enforceability of this Agreement, the Notes or any Subsidiary Guaranty.

"MATERIAL INDEBTEDNESS AGREEMENT" shall mean any debt instrument, lease (capital, operating or otherwise), guaranty, contract, commitment, agreement or other arrangement evidencing or entered into in connection with Funded Debt of the Company or any Subsidiary equal to or in excess of the amount of Twenty Million Dollars ($20,000,000).

"MATERIAL SUBSIDIARY" shall mean any Subsidiary that has aggregate assets of greater than $25,000,000, but shall exclude in all events each Subsidiary established solely in connection with an asset securitization permitted under this Agreement for the acquisition of receivables and related assets or interests therein, and that is organized in a manner intended to reduce the likelihood that it would be substantively consolidated with the Company or any of its other Subsidiaries in the event the Company or any such other Subsidiary becomes subject to a proceeding under the Bankruptcy Code (or other insolvency law).

"MULTIEMPLOYER PLAN" shall mean any Plan which is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NET INDEBTEDNESS" shall mean, at any time the excess, if any, of (a) Debt of the Company and its Subsidiaries on a consolidated basis as of such date, over (b) the Unrestricted Domestic Cash Amount as of such date; provided, however, that, notwithstanding the actual amount, no more than Eighty Million Dollars ($80,000,000) of the Unrestricted Domestic Cash Amount may be used to calculate Net Indebtedness.

"NOTES" shall have the meaning specified in paragraph 1.

"OFAC" means the office of Foreign Assets Control, United States Department of the Treasury.

"OFAC SANCTIONS PROGRAM" means any economic or trade sanction that OFAC is responsible for overseeing, administering and enforcing. A list of OFAC Sanctions Programs may be found at http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.

"OFFICER'S CERTIFICATE" shall mean a certificate signed in the name of the Company by an Authorized Officer of the Company.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"PERSON" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"PLAN" shall mean any "employee pension benefit plan" (as such term is defined in section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Company or any ERISA Affiliate.

“PRIORITY DEBT” shall mean, as of any time of determination thereof, the aggregate amount, without duplication, of (i) all obligations of the Company or Subsidiaries secured by Liens permitted by clauses (iv) or (v) of paragraph 6B(1) and (ii) Debt of Subsidiaries, other than (a) Debt of the Canadian Borrowers owed to the Canadian Banks under the Credit Agreement, (b) [reserved], (c) Debt owed by a Subsidiary to the Company or another Subsidiary, and (d) all Debt consisting of guarantees by Subsidiaries of Debt of the Company or any other Subsidiary, if the guaranteeing Subsidiary has provided a Guaranty of Payment of Debt under this Agreement.

“PRIVATE SHELF CLOSING DAY” for any Accepted Note shall mean the Business Day specified for the closing of the purchase and sale of such Private Shelf Note in the Request for Purchase of such Private Shelf Note, provided that if the closing of the purchase and sale of such Accepted Note is rescheduled pursuant to paragraph 2G, the Private Shelf Closing Day for such Accepted Note, for all purposes of this Agreement except paragraph 2H(3), shall mean the Rescheduled Closing Day with respect to such Closing.

“PRIVATE SHELF NOTE” and “PRIVATE SHELF NOTES” shall have the meanings specified in paragraph 1.

“PROJECT BOND GUARANTY” shall have the meaning assigned to such term in the Inducement Agreement.

“PRUDENTIAL” shall mean PGIM, Inc.

“PRUDENTIAL AFFILIATE” shall mean any Affiliate of Prudential.

“PURCHASERS” shall mean, with respect to any Accepted Notes the Persons, either Prudential or a Prudential Affiliate, who is purchasing such Accepted Notes.

“REQUEST FOR PURCHASE” shall have the meaning specified in paragraph 2C.

“REQUIRED HOLDER(S)” shall mean, with respect to the Notes of any series, at any time, the holder or holders of at least 50.01% of the aggregate principal amount of the Notes of such series outstanding at such time.

“RESCHEDULED CLOSING DAY” shall have the meaning specified in paragraph 2G.

“RESPONSIBLE OFFICER” shall mean the chief executive officer, chief operating officer, chief financial officer or chief accounting officer of the Company or any other officer of the Company involved principally in its financial administration or its controllership function.

“SECURITIES ACT” shall mean the Securities Act of 1933, as amended.

“SERIES” shall have the meaning specified in paragraph 1.

“SERIES A NOTES” shall mean the 7.82% Series A Notes executed by the Company pursuant to the Existing Agreement in the original aggregate principal amount of $80,000,000 and due December 8, 2002.

"SERIES B NOTES" shall mean the 6.60% Series B Notes executed by the Company pursuant to this Agreement in the original aggregate principal amount of $50,000,000 and due December 8, 2007.

