MORGAN STANLEY
Form 424B2
December 28, 2018

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Allocation Securities due 2024	$4,915,000	$595.70

Pricing Supplement No. 1,314
Registration Statement Nos. 333-221595; 333-221595-01
Dated December 27, 2018
Filed Pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC $4,915,000 Allocation Securities

Linked to a Basket of Indices Due December 29, 2023

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

Investment Description

These Allocation Securities (the "Securities") are unsubordinated and unsecured debt securities issued by Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The return on the Securities is linked to a weighted basket of indices (the "Basket") consisting of the S&P 500® Index, the MSCI EAFE® Index and the MSCI Emerging Markets Index℠, each of which we refer to as an "Underlying" and together as the "Underlyings." On the Final Valuation Date, different weightings will be allocated to the Underlyings based on their respective performances, as follows: 94% for the Underlying with the highest return (whether positive or negative), 6% for the Underlying with the second-highest return (whether positive or negative), and 0% for the Underlying with the lowest return. At maturity, if the Allocated Basket Return is positive, MSFL will pay the Principal Amount plus a return equal to the Allocated Basket Return. However, if the Allocated Basket Return is negative, you will be fully exposed to the negative Allocated Basket Return and MSFL will repay less than the full Principal Amount, if anything, resulting in a loss of principal that is proportionate to the negative Allocated Basket Return. These long-dated Securities are designed for investors who seek an opportunity to earn a return based on the allocated performance of the Underlyings, as set forth herein, and who are willing to risk their principal and forgo current income in exchange for the exposure to the allocated performance of the Underlyings. **Investing in the Securities involves significant risks. MSFL will not pay any interest on the Securities, and you may lose some or all of your Principal Amount. Any payment on the Securities is subject to our creditworthiness. If we default on our payment obligations, you may not receive any amounts owed to you under the terms of the Securities, and you could lose your entire investment.**

Features

q **Performance Allocation Feature:** At maturity, different weightings will be allocated to the Underlyings based on their respective performances. MSFL will pay the Principal Amount plus any positive Allocated Basket Return or reduced by any negative Allocated Basket Return.

q **Full Downside Market Exposure to the Allocated Basket Return:** If the Allocated Basket Return is negative, MSFL will repay less than the full Principal Amount at maturity, if anything, resulting in a loss of principal to investors that is proportionate to the negative Allocated Basket Return. Accordingly, you may lose some or all of your Principal Amount. Any payment on the Securities is subject to our creditworthiness.

Key Dates

Trade Date	December 27, 2018
Settlement Date	December 31, 2018
Final Valuation Date*	December 27, 2023
Maturity Date*	December 29, 2023

* Subject to postponement in the event of a Market Disruption Event or for non-Index Business Days. See "Postponement of Final Valuation Date and Maturity Date" under "Additional Terms of the Securities."

NOTICE TO INVESTORS: THE SECURITIES ARE SIGNIFICANTLY RISKIER THAN CONVENTIONAL DEBT INSTRUMENTS. THE SECURITIES DO NOT GUARANTEE THE REPAYMENT OF THE FULL PRINCIPAL AMOUNT AT MATURITY, AND THE SECURITIES HAVE DOWNSIDE MARKET RISK SIMILAR TO THE UNDERLYINGS, WHICH CAN RESULT IN A LOSS OF SOME OR ALL OF YOUR INVESTMENT AT MATURITY. THIS MARKET RISK IS IN ADDITION TO THE CREDIT RISK INHERENT IN PURCHASING OUR DEBT OBLIGATIONS. YOU SHOULD NOT PURCHASE THE SECURITIES IF YOU DO NOT UNDERSTAND OR ARE NOT COMFORTABLE WITH THE SIGNIFICANT RISKS INVOLVED IN INVESTING IN THE SECURITIES. THE SECURITIES WILL NOT BE LISTED ON ANY SECURITIES EXCHANGE.

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED UNDER ''KEY RISKS'' BEGINNING ON PAGE 5 OF THIS PRICING SUPPLEMENT IN CONNECTION WITH YOUR PURCHASE OF THE SECURITIES. EVENTS RELATING TO ANY OF THOSE RISKS, OR OTHER RISKS AND UNCERTAINTIES, COULD ADVERSELY AFFECT THE MARKET VALUE OF, AND THE RETURN ON, YOUR SECURITIES

Security Offering

We are offering Allocation Securities Linked to a Basket of Indices. The Securities are offered at a minimum investment of $1,000 in denominations of $10 and integral multiples thereof.

Underlying	Initial Level	Basket Weightings	CUSIP	ISIN
S&P 500® Index (Bloomberg ticker: SPX)	2,488.83	94% for the Underlying with the highest return, 6% for the Underlying with the second-highest return and 0% for the Underlying with the lowest return.	61768W301	US61768W3016
MSCI EAFE® Index (Bloomberg ticker: MXEA)	1,687.56			
	952.33			

MSCI Emerging Markets Index^{SM}
(Bloomberg ticker: MXEF)

See “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2. The Securities will have the terms set forth in the accompanying prospectus, prospectus supplement and index supplement and this pricing supplement.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this pricing supplement or the accompanying prospectus supplement, index supplement and prospectus. Any representation to the contrary is a criminal offense. The Securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

Estimated value on the Trade Date	$9.765 per Security. See “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2.		
	Price to Public	Underwriting Discount[(1)]	Proceeds to Us[(2)]
Per Security	$10.00	$0	$10.00
Total	$4,915,000	$0	$4,915,000

(1) UBS Financial Services Inc. will act as placement agent at an issue price of $10 per Security. All sales of the Securities will be made to certain fee-based advisory accounts for which UBS Financial Services Inc. is an investment advisor and will not receive a sales commission. For more information, please see “Supplemental Plan of Distribution; Conflicts of Interest” on page 27 of this pricing supplement.

(2) See “Use of Proceeds and Hedging” on page 26.

The agent for this offering, Morgan Stanley & Co. LLC, is our affiliate and a wholly owned subsidiary of Morgan Stanley. See “Supplemental Plan of Distribution; Conflicts of Interest” on page 27 of this pricing supplement.

Morgan Stanley UBS Financial Services Inc.

1

Additional Information about Morgan Stanley, MSFL and the Securities

Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by a prospectus supplement and an index supplement) with the SEC for the offering to which this communication relates. In connection with your investment, you should read the prospectus in that registration statement, the prospectus supplement, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents for free by visiting EDGAR on the SEC website at.www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter or any dealer participating in this offering will arrange to send you the prospectus, the prospectus supplement and the index supplement if you so request by calling toll-free 1-(800)-584-6837.