"SERIES C NOTES" shall mean the 3.19% Series C Senior Notes executed by the Company pursuant to this Agreement in the original aggregate principal amount of $120,000,000 and due July 1, 2022.

"SIGNIFICANT HOLDER" shall mean (i) Prudential or any Prudential Affiliate, so long as Prudential or any Prudential Affiliate shall hold any Note or any amount remains available under the Facility or (ii) any other holder of at least 10% of the aggregate principal amount of any Series of Notes from time to time outstanding. To the extent that any notice or document is required to be delivered to the Significant Holders under this Agreement, such requirement shall be satisfied with respect to Prudential and all Prudential Affiliates by giving notice, or delivery of a copy of any such document, to Prudential (addressed to Prudential and each such Prudential Affiliate).

"STATE SANCTIONS LIST" shall mean a list that is adopted by any state Governmental Authority within the United States of America pertaining to Persons that engage in investment or other commercial activities in Iran or any other country that is a target of economic sanctions imposed under U.S. Economic Sanctions Laws.

"SUBSIDIARY" shall mean any corporation, association, partnership, limited partnership, limited liability company, joint venture or other business entity of which more than 80% of the Voting Stock, membership interests or other equity interests is owned or controlled directly or indirectly by the Company, or one or more of the Subsidiaries of the Company, or a combination thereof.

"TRANSACTION" shall mean, collectively, (a) the consummation of the FCX Acquisition on the Amendment (2018) Effective Date, (b) the execution and effectiveness of this Amendment (2018), (c) the incurrence of loans under the Credit Agreement on the Amendment (2018) Effective Date and the use of proceeds thereof, (d) [reserved] and (e) the payment of the fees and expenses incurred by the Company in connection with any of the foregoing (including, for clarification, fees and expenses incurred by the Company in connection with the bridge credit facility contemplated to be entered into in connection with the FCX Acquisition).

"TRANSFEREE" shall mean any direct or indirect transferee of all or any part of any Note purchased by any Purchaser under this Agreement.

"UNRESTRICTED DOMESTIC CASH AMOUNT" shall mean, at any date, that portion of the Company's or a Domestic Subsidiary's aggregate cash and cash equivalents that is on deposit with one or more Lenders (as defined in the Credit Agreement) party to the Credit Agreement and that is not encumbered by or subject to any Lien (including, without limitation, any Lien permitted hereunder), setoff (other than ordinary course setoff rights of a depository bank arising under a bank depository agreement for customary fees, charges and other account-related expenses due to such depository bank thereunder), counterclaim, recoupment, defense or other right in favor of any Person.

"U.S. ECONOMIC SANCTIONS" means United States economic sanctions, including but not limited to, the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Comprehensive Iran Sanctions, Accountability and Divestment Act or any similar law or regulation with respect to Iran or any other country, the Sudan Accountability and Divestment

Act, any OFAC Sanctions Program, or any economic sanctions regulations administered and enforced by the Unites States or any enabling legislation or executive order relating to any of the foregoing.

"U.S. ECONOMIC SANCTIONS LAWS" shall mean those laws, executive orders, enabling legislation or regulations administered and enforced by the United States pursuant to which economic sanctions have been imposed on any Person, entity, organization, country or regime, including the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Iran Sanctions Act, the Sudan Accountability and Divestment Act and any other OFAC Sanctions Program.

"VOTING STOCK" shall mean, with respect to any corporation, any shares of stock of such corporation whose holders are entitled under ordinary circumstances to vote for the election of directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

10C. ACCOUNTING PRINCIPLES, TERMS AND DETERMINATIONS. All references in this Agreement to "general accepted accounting principles" shall be deemed to refer to generally accepted accounting principles in effect in the United States at the time of application thereof. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all unaudited financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with generally accepted accounting principles. Notwithstanding the foregoing, if any change in generally accepted accounting principles from those applied in the preparation of the financial statements referred to in paragraph 8B is occasioned by the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions), the initial application of which change is made after the date of this Agreement, and any such change results in a change in the method of calculation of financial covenants, standards or terms found in this Agreement, the parties hereto agree that until such time as the parties hereto agree upon an amendment to this Agreement addressing such change, such financial covenants, standards and terms shall be construed and calculated as though such change had not taken place. The parties hereto agree to enter into good faith negotiations in order to amend the affected provisions so as to reflect such accounting changes with the desired result that the criteria for evaluating the Company's financial condition shall be the same after such changes as if such changes had not been made. When used herein, the term "financial statement" shall include the notes and schedules thereto. Any reference herein to any specific citation, section or form of law, statute, rule or regulation shall refer to such new, replacement or analogous citation, section or form should such citation, section or form be modified, amended or replaced. For purposes of determining compliance with the financial covenants contained in this Agreement, any election by the Company to measure any financial liability using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 - *Fair Value Option,* International Accounting Standard 39 - *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made. Notwithstanding the foregoing, any lease which is required to be characterized as an operating lease under GAAP as in effect on the Amendment (2018) Effective Date shall continue to be treated as an operating lease for all purposes of this Agreement after the Amendment (2018) Effective Date despite any changes in GAAP occurring after the Amendment (2018) Effective Date, and any such lease payments shall not be considered Capitalized Lease Obligations hereunder.