You may access the accompanying prospectus supplement, index supplement and prospectus on the SEC website at.www.sec.gov as follows:

- t Prospectus supplement dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011241/dp82788_424b2-seriesa.htm
- t Index supplement dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011283/dp82797_424b2-indexsupp.htm
- t Prospectus dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011237/dp82798_424b2-base.htm

References to "MSFL" refer only to MSFL, references to "Morgan Stanley" refer only to Morgan Stanley and references to "we," "our" and "us" refer to MSFL and Morgan Stanley collectively. In this document, the "Securities" refers to the Allocation Securities that are offered hereby. Also, references to the accompanying "prospectus", "prospectus supplement" and "index supplement" mean the prospectus filed by MSFL and Morgan Stanley dated November 16, 2017, the prospectus supplement filed by MSFL and Morgan Stanley dated November 16, 2017 and the index supplement filed by MSFL and Morgan Stanley dated November 16, 2017, respectively.

You should rely only on the information incorporated by reference or provided in this pricing supplement or the accompanying prospectus supplement, index supplement and prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this pricing supplement or the accompanying prospectus supplement, index supplement and prospectus is accurate as of any date other than the date on the front of this document.

The Issue Price of each Security is $10. This price includes costs associated with issuing, selling, structuring and hedging the Securities, which are borne by you, and, consequently, the estimated value of the Securities on the Trade Date is less than $10. We estimate that the value of each Security on the Trade Date is $9.765.

What goes into the estimated value on the Trade Date?

In valuing the Securities on the Trade Date, we take into account that the Securities comprise both a debt component and a performance-based component linked to the Underlying. The estimated value of the Securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the Underlyings, instruments based on the Underlyings, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the Securities?

In determining the economic terms of the Securities, including the Basket Weighting percentages, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the Securities would be more favorable to you.

What is the relationship between the estimated value on the Trade Date and the secondary market price of the Securities?

The price at which MS & Co. purchases the Securities in the secondary market, absent changes in market conditions, including those related to the Underlyings, may vary from, and be lower than, the estimated value on the Trade Date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 6 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underlyings, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. currently intends, but is not obligated, to make a market in the Securities, and, if it once chooses to make a market, may cease doing so at any time.

Investor Suitability

The Securities may be suitable for you if:

t You fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment.

t You can tolerate a loss of some or all of your investment and are willing to make an investment that has the same downside market risk as the Underlyings included in the Basket.

t You understand the characteristics of the Underlyings.

t You believe that the Allocated Basket Return will be positive.

t You believe that one Underlying will outperform the other Underlyings, but are uncertain as to which Underlying will perform best. Therefore, you prefer an investment that allocates a higher weighting to the Underlying with the best performance

t You can tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Underlyings.

t You do not seek current income from your investment and are willing to forgo dividends paid on the Underlyings included in the Basket.

t You are willing to hold the Securities to maturity, as set forth on the cover of this pricing supplement, and accept the risk that there may be little or no secondary market for the Securities.

t You are willing to assume our credit risk for all payments under the Securities, and understand that if we default on our

The Securities may not be suitable for you if:

t You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of some or all of your initial investment.

t You require an investment designed to provide a full return of principal at maturity.

t You cannot tolerate a loss of some or all of your investment and are unwilling to make an investment that has the same downside market risk as the Underlyings included in the Basket.

t You do not understand the characteristics of the Underlyings.

t You believe that the Allocated Basket Return will be negative or that the Allocated Basket return will not be sufficiently positive to provide you with your desired return.

t You believe that the level of all three Underlyings will decline over the term of the Securities or that none of the three Underlyings will appreciate sufficiently for a positive Allocated Basket Return.

t You cannot tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Underlyings.

t You seek current income from this investment or prefer to receive the dividends paid on the Underlyings included in the Basket.

obligations you may not receive any amounts due to you and could lose your entire investment.

t You are unable or unwilling to hold the Securities to maturity, as set forth on the cover of this pricing supplement, or you seek an investment for which there will be an active secondary market.

t You are not willing to assume our credit risk for all payments under the Securities.

The investor suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances, and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should also review carefully the sections entitled "Key Risks" beginning on page 5 of this pricing supplement and "Risk Factors" beginning on page 7 of the accompanying prospectus for risks related to an investment in the Securities. For additional information about the Underlyings, see the information set forth under "The S&P 500® Index," "The MSCI EAFE® Index" and "The MSCI Emerging Markets Index℠" beginning on page 16.

3

Final Terms

Issuer	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Issue Price (per Security)	$10.00
Principal Amount	$10.00 per Security (subject to a minimum investment of 100 Securities).
Term	Approximately 5 years
Basket	The Securities are linked to a weighted Basket consisting of the S&P 500® Index, the MSCI EAFE® Index and the MSCI Emerging Markets Index℠, each of which we refer to as an "Underlying"and together as the "Underlyings."
Payment at Maturity (per Security)	MSFL will pay you a cash Payment at Maturity linked to the performance of the Basket during the term of the Securities, as follows: $10 + [$10 × Allocated Basket Return]; If the Allocated Basket Return is negative, you will lose 1% of your Principal Amount for every 1% of the negative Allocated Basket Return, resulting in a loss of principal proportionate to the negative Allocated Basket Return. Under these circumstances, you will lose some, and possibly all, of your Principal Amount.
Final Valuation Date	December 27, 2023
Maturity Date	December 29, 2023
Underlying Return	For each Underlying, the return of such Underlying is calculated as: $\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$
Allocated Basket Return	On the Final Valuation Date, the Allocated Basket Return is calculated as: (Best Underlying Return × 94%) + (Second-Best Underlying Return × 6%) + (Worst Underlying Return × 0%)
Best Underlying Return	The Underlying Return of the Underlying with the highest Underlying Return (whether positive or negative).
Second-Best Underlying Return	The Underlying Return of the Underlying with the second-highest Underlying Return (whether positive or negative).
Worst Underlying Return	The Underlying Return of the Underlying with the lowest Underlying Return (whether positive or negative).
Initial Level	In the case of the S&P 500® Index, 2,488.83; in the case of the MSCI EAFE® Index, 1,687.56; and in the case of the MSCI Emerging Markets Index℠, 952.33; each of which is the Closing Level of

	such Underlying on the Trade Date.
Final Level	With respect to each Underlying, the Closing Level of such Underlying on the Final Valuation Date.
CUSIP/ISIN	61768W301 / US61768W3016
Trustee	The Bank of New York Mellon
Calculation Agent	Morgan Stanley & Co. LLC ("MS & Co.")

Investment Timeline

Trade Date	The Initial Levels are determined. The actual applicable percentages to be used in calculating the Allocated Basket Return are set.
	The Final Levels and Allocated Basket Return are determined as of the Final Valuation Date.
Maturity Date	At maturity, MSFL will pay you: $10 + [$10 × Allocated Basket Return] **If the Allocated Basket Return is negative,** MSFL will pay you less than the Principal Amount per Security, if anything, resulting in a loss of principal that is proportionate to the negative Allocated Basket Return. In this scenario, you will lose some, and possibly all, of your Principal Amount.