11. MISCELLANEOUS.

11A. NOTE PAYMENTS. The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 Noon, New York City local time, on the date due) to (i) the account or accounts specified in the applicable Confirmation of Acceptance (in the case of any Private Shelf Note) or (ii) such other account or accounts in the United States as such Purchaser may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, such Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as each Purchaser has made in this paragraph 11A.

11B. EXPENSES. The Company agrees, whether or not the transactions contemplated hereby shall be consummated, to pay, and save Prudential, each Purchaser and any Transferee harmless against liability for the payment of, all reasonable out-of-pocket expenses arising in connection with such transactions, including (i) all document production and duplication charges and the fees and expenses of any special counsel engaged by the Purchasers or any Transferee in connection with this Agreement (other than with respect to the legal fees and expenses incurred in connection with the Initial Closing Day or any draw under the Facility), the transactions contemplated hereby and any subsequent Company proposed modification of, or Company proposed consent under, this Agreement, whether or not such Company proposed modification shall be effected or Company proposed consent granted, and (ii) the costs and expenses, including attorneys' fees, incurred by any Purchaser or any Transferee in enforcing (or determining whether or how to enforce) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the transactions contemplated hereby or by reason of any Purchaser's or any Transferee's having acquired any Note, including without limitation costs and expenses incurred in any bankruptcy case. The obligations of the Company under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by any Purchaser or any Transferee and the payment of any Note.

11C. CONSENT TO AMENDMENTS. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) of the Notes of each Series except that, (i) with the written consent of the holders of all Notes of a particular Series, and if an Event of Default shall have occurred and be continuing, of the holders of all Notes of all Series, at the time outstanding (and not without such written consents), the Notes of such Series may be amended or the provisions thereof waived to change the maturity thereof, to change or affect the principal thereof, or to change or affect the rate or time of payment of interest on or any Yield-Maintenance Amount payable with respect to the Notes of such Series, (ii) without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to or waiver of the provisions of this Agreement shall change or affect the provisions of paragraph 7A or this paragraph 11C insofar as such provisions relate to proportions of the principal amount of the Notes of any Series, or the rights of any individual holder of Notes, required with respect to any declaration of Notes to be due and payable or with respect to any consent, amendment, waiver or declaration, (iii) with the written consent of Prudential (and not without the written consent of Prudential) the provisions of paragraph 2 may be amended or waived (except insofar as any such amendment or waiver would affect any rights or obligations with respect to the purchase and sale of Notes which shall have become Accepted Notes prior to such amendment or waiver), and (iv) with the written consent of all of the Purchasers which shall have become obligated to purchase Accepted Notes of any Series (and not without the written consent of all such Purchasers), any of the provisions of paragraphs 2 and 3 may be amended or waived insofar as such amendment or waiver would affect only rights or obligations with respect to the purchase and sale of the Accepted Notes of such Series or the terms and provisions of such Accepted Notes. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term “this Agreement” and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. FORM, REGISTRATION, TRANSFER AND EXCHANGE OF NOTES; LOST NOTES. The Notes are issuable as registered notes without coupons in denominations of at least $1,000,000 except as may be necessary to reflect any amount not evenly divisible by $1,000,000; provided, however, that no such minimum denomination shall apply to Notes issued to, or issued upon transfer by any holder of the Notes to, Prudential or one or more Prudential Affiliates or accounts managed by Prudential or Prudential Affiliates or to any other entity or group of affiliates with respect to which the Notes so issued or transferred shall be managed by a single entity. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Each installment of principal payable on each installment date upon each new Note issued upon any such transfer or exchange shall be in the same proportion to the unpaid principal amount of such new Note as the installment of principal payable on such date on the Note surrendered for registration of transfer or exchange bore to the unpaid principal amount of such Note. No reference need be made in any such new Note to any installment or installments of principal previously due and paid upon the Note surrendered for registration of transfer or exchange. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such holder's unsecured indemnity agreement, or in the case of any such mutilation upon surrender and cancellation of such Note, the Company will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note.

11E. PERSONS DEEMED OWNERS; PARTICIPATIONS. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of and interest on, and any Yield-Maintenance Amount payable with respect to, such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in all or any part of such Note to any Person on such terms and conditions as may be determined by such holder in its sole and absolute discretion.

11F. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT. All representations and warranties contained herein or made in writing by or on behalf of the Company in connection herewith shall survive the execution and delivery of this Agreement and the Notes, the transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of any Purchaser or any Transferee. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter.

11G. SUCCESSORS AND ASSIGNS. All covenants and other agreements in this Agreement contained by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including, without limitation, any Transferee) whether so expressed or not. The Company shall not assign its rights under paragraph 2.

11H. DISCLOSURE TO OTHER PERSONS. The Company acknowledges that Prudential, each Purchaser and each holder of any Note may deliver copies of any financial statements and other documents delivered to it, and disclose any other information disclosed to it, by or on behalf of the Company or any Subsidiary in connection with or pursuant to this Agreement to (i) its directors, officers, employees, agents and professional consultants, (ii) any Purchaser or holder of any Note, (iii) any Institutional Investor to which it offers to sell any Note or any part thereof other than a Competitor, (iv) any Institutional Investor to which it sells or offers to sell a participation in all or any part of any Note other than a Competitor, (v) any Institutional Investor from which it offers to purchase any security of the Company, (vi) any federal or state regulatory authority having jurisdiction over it, (vii) the National Association of Insurance Commissioners or any similar organization, or (viii) any other Person to which such delivery or disclosure may be necessary (a) in compliance with any law, rule, regulation or order applicable to it, (b) in response to any subpoena or other legal process or informal investigative demand, (c) in connection with any litigation to which it is a party or (d) in order to enforce its rights under this Agreement. Subject to the disclosure permitted in the first sentence of this paragraph, Prudential, each such Purchaser, each such holder and any Person designated by any of the foregoing Persons under paragraph 5C each agree to use their best efforts to hold in confidence and not to disclose or use (other than for internal purposes which shall not include any usage that would subject the Company or its officers to any fine or penalty under any securities laws or regulations) any Confidential Information. “Confidential Information” shall mean financial statements and reports delivered pursuant to paragraph 5A and other non-public information regarding the Company which was obtained pursuant to paragraph 5B or paragraph 5C; PROVIDED, HOWEVER, that such term shall not include information (x) which was publicly known, or otherwise known to you at the time of disclosure, (y) which subsequently becomes publicly known through no act or omission by you or any of your agents or (z) which otherwise becomes known to you other than through disclosure by the Company to you. For purposes of this paragraph, “Competitors” shall mean any Person which has (1) any of the following Standard Industrial Classification Codes (“SIC

Codes”): 5084, 5085, and 5063, or (2) a pension or benefit plan maintained by a Person which has any of the foregoing SIC Codes. Prudential and each Purchaser shall be entitled to rely on a certificate from a Person that it is not a “Competitor” of the Company. The Company shall be entitled to modify or supplement in writing the foregoing SIC Codes with the consent of the Required Holders which consent shall not be unreasonably denied.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, Prudential, any Purchaser or holder of a Note is required to agree to a confidentiality undertaking (whether through IntraLinks, another secure website, a secure virtual workspace or otherwise) which is different from this paragraph 11H, this paragraph 11H shall not be amended thereby and, as between Prudential, such Purchaser or such holder and the Company, this paragraph 11H shall supersede any such other confidentiality undertaking.

11I. NOTICES. All written communications provided for hereunder (other than communications provided for under paragraph 2) shall be sent by first class mail or nationwide overnight delivery service (with charges prepaid) or by hand delivery or telecopy and (i) if to Prudential, addressed to Prudential at the address specified for such communications in the Purchaser Schedule attached hereto or to such other address as Prudential shall have specified in writing to the Company, (ii) if to any Purchaser (other than Prudential), addressed to such Purchaser at the address specified in the Confirmation of Acceptance (in the case of any Private Shelf Notes), or at such other address as any Purchaser shall have specified in writing to the Company, and (iii) if to any other holder of any Note, addressed to such other holder at such address as such other holder shall have specified in writing to the Company or, if any such other holder shall not have so specified an address to the Company, then addressed to such other holder in care of the last holder of such Note which shall have so specified an address to the Company, and (iv) if to the Company, addressed to it at Bearings, Inc., 3600 Euclid Avenue, Cleveland, Ohio 44115, Attention: John R. Whitten, Vice President-Finance and Treasurer, or at such other address as the Company shall have specified to the holder of each Note in writing; provided, however, that any such communication to the Company may also, at the option of the Person sending such communication, be delivered by any other means either to the Company at its address specified above or to any officer of the Company.

11J. PAYMENTS DUE ON NON-BUSINESS DAYS. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or interest on, or Yield-Maintenance Amount payable with respect to, any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall be included in the computation of the interest payable on such Business Day.

11K. SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11L. DESCRIPTIVE HEADINGS. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11M. SATISFACTION REQUIREMENT. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to any Purchaser, to any holder of Notes or to the Required Holder(s), the determination of such satisfaction shall be made by such Purchaser, such holder or the Required Holder(s), as the case may be, in the reasonable judgment (exercised in good faith) of the Person or Persons making such determination.

11N. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF ILLINOIS.