Investing in the Securities involves significant risks. You may lose some or all of your PRINCIPAL AMOUNT. Any payment on the Securities is subject to our creditworthiness. If WE were to default on OUR payment obligations, you may not receive any amounts owed to you under the Securities and you could lose your entire investment.

Key Risks

An investment in the Securities involves significant risks. Some of the risks that apply to the Securities are summarized here, but we urge you to also read the “Risk Factors” section of the accompanying prospectus. You should also consult your investment, legal, tax, accounting and other advisers in connection with your investment in the Securities.

t **Your investment in the Securities may result in a loss of your initial investment.** The terms of the Securities differ from those of ordinary debt securities in that we will not pay you interest on the Securities or guarantee to pay you any of the Principal Amount of the Securities at maturity. Instead, we will pay you at maturity for each $10 Principal Amount of Securities that you hold an amount in cash based upon the allocated performance of the Basket, as measured on the Final Valuation Date. If the Allocated Basket Return is positive, MSFL will repay the Principal Amount at maturity and pay a return equal to the Allocated Basket Return. However, if the Allocated Basket Return is negative, you will be exposed to the full negative Allocated Basket Return and MSFL will pay you an amount that is less than the full Principal Amount at maturity, if anything, resulting in a loss of principal that is proportionate to the negative Allocated Basket Return. **Accordingly, you could lose your entire initial investment.**

t **You may incur a loss on your investment if you sell your Securities prior to maturity.** You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the Underlyings have not decreased from their respective Initial Levels at the time of sale.

t **Changes in the value of one of the Underlyings may offset changes in the value of the others.** Movements in the values of the Underlyings may not correlate with each other. At a time when the value of one Underlying increases in value, the value of the other Underlyings may not increase as much, or may even decline in value. Therefore, in calculating the Allocated Basket Return, increases in the value of one Underlying may be moderated, or wholly offset, by lesser increases or declines in the value of the other Underlyings. Although the best-performing Underlying will be the most heavily weighted Underlying and the worst-performing Underlying will be weighted at zero, the return of the best-performing Underlying may not be positive or may not be large enough to counterbalance the negative Underlying Return from the second-best-performing Underlying. In such a case, the allocation of the weightings of the Underlyings based on their respective performances will not prevent you from losing some or all of your investment. If the Allocated Basket Return is negative, you will receive at maturity an amount that is less than the amount of your original investment in the Securities, and which could be zero.

t **No interest payments.** MSFL will not make any interest payments in respect of the Securities.

t **The Securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the Securities.** You are dependent on our ability to pay all amounts due on the Securities at maturity and therefore you are subject to our credit risk. If we default on our obligations under the Securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the Securities prior to maturity will be affected by changes in the market’s view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the Securities.

t **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

t **The amount payable on the Securities is not linked to the levels of the Underlyings at any time other than the Final Valuation Date.** The Allocated Basket Return will be based on the Final Levels of the Underlyings on the Final Valuation Date, subject to postponement for non-Index Business Days and certain Market Disruption Events. Even if some or all of the Underlyings appreciate prior to the Final Valuation Date but then drop by the Final Valuation Date, the Payment at Maturity may be significantly less than it would have been had the Payment at Maturity been linked to the levels of the Underlyings prior to such drop. Although the actual levels of the Underlyings on the stated Maturity Date or at other times during the term of the Securities may be higher than their Final Levels, the Payment at Maturity will be based solely on the Final Levels of the Underlyings on the Final Valuation Date as compared to their Initial Levels.

t **The market price of the Securities may be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the Securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Securities in the secondary market, including:

o the value of each of the Underlyings at any time,

o the volatility (frequency and magnitude of changes in price or value) of each of the Underlyings,

o dividend rates on the securities included in each of the Underlyings,

o interest and yield rates in the market,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the Underlyings or stock markets generally and which may affect the Final Levels,

5

o the time remaining until the Securities mature, and

o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you are able to sell your Securities prior to maturity, as the Securities are comprised of both a debt component and a performance-based component linked to the Underlyings, and these are the types of factors that also generally affect the values of debt securities and derivatives linked to the Underlyings. Generally, the longer the time remaining to maturity, the more the market price of the Securities will be affected by the other factors described above. For example, you may have to sell your Securities at a substantial discount from the Principal Amount of $10 per Security if the values of the Underlyings at the time of sale are below, at or moderately above their Initial Levels or if market interest rates rise. You cannot predict the future performance of the Underlyings based on their historical performance. If the Allocated Basket Return is negative, you will receive at maturity an amount that is less than the $10 Principal Amount of each Security (and which could be zero) by an amount proportionate to negative Allocated Basket Return. There can be no assurance that there will be any positive Allocated Basket Return such that you will receive at maturity an amount in excess of the Principal Amount of the Securities, or any amount at all.

t **Investing in the Securities is not equivalent to investing in the Underlyings.** Investing in the Securities is not equivalent to investing in the Underlyings or investing in the component stocks of the Underlyings. Investors in the Securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute the Underlyings.

t **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the Securities in the Issue Price reduce the economic terms of the Securities, cause the estimated value of the Securities to be less than the Issue Price and will adversely affect secondary market prices.** Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the Securities in secondary market transactions will likely be significantly lower than the Issue Price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the Issue Price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the Securities in the Issue Price and the lower rate we are willing to pay as issuer make the economic terms of the Securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 6 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underlyings, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

t **The estimated value of the Securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the Securities than those generated by others, including other dealers in the market, if they attempted to value the Securities. In addition, the estimated value on the Trade Date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Securities in the secondary market (if any exists) at any time. The value of your Securities at any time after the date of this pricing supplement will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also "The market price of the Securities may be influenced by many unpredictable factors" above.

t **There are risks associated with investments in securities linked to the value of foreign equity (and especially emerging markets) securities.** The MSCI EAFE® Index and the MSCI Emerging Markets Index℠, two of the Underlyings, are linked to the value of foreign equity securities. Investments in securities linked to the value of foreign equity securities involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. Also, there is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the United States Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies. The prices of securities issued in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws. In addition, the stocks included in the MSCI Emerging Markets Index℠ have been issued by companies in various emerging markets countries, which pose further risks in addition to the risks associated with investing in foreign equity markets generally. Countries with emerging markets may have relatively unstable governments, may present the risks of nationalization of businesses, restrictions on foreign ownership and prohibitions on the repatriation of assets, and may have less protection of property rights than more developed countries. The economies of countries with emerging markets may be based on only a few industries, may be highly vulnerable to changes in local or global trade conditions, and may suffer from extreme and volatile debt burdens or inflation rates. Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of holdings difficult or impossible at times. Moreover, the economies in such countries may differ favorably or unfavorably from the economy in the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payment positions.