11O. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

11P. BINDING AGREEMENT. When this Agreement is executed and delivered by the Company and Prudential, it shall become a binding agreement between the Company and Prudential. This Agreement shall also inure to the benefit of each Purchaser which shall have executed and delivered a Confirmation of Acceptance, and each such Purchaser shall be bound by this Agreement to the extent provided in such Confirmation of Acceptance.

11Q. INDEPENDENCE OF COVENANTS. All covenants hereunder shall be given independent effect so that if a particular action or condition is prohibited by any one of such covenants, the fact that it would be permitted by an exception to, or otherwise be in compliance within the limitations of, another covenant shall not avoid (i) the occurrence of a Default or Event of Default if such action is taken or such condition exists or (ii) in any way prejudice an attempt by the holder of any Note to prohibit through equitable action or otherwise the taking of any action by the Company or any Subsidiary which would result in a Default or Event of Default.

11R. AMENDMENT OF CERTAIN AGREEMENTS. Upon the execution of this Agreement by the Company and Prudential, paragraph 5 and 6 of the Existing Agreement are hereby amended in their entirety so as to read as set forth, respectively, in paragraphs 5 and 6 of this Agreement and defined terms and cross references used in paragraphs 5 and 6 of the Existing Agreement, as amended hereby, shall be deemed to have the respective meanings ascribed thereto in, and refer to paragraphs in, this Agreement; PROVIDED, HOWEVER, that any reference to a "Note" or "Notes" in the Existing Agreement, as amended hereby, shall mean the notes issued under and pursuant to the Existing Agreement. No termination of this Agreement in whole or in part or any modification hereof, shall affect the continued applicability of this paragraph and the covenants referred to herein to the Existing Agreement. In addition, upon the execution of this Agreement by the Company and Prudential (i) the amounts "$1,000,000" and "$5,000,000" appearing in paragraph 7A(iii) of the Existing Agreement are hereby deleted and the amounts "$5,000,000 and "$10,000,000" are hereby respectively substituted therefor and (ii) paragraphs 7A(xii) and 10C of the Existing Agreement and paragraphs 3(xi) and 5B of the Inducement Agreement are amended and restated in their entirety so as to read as set forth in paragraph 7A(xii) of this Agreement (in the case of paragraphs 7A(xii) of the Existing Agreement and 3(xi)of the Inducement Agreement) and 10C of this Agreement (in the case of paragraph 10C of the Existing Agreement and paragraph 5B of the Inducement Agreement).

Very truly yours,
BEARINGS, INC.

By:

____

John R. Whitten
Vice President and Treasurer

The foregoing Agreement is
hereby accepted as of the
date first above written.

PGIM, INC.

By:

____

Vice President

EXHIBIT A

INFORMATION SCHEDULE

Authorized Officers for Prudential

P. Scott von Fischer Managing Director Prudential Capital Group Two Prudential Plaza Suite 5600 Chicago, Illinois 60601 Telephone: (312) 540-4225 Facsimile: (312) 540-4222	Marie L. Fioramonti Managing Director Prudential Capital Group Two Prudential Plaza Suite 5600 Chicago, Illinois 60601 Telephone: (312) 540-4233 Facsimile: (312) 540-4222
Paul Miering Managing Director Central Credit Prudential Capital Group Four Gateway Center 100 Mulberry Street Newark, New Jersey 07102 Telephone: (973) 802-2815 Facsimile: (973) 624-6432	William S. Engelking Senior Vice President Prudential Capital Group Two Prudential Plaza Suite 5600 Chicago, Illinois 60601 Telephone: (312) 540-4214 Facsimile: (312) 540-4222
Julia Buthman Senior Vice President Prudential Capital Group Two Prudential Plaza Suite 5600 Chicago, Illinois 60601 Telephone: (312) 540-4237 Facsimile: (312) 540-4222	Mathew Douglass Vice President Prudential Capital Group Two Prudential Plaza Suite 5600 Chicago, Illinois 60601 Telephone: (312) 540-5435 Facsimile: (312) 540-4222

Tan Vu
Vice President
Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Telephone: (312) 540-5437
Facsimile: (312) 540-4222

EXHIBIT E

LIST OF AGREEMENTS RESTRICTING DEBT

Credit Agreement dated January 31, 2018, among Applied Industrial Technologies, Inc., the financial institutions party thereto and KeyBank National Association as Administrative Agent.

Director borrowing resolutions in effect from time to time may limit the total amount of indebtedness which the Company is authorized to incur. Presently those resolutions limit total borrowings to $1.28 billion.