t **The levels of the MSCI EAFE® Index and the MSCI Emerging Markets Index℠ are subject to currency exchange rate risk.** Because the levels of the MSCI EAFE® Index and the MSCI Emerging Markets Index℠ are related to the U.S. dollar value of stocks underlying the

6

respective indices, holders of the Securities will be exposed to currency exchange rate risk with respect to the currencies in which the component securities of the MSCI EAFE® Index and the MSCI Emerging Markets Index℠ trade. Exchange rate movements for a particular currency are volatile and are the result of numerous factors specific to that country including the supply of, and the demand for, those currencies, as well as government policy, intervention or actions, but are also influenced significantly from time to time by political or economic developments, and by macroeconomic factors and speculative actions related to each region. Further, currencies of emerging economies are often subject to more frequent and larger central bank interventions than the currencies of developed countries and are also more likely to be affected by drastic changes in monetary or exchange rate policies of the relevant country. The net exposure will depend on the extent to which the currencies of the component countries strengthen or weaken against the U.S. dollar and the relative weight of each currency. If, taking into account such weighting, the dollar strengthens against the currencies of the component securities of the MSCI EAFE® Index or the MSCI Emerging Markets Index℠, the level of the relevant Underlying will be adversely affected and the Payment at Maturity on the Securities may be reduced.

Of particular importance to potential currency exchange risk are:

o existing and expected rates of inflation;

o existing and expected interest rate levels;

o the balance of payments; and

o the extent of governmental surpluses or deficits in the countries represented in the relevant index and the United States.

All of these factors are, in turn, sensitive to the monetary, fiscal and trade policies pursued by the governments of the countries represented in the MSCI EAFE® Index and the MSCI Emerging Markets Index℠, the United States and other countries important to international trade and finance.

t **The Securities will not be listed on any securities exchange and secondary trading may be limited**. The Securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Securities. MS & Co. currently intends, but is not obligated, to make a market in the Securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the Securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the Securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Securities easily. Since other broker-dealers may not participate significantly in the secondary market for the Securities, the prices at which you may be able to trade your Securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the Securities, it is likely that there would be no secondary market for the Securities. Accordingly, you should be willing to hold your Securities to maturity.

t **Potential conflict of interest**. As Calculation Agent, MS & Co. has determined the Initial Levels and the Basket Weightings, will determine the Final Levels, the Allocated Basket Return and whether any Market Disruption Event has occurred and will calculate the amount payable at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as Calculation Agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of Market Disruption Events and the selection of a Successor Index or calculation of a Final Level in the event of a discontinuance of the Underlying or a Market Disruption Event. These potentially subjective determinations may adversely affect the payout to you at maturity, if any. For further information regarding these types of determinations, see "Additional Terms of the Securities—Postponement of Final Valuation Date and Maturity Date," "—Discontinuance of any Underlying; Alteration of Method of Calculation," "—Calculation Agent and Calculations "below. In addition, MS & Co. has determined the estimated value of the Securities on the Trade Date.

t **Hedging and trading activity by our subsidiaries could potentially adversely affect the value of the Securities.** One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the Securities, including trading in the stocks that constitute the Underlyings, in futures or options contracts on the Underlyings or the constituent stocks of the Underlyings, as well as in other instruments related to the Underlyings. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Final Valuation Date approaches. MS & Co. and some of our other affiliates also trade the stocks that constitute the Underlyings, in futures or options contracts on the constituent stocks of the Underlyings, as well as in other instruments related to the Underlyings, on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the Trade Date could have increased the Initial Levels of the Underlyings, and, therefore, could have increased the levels at or above which the Underlyings must close on the Final Valuation Date so that investors do not suffer a loss on their initial investment in the Securities. Additionally, such hedging or trading activities during the term of the Securities, including on the Final Valuation Date, could adversely affect the Closing Levels of the Underlyings on the Final Valuation Date, and, accordingly, the amount of cash payable at maturity, if any.

t **Uncertain tax treatment**. Please note that the discussions in this pricing supplement concerning the U.S. federal income tax consequences of an investment in the Securities supersede the discussions contained in the accompanying prospectus supplement.

Subject to the discussion under "What Are the Tax Consequences of the Securities" in this pricing supplement, although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Securities due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP ("our counsel"), under current law, and based on current market conditions, each Security should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes.

If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment for the Securities, the timing and character of income on the Securities might differ significantly from the tax treatment described herein. For example, under one possible treatment, the IRS could seek to recharacterize the Securities as debt instruments. In that event, U.S. Holders (as defined below) would be required to accrue into income original issue discount on the Securities every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the Securities as ordinary income. We do not plan to request a ruling from the IRS regarding the tax treatment of the Securities, and the IRS or a court may not agree with the tax treatment described in this pricing supplement.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by Non-U.S. Holders (as defined below) should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Securities, possibly with retroactive effect.

Both U.S. and Non-U.S. Holders should read carefully the discussion under "What Are the Tax Consequences of the Securities" in this pricing supplement and consult their tax advisers regarding all aspects of the U.S. federal tax consequences of an investment in the Securities as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Hypothetical Payments on the Securities

The table and examples below are hypothetical and provided for illustrative purposes only. They do not purport to be representative of every possible scenario concerning positive or negative Allocated Basket Returns. You cannot predict the Allocated Basket Return or the Final Level of any Underlying on the Final Valuation Date. You should not take these examples as an indication or assurance of the expected performance of the Basket. The examples illustrate the Payment at Maturity for a $10.00 Security on a hypothetical offering of the Securities, based on the following terms:*

t Principal amount (per Security): $10.00

t S&P 500® Index Initial Level: 2,500

t MSCI EAFE® Index Initial Level: 1,700

t MSCI Emerging Markets Index℠ Initial Level: 1,000

t Basket Weightings: 94% for the Underlying with the highest Underlying Return, 6% for the Underlying with the second-best Underlying Return and 0% for the Underlying with the lowest Underlying Return.

*The actual Initial Levels are specified on the cover of this pricing supplement.