EXHIBIT F

LIST OF SUBSIDIARIES

SUBSIDIARY NAME	STATE OF INCORPORATION	OWNERSHIP
A&H Fluid Technologies, Inc. (f/k/a Air and Hydraulics Engineering, Incorporated)	Alabama	100% Company
Air Draulics Engineering Co.	Tennessee	100% Company
Air-Hydraulic Systems, Inc.	Minnesota	100% Company
AIT Canada, ULC	Nova Scotia	100% Applied US, L.P.
AIT International Inc.	Ohio	100% Bearing Sales & Services Inc.
Applied Australia Holdings Pty Ltd.	Victoria, Australia	100% Bearing Sales & Services Inc.
Applied Canada Holdings, ULC	Nova Scotia	100% Applied Nova Scotia Company
Applied Fluid Power Holdings, LLC	Ohio	100% Applied Northern Holdings, ULC
Applied Industrial Technologies - CA LLC	Delaware	100% Company
Applied Industrial Technologies Canada, ULC	Nova Scotia	100% Applied Industrial Technologies, LP
Applied Industrial Technologies - Capital Inc.	Delaware	100% Applied Industrial Technologies - CA LLC
Applied Industrial Technologies - Dixie, Inc.	Tennessee	100% Company
Applied Industrial Technologies, LP	Ontario	99.99% Applied US, L.P. 0.01% AIT Canada, ULC
Applied Industrial Technologies Limited	New Zealand	100% Applied Australia Holdings Pty Ltd.
Applied Industrial Technologies -- PA LLC	Pennsylvania	100% Company
Applied Industrial Technologies - PACIFIC LLC	Delaware	100% Applied Industrial Technologies - CA LLC
Applied Industrial Technologies Pty Ltd.	Australia	100% Applied Australia Holdings Pty Ltd.
Applied Luxembourg, S.à.r.l.	Luxembourg	100% Bearing Sales & Services Inc.
Applied Maintenance Supplies & Solutions, LLC	Ohio	100% Company
Applied Mexico, S.A. de C.V.	Mexico	98.6% Applied Mexico Holdings, S.A. de C.V. 0.8% Bearings Pan American, Inc. 0.6% Sergio Nevarez
Applied Mexico Holdings, S.A. de C.V.	Mexico	99.99% Bearing Sales & Services Inc. 0.01% Bearings Pan American, Inc.
Applied Northern Holdings, ULC	Nova Scotia	100% Applied US, L.P.
Applied Nova Scotia Company	Nova Scotia	100% Applied Luxembourg, S.à.r.l.
Applied US, L.P.	Delaware	99.99% Applied Nova Scotia Company 0.01% Applied Canada Holdings, ULC
Applied US Energy, Inc.	Ohio	100% Company
AIT Holdings Corp.	Alberta	100% Applied Industrial Technologies, LP
Atlantic Fasteners Co., LLC	Ohio	100% Applied Maintenance Supplies & Resolutions, LLC
Baro Controls, Inc.	Texas	100% Baro Holdings, Inc.
Baro Controls-Golden Triangle, Inc.	Texas	100% Baro Controls, Inc.
Baro Holdings, Inc	Texas	100% FCX Performance, Inc.

Baro Process Products, Inc.	Texas	100% Baro Holdings, Inc.
Basin Engine & Pump, Inc.	Texas	100% FCX Performance, Inc.
Bay Advanced Technologies, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
Bay Advanced Technologies Singapore Pte. Ltd.	Singapore	100% Bay Advanced Technologies, LLC
BER International, Inc.	Barbados	100% Company
Bearings, Inc.	Tennessee	100% Company
Bearings Sales & Services Inc.	Washington	100% Applied Industrial Technologies - Dixie, Inc.
Bearings Pan American, Inc.	Ohio	100% Bearing Sales & Services Inc.
Carolina Fluid Components, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
Corrosion Fluid Products Corp.	Michigan	100% FCX Performance, Inc.
Disenos Construcciones y Fabricaciones Hispanomericanas, S.A.	Mexico	99.9% Applied Mexico, S.A. de C.V. 0.1% Applied Mexico Holdings, S.A. de C.V
DTS Fluid Power, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
Eads Distribution, LLC	Delaware	92.43% FCX Performance, Inc. 6.16% FCX-Eads Blocker 2 Corp 1.41% FCX-Eads Blocker 1, LLC
ESI Acquisition Corporation (dba Engineered Sales, Inc.)	Ohio	100% Company
FCX Group GP, LLC	Delaware	100% Company
FCX Group Holdings, LP	Delaware	99.99% Company 0.01% FCX Group GP, LLC
FCX Holdings Corp.	Ohio	100% FCX Intermediate Holdings, LLC
FCX Intermediate Holdings, LLC	Delaware	100% FCX Group Holdings, LP
FCX Performance, Inc.	Ohio	100% FCX USA, Inc.
FCX Process Solutions, LLC	Ohio	100% FCX Performance, Inc.
FCX-Eads Blocker 1, LLC	Delaware	100% FCX Performance, Inc.
FCX-Eads Blocker 2 Corp.	Delaware	100% FCX Performance, Inc.
FCX USA, Inc.	Ohio	100% FCX Holdings Corp
FluidTech, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
HUB Industrial Supply, LLC	Ohio	100% Applied Maintenance Supplies & Solutions, LLC
Hughes Machinery Company	Missouri	100% IPS Flow Control Corporation
HydroAir Hughes, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
HyQuip, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
Instrumentation Services, Inc.	Florida	100% FCX Performance, Inc.
Integrated Plant Services, Inc.	Ohio	100% FCX Performance, Inc.
IPS Flow Control Corporation	Ohio	100% FCX Performance, Inc.
Knox Oil Field Supply, Inc.	Texas	100% Company
North Coast Instruments, Inc.	Ohio	100% FCX Performance, Inc.
Power Plant Equipment Co.	Kansas	100% Hughes Machinery Company
Power Systems, LLC	Ohio	100% Applied Fluid Power Holdings, LLC
Process Control Services, Inc.	Michigan	100% FCX Performance, Inc.
Pump Energy, Inc.	Delaware	100% FCX Performance, Inc.
Pump Pro’s, Inc.	Ohio	100% FCX Performance, Inc.
R.L. Stone Company, Inc.	New York	100% FCX Performance, Inc.
Rafael Benitez Carrillo, Inc.	Puerto Rico	100% Company

Rodensa Mexico S.A. de C.V.	Mexico	99% Applied Mexico Holdings, S.A. de C.V 1% Applied Mexico, S.A. de C.V.
S. G. Morris Co., LLC	Ohio	100% Applied Fluid Power Holdings, LLC
Seals Unlimited (1976) Incorporated	Ontario	100% Seals Unlimited Holding Co., Inc.
Seals Unlimited Holding Co., Inc.	Ontario	100% Applied Industrial Technologies, LP
Sentinel Fluid Controls, LLC	Ohio	100% Company
Spencer Fluid Power, Inc.	Ohio	100% Company
Texas Oilpatch Services, LLC	Ohio	100% Company
VYCMEX Mexico, S.A. de C.V.	Mexico	99.9% Bearings Pan American, Inc. 0.1% Applied Mexico Holdings, S.A. de C.V.

<u>EXHIBIT 21</u>

APPLIED INDUSTRIAL TECHNOLOGIES, INC. FORM 10-K FOR
FISCAL YEAR ENDED JUNE 30, 2018
SUBSIDIARIES (as of June 30, 2018)

Name	Jurisdiction of Incorporation or Organization
* Air-Hydraulic Systems, Inc.	Minnesota
* Air Draulics Engineering Co.	Tennessee
AIT Canada, ULC	Nova Scotia
AIT Holding Corp.	Alberta
AIT International Inc.	Ohio
Applied Australia Holdings Pty Ltd.	Australia
Applied Canada Holdings, ULC	Nova Scotia
* Applied Fluid Power Holdings, LLC	Ohio
Applied Industrial Technologies - CA LLC	Delaware
Applied Industrial Technologies - Capital, Inc.	Delaware
Applied Industrial Technologies - Dixie, Inc.	Tennessee
Applied Industrial Technologies, LP	Ontario
Applied Industrial Technologies Limited	New Zealand
Applied Industrial Technologies - PA LLC	Pennsylvania
Applied Industrial Technologies - PACIFIC LLC	Delaware
Applied Industrial Technologies Canada, ULC	Nova Scotia
Applied Industrial Technologies Pty Ltd.	Australia
Applied Luxembourg, S.a.r.l.	Luxembourg
Applied Maintenance Supplies & Solutions, LLC	Ohio
* Applied México, S.A. de C.V. (97%-owned by subsidiaries of Applied Industrial Technologies, Inc.)	Mexico
Applied Mexico Holdings, S.A. de C.V.	Mexico
Applied Northern Holdings, ULC	Nova Scotia
Applied Nova Scotia Company	Nova Scotia
Applied US, L.P.	Delaware
Applied US Energy, Inc.	Ohio
* Atlantic Fasteners Co., LLC	Ohio
BER International, Inc.	Barbados
* Baro Controls, Inc.	Texas
* Baro Controls Golden Triangle, Inc.	Texas
* Baro Holdings, Inc.	Texas

* Baro Process Products, Inc.	Texas
* Basin Engine & Pump, Inc.	Texas
* Bay Advanced Technologies, LLC	Ohio