Allocated Basket Return	Payment at Maturity (Per Security)	Total Return on the Securities
I00.00%	$20.00	I00.00%
90.00%	$19.00	90.00%
80.00%	$18.00	80.00%
O0.00%	$17.00	O0.00%
N0.00%	$16.00	N0.00%
M0.00%	$15.00	M0.00%
L0.00%	$14.00	L0.00%
K0.00%	$13.00	K0.00%
J0.00%	$12.00	J0.00%
I0.00%	$11.00	I0.00%
M.00%	$10.50	M.00%
H.00%	$10.00	H.00%
-5.00%	$9.50	-5.00%
-10.00%	$9.00	-10.00%
-20.00%	$8.00	-20.00%
-30.00%	$7.00	-30.00%
-40.00%	$6.00	-40.00%
-50.00%	$5.00	-50.00%
-60.00%	$4.00	-60.00%

-70.00%	$3.00	-70.00%
-80.00%	$2.00	-80.00%
-90.00%	$1.00	-90.00%
-100.00%	$0.00	-100.00%

Example 1

t S&P 500® Index Final Level: 3,750 (Underlying Return: 50%) (Basket Weighting: 94%)
t MSCI EAFE® Index Final Level: 2,125
(Underlying Return: 25%) (Basket Weighting: 6%)
t MSCI Emerging Markets Index℠ Final Level: 800
(Underlying Return: -20%) (Basket Weighting: 0%)
t Payment at Maturity: $14.85
(Return on $10.00 investment: 48.50%)

Example 2

t S&P 500® Index Final Level: 1,000 (Underlying Return: -60%) (Basket Weighting: 0%)
t MSCI EAFE® Index Final Level: 1,734
(Underlying Return: 2%) (Basket Weighting: 94%)
t MSCI Emerging Markets Index℠ Final Level: 500
(Underlying Return: -50%) (Basket Weighting: 6%)
t Payment at Maturity: $9.888
(Return on $10.00 investment: -1.12%)

Example 3

t S&P 500® Index Final Level: 1,250 (Underlying Return: -50%) (Basket Weighting: 94%)
t MSCI EAFE® Index Final Level: 680
(Underlying Return: -60%) (Basket Weighting: 6%)
t MSCI Emerging Markets Index℠ Final Level: 200
(Underlying Return: -80%) (Basket Weighting: 0%)

t Payment at Maturity: $4.94

7. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net income	$ 26,536	$ 16,525
Other comprehensive income (loss):		
Unrealized loss on cash flow hedges, net of income tax of $(226) in the quarter ended 3/31/10		(492)
Reclassification of interest expense into income, net of income tax of $133 in the quarter ended 3/31/10		218
Reclassification of pension and postemployment expense into income, net of income tax of $213 and $169	341	276
Foreign currency translation adjustment	7,037	354
Unrealized (loss) gain on investment securities available for sale, net of income tax of $(103) and $3	(170)	5
Total comprehensive income	$ 33,744	$ 16,886

Table of Contents

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

	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Net income	$ 68,484	$ 38,199
Other comprehensive (loss) income:		
Unrealized loss on cash flow hedges, net of income tax of $(82) and $(904)	(184)	(1,979)
Reclassification of interest expense into income, net of income tax of $116 and $401	200	656
Reclassification of pension and postemployment expense into income, net of income tax of $560 and $508	1,101	828
Foreign currency translation adjustment	8,328	2,105
Unrealized (loss) gain on investment securities available for sale, net of income tax of $(35) and $14	(66)	32
Total comprehensive income	$ 77,863	$ 39,841

8. BENEFIT PLANS

The following table provides summary disclosures of the net periodic postemployment costs recognized for the Company s postemployment benefit plans:

	Pension Benefits		Retiree Health Care Benefits	
Three Months Ended March 31,	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	$ 115	$ 144	$ 10	$ 13
Interest cost	565	673	59	65
Expected return on plan assets	(97)	(88)		
Recognized net actuarial loss (gain)	362	231	(21)	(22)
Amortization of prior service cost	178	199	35	37
Net periodic benefit cost	$ 1,123	$ 1,159	$ 83	$ 93

	Pension Benefits		Retiree Health Care Benefits	
Nine Months Ended March 31,	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	$ 345	$ 431	$ 30	$ 39
Interest cost	1,694	2,020	177	194
Expected return on plan assets	(289)	(263)		
Recognized net actuarial loss (gain)	1,086	693	(63)	(65)
Amortization of prior service cost	533	597	104	111
Net periodic benefit cost	$ 3,369	$ 3,478	$ 248	$ 279

Table of Contents

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

The Company contributed $1,500 to its pension benefit plans and $115 to its retiree health care plans in the nine months ended March 31, 2011. Expected contributions for all of fiscal 2011 are $1,700 for the pension benefit plans and $250 for retiree health care plans.

9. SEGMENT INFORMATION

The accounting policies of the Company s reportable segments are the same as those used to prepare the condensed consolidated financial statements. Sales between the Service Center Based Distribution segment and the Fluid Power Businesses segment have been eliminated in the table below.

Segment Financial Information for the three months ended:

	Service Center Based Distribution	Fluid Power Businesses	Total
March 31, 2011			
Net sales	$ 451,982	$ 113,988	$ 565,970
Operating income for reportable segments	32,275	11,244	43,519
Depreciation	2,447	523	2,970
Capital expenditures	2,159	484	2,643
March 31, 2010			
Net sales	$ 390,481	$ 95,660	$ 486,141
Operating income for reportable segments	20,235	7,842	28,077
Depreciation	2,320	523	2,843
Capital expenditures	1,163	49	1,212

Table of Contents

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

Segment Financial Information for the nine months ended:

	Service Center Based Distribution	Fluid Power Businesses	Total
March 31, 2011			
Net sales	$ 1,302,096	$ 320,892	$ 1,622,988
Operating income for reportable segments	83,631	30,553	114,184
Assets used in the business	676,921	214,937	891,858
Depreciation	6,910	1,556	8,466
Capital expenditures	15,707	739	16,446
March 31, 2010			
Net sales	$ 1,120,163	$ 249,974	$ 1,370,137
Operating income for reportable segments	53,837	16,617	70,454
Assets used in the business	665,405	201,302	866,707
Depreciation	7,010	1,603	8,613
Capital expenditures	3,834	329	4,163

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Operating income for reportable segments	$ 43,519	$ 28,077	$ 114,184	$ 70,454
Adjustment for:				
Amortization of intangibles:				
Service Center Based Distribution	789	442	2,475	1,363
Fluid Power Businesses	2,001	2,066	5,993	6,192
Corporate and other expense (income), net	2,528	(1,468)	(432)	(682)
Total operating income	38,201	27,037	106,148	63,581
Interest expense, net	52	1,374	1,634	3,921
Other income, net	(2,645)	(397)	(3,409)	(642)
Income before income taxes	$ 40,794	$ 26,060	$ 107,923	$ 60,302

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

Table of Contents

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
Geographic Areas:	2011	2010	2011	2010
United States	$ 487,777	$ 428,662	$ 1,398,020	$ 1,192,246
Canada	63,717	45,515	181,127	142,300
Mexico	14,476	11,964	43,841	35,591
Total	$ 565,970	$ 486,141	$ 1,622,988	$ 1,370,137

10. OTHER (INCOME) EXPENSE, NET

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Unrealized (gain) loss on assets held in rabbi trust for a nonqualified deferred compensation plan	$ (473)	$ (376)	$ (1,978)	$ (1,655)
Benefit from payouts on corporate-owned life insurance policies	(1,722)		(1,722)	
Foreign currency transaction (gains) losses	(333)	75	(184)	162
Loss on cross-currency swap		190	368	890
Other, net	(117)	(286)	107	(39)
Total other (income) expense, net	$ (2,645)	$ (397)	$ (3,409)	$ (642)

The Company is the owner and beneficiary under life insurance policies acquired in connection with a fiscal 1998 acquisition. In January 2011, the Company received death benefits under two of these policies and realized a gain of $1,722 in the quarter ending March 31, 2011. At March 31, 2011, these policies have benefits in force of $12,300 and a net cash surrender value of $3,100.