* Bay Advanced Technologies Singapore Pte. Ltd.	Singapore
Bearing Sales & Services Inc.	Washington
Bearings Pan American, Inc.	Ohio
* Carolina Fluid Components, LLC	Ohio
* Corrosion Fluid Products Corp.	Michigan
* DTS Fluid Power, LLC	Ohio
* Eads Distribution, LLC	Delaware
* ESI Acquisition Corporation (d/b/a Engineered Sales, Inc., ESI Power Hydraulics, and Applied Engineered Systems)	Ohio
* FCX Group GP, LLC	Delaware
* FCX Group Holdings, LP	Delaware
* FCX Holdings Corp.	Ohio
* FCX Intermediate Holdings, LLC	Delaware
* FCX Performance, Inc.	Ohio
* FCX Process Solutions, LLC	Ohio
* FCX-Eads Blocker 1, LLC	Delaware
* FCS-Eads Blocker 2 Corp	Delaware
* FCX USA, Inc.	Ohio
* FluidTech, LLC	Ohio
* HUB Industrial Supply, LLC	Ohio
* Hughes Machinery Company	Missouri
* HydroAir Hughes, LLC	Ohio
* HyQuip, LLC	Ohio
* Instrumentation Services, Inc.	Florida
* Integrated Plant Services, Inc.	Ohio
* IPS Flow Control Corporation	Ohio
* North Coast Instruments, Inc.	Ohio
* Power Plant Equipment Co.	Kansas
* Power Systems, LLC	Ohio
* Process Control Services, Inc.	Michigan
* Pump Energy Inc.	Delaware
* Pump Pros, Inc.	Ohio
* R. L. Stone Company,, Inc.	New York
* Rafael Benitez Carrillo Inc.	Puerto Rico
* Rodensa Mexico S.A. de C.V.	Mexico
* S. G. Morris Co., LLC	Ohio
* Seals Unlimited Holding Co., Inc.	Ontario

* Seals Unlimited (1976) Incorporated	Ontario
* Sentinel Fluid Controls, LLC	Ohio

* Spencer Fluid Power, Inc.	Ohio
* Texas Oilpatch Services, LLC	Ohio
* VYCMEX Mexico, S.A. de C.V.	Mexico

* Operating companies that do not conduct business under Applied Industrial Technologies trade name

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-207922, 333-179354, 333-149183, 333-138054, 333-124574, 333-83809, 033-65513, 033-53361, and 033-53401 on Form S-8 of our reports dated August 17, 2018, relating to the consolidated financial statements and financial statement schedule of Applied Industrial Technologies, Inc. and subsidiaries (the “Company”), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended June 30, 2018.

/s/ Deloitte & Touche LLP

Cleveland, Ohio
August 17, 2018

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: 8/9/18 By: /s/ Peter A. Dorsman

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: August 7, 2018 By: /s/ L. Thomas Hiltz

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: 8/9/2018 By: /s/ Edith Kelly-Green

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: 8-9-18

By: /s/ D. P. Komnenovich

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: 8/9/18

By: /s/ Robert J. Pagano, Jr.

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: August 9, 2018 By: /s/ Vincent K. Petrella

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: August 9, 2018 By: /s/ Joe A. Raver

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: 8-9-18 By: /s/ Jerry Sue Thornton

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director and/or officer of Applied Industrial Technologies, Inc., an Ohio corporation, hereby constitutes and appoints Fred D. Bauer and David K. Wells, and each of them, the true and lawful agents and attorneys-in-fact of the undersigned with full power and authority, and in either or both of them, to sign for the undersigned and in his or her respective name as director and/or officer of the Corporation, the Corporation's Annual Report for the fiscal year ended June 30, 2018 on Form 10-K to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and the rules and regulations issued thereunder, hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact, or any one of them, as herein authorized.

Date: 8/9/2018 By: /s/ Peter C. Wallace

EXHIBIT 31

APPLIED INDUSTRIAL TECHNOLOGIES, INC. FORM 10-K FOR
FISCAL YEAR ENDED JUNE 30, 2018
CERTIFICATIONS

I, Neil A. Schrimsher, certify that:

1. I have reviewed this annual report on Form 10-K of Applied Industrial Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 17, 2018

/s/ Neil A. Schrimsher

Neil A. Schrimsher
President & Chief Executive Officer

I, David K. Wells, certify that:

1. I have reviewed this annual report on Form 10-K of Applied Industrial Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 17, 2018

/s/ David K. Wells

David K. Wells

Vice President-Chief Financial Officer & Treasurer

EXHIBIT 32

APPLIED INDUSTRIAL TECHNOLOGIES, INC. FORM 10-K FOR
FISCAL YEAR ENDED JUNE 30, 2018

[The following certification accompanies the Annual Report on Form 10-K for the year ended June 30, 2018, and is not filed, as provided in applicable SEC releases.]

CERTIFICATIONS PURSUANT TO 18 U.S.C. 1350

In connection with the Form 10-K (the “Report”) of Applied Industrial Technologies, Inc. (the “Company”) for the period ending June 30, 2018, we, Neil A. Schrimsher, President & Chief Executive Officer, and David K. Wells, Vice President-Chief Financial Officer & Treasurer of the Company, certify that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Neil A. Schrimsher	/s/ David K. Wells
Neil A. Schrimsher President & Chief Executive Officer	David K. Wells Vice President-Chief Financial Officer & Treasurer

Dated: August 17, 2018

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