Table of Contents

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Applied Industrial Technologies, Inc. and subsidiaries (the Company) as of March 31, 2011, and the related condensed statements of consolidated income for the three-month and nine-month periods ended March 31, 2011 and 2010, and of consolidated cash flows for the nine-month periods ended March 31, 2011 and 2010. These interim financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of June 30, 2010, and the related statements of consolidated income, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated August 13, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
Cleveland, Ohio
May 4, 2011

Table of Contents

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

Applied Industrial Technologies (Applied, the Company, We, Us or Our) is an industrial distributor that offers p critical to the operations of MRO and OEM customers in a wide range of industries. In addition, Applied provides engineering, design and systems integration for industrial and fluid power applications, as well as customized fluid power shop, mechanical and fabricated rubber services. Applied is an authorized distributor for more than 2,000 manufacturers, and we offer access to approximately 4 million stock keeping units (SKUs). A large portion of our business is selling replacement parts to manufacturers and other industrial concerns for repair or maintenance of machinery and equipment. We have a long tradition of growth dating back to 1923, the year our business was founded in Cleveland, Ohio. During the third quarter of fiscal 2011, business was conducted in the United States, Canada, Mexico and Puerto Rico from 474 facilities.

The following is Management s Discussion and Analysis of significant factors which have affected our financial condition, results of operations and cash flows during the periods included in the accompanying condensed statements of consolidated income and consolidated cash flows. When reviewing the discussion and analysis set forth below, please note that the majority of SKUs we sell in any given period 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.

Overview

Consolidated net sales for the quarter ended March 31, 2011 increased $79.8 million or 16.4% compared to the prior year quarter, with acquisitions contributing $10.9 million and favorable foreign currency translation accounting for $3.8 million of the increase. Operating margin increased to 6.7% of net sales from 5.6% for the prior year quarter and net income increased $10.0 million or 60.6% compared to the prior year quarter. Shareholders equity was $613.2 million at March 31, 2011. The current ratio moved to 2.8 to 1 at March 31, 2011 from 2.3 to 1 at June 30, 2010 as we retired $75.0 million of debt in fiscal 2011. Since November 30, 2010, we have had no borrowings outstanding under our existing credit facilities.

Applied monitors several economic indices that have been key indicators for industrial economic activity. These include the Manufacturing Capacity Utilization (MCU) index published by the Federal Reserve Board and the Manufacturing Index 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. Our sales tend to lag the MCU on the upswing by up to six months and move closer in alignment with the declines.

These indices showed continued moderate growth in the industrial economy during the third quarter of fiscal 2011. The MCU for March was 75.8, up from December s 73.5 and still well above its last trough of 65.2 in June of 2009. The ISM was 61.2 in March, up from 57.0 in December. The ISM appears stable and is in keeping with a forecast for moderate growth. Our third quarter average sales per day increased 1.9% compared to our second quarter average sales

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

per day and was 14.6% above our prior year third quarter average sales per day. We believe that the recovery of the U.S. industrial economy will continue, and we should see further growth in our sales per day rate in the fourth quarter.

The number of Company associates was 4,639 at March 31, 2011, 4,468 at June 30, 2010, and 4,491 at March 31, 2010. During the nine months ended March 31, 2011 acquisitions added a net 214 associates while headcount for pre-existing operations fell by 66 associates. The number of operating facilities totaled 474 at March 31, 2011 and 458 at March 31, 2010.

Results of Operations

Three Months Ended March 31, 2011 and 2010

The following table is included to aid in review of Applied s condensed statements of consolidated income. The percent increase (decrease) column is comparative to the same period in the prior year.

	Three Months Ended March 31,		
	As a Percent of Net Sales		Percent Increase
	2011	2010	(Decrease)
Net Sales	100.0%	100.0%	16.4%
Gross Profit	27.7%	26.8%	20.1%
Selling, Distribution & Administrative	20.9%	21.3%	14.6%
Operating Income	6.7%	5.6%	41.3%
Net Income	4.7%	3.4%	60.6%

During the quarter ended March 31, 2011, net sales increased $79.8 million or 16.4% compared to the prior year quarter, with acquisitions accounting for additional sales of $10.9 million or 2.2%, one additional sales day adding $8.8 million or 1.8%, and favorable foreign currency translation adding $3.8 million or 0.8%. The number of selling days for the quarters ended March 31, 2011 and 2010 were 64 and 63 days, respectively.

Net sales from our Service Center Based Distribution segment, which is heavily focused on the MRO market, increased $61.5 million or 15.8% during the quarter from the same period in the prior year, primarily attributed to improvement in the industrial economy. Acquisitions within this segment increased sales by $10.9 million, or 2.8%.

Net sales from our Fluid Power Businesses segment, which is heavily focused on the OEM market, increased $18.3 million or 19.2% during the quarter from the same period in the prior year, primarily attributed to improvements in the industrial economy.

Improvements in the industrial economy helped drive sales increases in all of the geographic areas of the Company. Sales in our U.S. operations were up $59.1 million or 13.8%, with acquisitions accounting for $5.8 million or 1.4% of the U.S. increase. Sales from our Canadian

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

operations increased $18.2 million or 40.0%. This increase consists of $5.0 million from acquisitions and $3.0 million due to favorable foreign currency translation. Our Mexican operations increased $2.5 million or 21.0%, with $0.8 million due to favorable foreign currency translation.

During the quarter ended March 31, 2011, industrial products and fluid power products accounted for 70.2% and 29.8%, respectively, of net sales as compared to 70.6% and 29.4%, respectively, for the same period in the prior year. The increase in fluid power products is reflective of the increases in sales in the Fluid Power Businesses segment.

Our gross profit margin for the quarter increased to 27.7% compared to the prior year quarter s 26.8%. The improvement can be largely attributed to increased contribution from our point-of-sale margins, primarily in our U.S. operations. Solid contributions from our two acquisitions also helped increase the margin. We had a minimal LIFO impact in the quarter due to a LIFO layer liquidation. Additional LIFO layer liquidation benefits could be achieved in the fourth quarter if further inventory reductions are achieved or realized.

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, legal, and facility related expenses. SD&A was 20.9% of net sales in the quarter ended March 31, 2011 compared to 21.3% in the prior year quarter. On an absolute basis, SD&A increased $15.0 million or 14.6% compared to the prior year quarter. Performance driven expenses and employee benefits increased $7.0 million, acquisitions added $5.0 million and incremental ERP expenses associated with the implementation of SAP announced in October 2010 totaled $3.0 million.

Operating income increased 41.3% to $38.2 million during the quarter compared to $27.0 million during the prior year quarter. Operating income as a percentage of sales for the Service Center Based Distribution segment increased to 7.1% in the current year quarter, from 5.2% in the prior year quarter. The Fluid Power Businesses operating margins increased to 9.9% in the current year quarter from 8.2% in the prior year quarter. These increases as compared to the prior year quarter reflect improved operating leverage on the increases in sales.

Interest, net, is down $1.3 million due to repayment in the first half of fiscal 2011 of all borrowings under our credit facilities.

Other income was $2.6 million in the quarter and included a $1.7 million gain from death benefits received under two life insurance policies.

The effective income tax rate was 35.0% for the quarter ended March 31, 2011 compared to 36.6% for the quarter ended March 31, 2010. Our effective tax rate decreased primarily due to the realization of a non-taxable gain on life insurance policies (approximately a 1.1% favorable

Table of Contents

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

impact on the rate) and certain U.S. tax credits and deductions recognized in the quarter (approximately a 1.6% favorable impact on the rate). Partially offsetting these reductions was expense associated with providing for U.S. income tax expense on a portion of undistributed earnings not considered permanently reinvested in our Canadian subsidiaries (approximately a 1.6% increase in the rate). In the prior year third quarter, no such provision was made.

As a result of the factors addressed above, net income increased $10.0 million or 60.6% compared to the prior year quarter. Net income per share was $0.61 per share for the quarter ended March 31, 2011, compared to $0.39 in the prior year quarter.

Nine Months Ended March 31, 2011 and 2010

The following table is included to aid in review of Applied s condensed statements of consolidated income. The percent increase (decrease) column is comparative to the same period in the prior year.

	Nine Months Ended March 31,		
	As a Percent of Net Sales		Percent Increase
	2011	2010	(Decrease)
Net Sales	100.0%	100.0%	18.5%
Gross Profit	27.4%	26.5%	22.4%
Selling, Distribution & Administrative	20.8%	21.8%	12.9%
Operating Income	6.5%	4.6%	66.9%
Net Income	4.2%	2.8%	79.3%

During the nine months ended March 31, 2011, net sales increased $252.9 million or 18.5% compared to the same period in the prior year, with acquisitions accounting for additional sales of $27.8 million or 2.0%, and favorable foreign currency translation adding $11.1 million or 0.8%. The number of selling days for the nine months ended March 31, 2011 and 2010 were 189 days each.

Net sales from our Service Center Based Distribution segment, which is heavily focused on the MRO market, increased $182.0 million or 16.2% during the nine months ended March 31, 2011 from the same period in the prior year, primarily attributed to improvement in the industrial economy. Acquisitions within this segment increased sales by $27.8 million, or 2.5%.

Net sales from our Fluid Power Businesses segment, which is heavily focused on the OEM market, increased $70.9 million or 28.4% during the nine months ended March 31, 2011 from the same period in the prior year, primarily attributed to improvement in the industrial economy.

Improvements in the industrial economy helped drive sales increases in all of the geographic areas of the Company. Sales in our U.S. operations increased $205.8 million or 17.3%, with acquisitions accounting for 1.3% of the U.S. increase. Sales from our Canadian operations

Table of Contents

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

increased $38.8 million or 27.3%. Acquisitions accounted for $12.2 million of the increase and favorable foreign currency translation accounted for $9.0 million. Sales of our Mexican operations increased $8.2 million or 23.2%, with $2.1 million attributed to favorable foreign currency translation.

During the nine months ended March 31, 2011, industrial products and fluid power products accounted for 70.7% and 29.3%, respectively, of net sales as compared to 72.1% and 27.9%, respectively, for the same period in the prior year. The increase in fluid power products is reflective of the increases in sales in the Fluid Power Businesses segment.

Our gross profit margin for the period increased to 27.4% compared to the prior year period s 26.5%. The gross profit for the first half of the year was positively impacted by LIFO benefits of $4.4 million or 0.4% resulting from effective price decreases from increased supplier purchasing incentives in fiscal 2011. These decreases flow through the LIFO calculation as a benefit as the price paid for product (net of inventory purchasing incentives) is lower this year versus last. We also had a small positive impact from LIFO liquidations in the third quarter.

SD&A was 20.8% of net sales in the nine months ended March 31, 2011 compared to 21.8% in the prior year period. On an absolute basis, SD&A increased $38.7 million or 12.9% compared to the prior year period. Performance driven expenses and employee benefits increased $21.4 million, acquisitions added $13.0 million and ERP expenses added $3.8 million.

Operating income increased 66.9% to $106.1 million during the period compared to $63.6 million during the prior year period. Operating income as a percentage of sales for the Service Center Based Distribution segment increased to 6.4% in the current year period, from 4.8% in the prior year period. The Fluid Power Businesses operating margins increased to 9.5% in the current year period from 6.6% in the prior year period. These increases as compared to the prior year period reflect improved operating leverage on the increases in sales.

Interest, net, is down $2.3 million due to repayment of the revolver in September 2010 and the private placement debt in November 2010.

Other income was $3.4 million for the year-to-date period and included $2.0 million of unrealized gains on investments held by non-qualified deferred compensation trusts and a $1.7 million gain from death benefits received under two life insurance policies.

The effective income tax rate was 36.5% for the nine months ended March 31, 2011 compared to 36.7% for the same period in the prior year. The decrease from the prior year is due to reversal of a valuation allowance in the second quarter and the favorable impact of realizing certain tax benefits and deductions in the third quarter. These decreases are largely offset by provision made for U.S. income tax expense on a portion of undistributed earnings not considered permanently reinvested in our Canadian subsidiaries.

Table of Contents

As a result of the factors addressed above, net income increased $30.3 million or 79.3% compared to the prior year period. Net income per share was $1.58 per share for the nine months ended March 31, 2011, compared to $0.89 in the prior year period.

Liquidity and Capital Resources

Net cash provided by operating activities for the nine months ended March 31, 2011 was $64.0 million. This compares to $156.0 million provided by operating activities in the same period a year ago. The most significant factor in the $92.0 million fluctuation relates to changes in inventory. In fiscal 2010, the Company undertook an inventory management program which by June 30, 2010 had resulted in a $101.4 million reduction in U.S. bearing and drives products from the June 30, 2009 levels. These inventory reductions were targeted to reduce excess quantities of certain products within our system. Inventory has increased in the current year, due to acquisitions, increased business levels and some increases to compensate for an increase in manufacturer lead times.

Net cash used in investing activities during the current year was $41.4 million; $27.7 million was used for acquisitions and $16.4 million for capital expenditures. Partially offsetting these uses of cash was receipt of $2.8 million related to life insurance death benefits and property sales. In the nine months ended March 31, 2010, we used $3.8 million in investing activities primarily for capital expenditures. The increase in capital expenditures primarily relates to spending on our ERP project announced in the first quarter of fiscal 2011.

Net cash used in financing activities was $112.2 million for the nine months ended March 31, 2011. In the current year, we repaid $50.0 million under our revolving credit facility, $25.0 million under our private placement debt and $12.8 million related to the associated cross-currency swaps. Additionally, we paid dividends of $21.6 million and repurchased 142,800 shares of treasury stock for $4.5 million. In the prior year, financing activities used $24.5 million of cash; we repaid a net $5.0 million on our revolving credit facility, paid dividends of $19.1 million and repurchased 117,000 shares of treasury stock for $2.7 million.

On October 1, 2010, Applied announced its selection of SAP to help transform the Company s technology platforms and enhance its business information and transaction systems for future growth. We expect capital expenditures for this ERP project for all of fiscal 2011 to be around $13.4 million, a downward revision from our prior quarter as more of the current year expenditures are expected to be expensed versus capitalized. We expect SD&A expenses associated with this project to be approximately $8.0 million in fiscal year 2011, approximately $4.0 million of which is expected to come in the fourth quarter. Our overall capital expenditures for fiscal 2011, including ERP, are expected to be between $20.0 million and $22.0 million.

We have a $150.0 million revolving credit facility with a group of banks expiring in June 2012. There are no borrowings outstanding under this facility at March 31, 2011. At March 31, 2011, unused lines under this facility, net of outstanding letters of credit, total $143.1 million and are available to fund future acquisitions or other capital and operating requirements.

Table of Contents

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

We have an uncommitted shelf facility with Prudential Insurance Company that enables us to borrow up to $100.0 million in additional long-term financing with terms of up to fifteen years. This agreement expires in February 2013. At March 31, 2011, there were no outstanding borrowings under this agreement.

In November 2010, we repaid the $25.0 million private placement debt, bringing our outstanding debt to zero.

The Board of Directors has authorized the repurchase of shares of the Company s common stock. These purchases may be made in open market and negotiated transactions, from time to time, depending upon market conditions. We acquired 142,800 shares of treasury stock on the open market in the nine months ended March 31, 2011. At March 31, 2011, we had authorization to repurchase an additional 694,400 shares.

Management expects that our existing cash, cash equivalents, funds available under the revolving credit facility, cash provided from operations, and the use of operating leases will be sufficient to finance normal working capital needs, payment of dividends, acquisitions, investments in properties, facilities and equipment, and the purchase of additional Company common stock. Management also believes that additional long-term debt and line of credit financing could be obtained based on the Company s credit standing and financial strength, however, any additional debt may be at higher rates than under the terms of the revolving credit facility.

Cautionary Statement Under Private Securities Litigation Reform Act

Management s Discussion and Analysis and other sections of this report, including documents incorporated by reference, contain 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, v should, could, would, anticipate, estimate, forecast, may, and derivative or similar words or expressions. S 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

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

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: changes in customer preferences for products and services of the nature and brands sold by us; changes in customer procurement policies and practices; changes in the prices for products and services relative to the cost of providing them; loss of key supplier authorizations, lack of product availability, or changes in supplier distribution programs; the potential for product shortages if suppliers are unable to fulfill in a timely manner increased demand in the economic recovery; competitive pressures; the cost of products and energy and other operating costs; risks relating to the operations levels of our customers and the economic factors that affect 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 and the transfer of manufacturing capacity to foreign countries; our reliance on information systems; our ability to implement our ERP system in a timely, cost-effective, and competent manner, and to capture its planned benefits; our ability to retain and attract qualified sales and customer service personnel; our ability to identify and complete acquisitions, integrate them effectively, and realize their anticipated benefits; the variability and timing of new business opportunities including acquisitions, alliances, customer relationships, and supplier authorizations; the incurrence of debt and contingent liabilities in connection with acquisitions; 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; organizational changes within the Company; the volatility of our stock price and the resulting impact on our consolidated financial statements; risks related to legal proceedings to which we are a party; adverse regulation and legislation, including potential changes in tax regulations (e.g., those affecting the use of the LIFO inventory accounting method and the taxation of foreign-sourced income); and the occurrence of extraordinary events (including prolonged labor disputes, natural events and acts of God, terrorist acts, 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 more fully in our Annual Report on Form 10-K for the year ended June 30, 2010.

Table of Contents

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has evaluated its exposure to various market risk factors, including its primary market risk exposure through the effects of changes in exchange 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.

In November 2010, we settled the cross-currency swaps related to our private placement debt for $12.8 million. In September 2010, we settled the interest rate swap outstanding at June 30, 2010. There were no additional material changes in our market risk exposure in the nine-months ended March 31, 2011. For quantitative and qualitative disclosures about market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended June 30, 2010.

Table of Contents

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 4: CONTROLS AND PROCEDURES

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

During the third quarter of fiscal 2011, there were no changes in the Company s internal controls or in other factors that materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

25

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

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

ITEM 1A. Risk Factors.

In Part II, Item 1A, of its quarterly report on Form 10-Q for the quarter ended September 30, 2010, the Company set forth changes from the risk factors disclosed under Part I, Item 1A, of the annual report on Form 10-K for the fiscal year ended June 30, 2010. You should carefully consider the risk factors from these previous reports in addition to the other information set forth in this quarterly report that could materially affect our business, financial condition, or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also impact our business and operations.

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

Repurchases in the quarter ended March 31, 2011 were as follows:

Period	(a) Total Number of Shares	(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 (1) (2)
January 1, 2011 to January 31, 2011	-0-	-0-	-0-	837,200
February 1, 2011 to February 28, 2011	-0-	-0-	-0-	837,200
March 1, 2011 to March 31, 2011	142,800	31.45	142,800	694,400
Total	142,800	31.45	142,800	694,400

Table of Contents

(1) On January 23, 2008, the Board of Directors authorized the purchase of up to 1.5 million shares of the Company s common stock. The Company publicly announced the authorization that day. These purchases may be made in the open market or in privately negotiated transactions. This authorization is in effect until all shares are purchased or the authorization is revoked or amended by the Board of Directors.

(2) During the quarter, the Company purchased 37 shares in connection with the deferred compensation program and vesting of stock awards.

ITEM 6. Exhibits.

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Applied Industrial Technologies, Inc., as amended on October 25, 2005 (filed as Exhibit 3(a) to the Company s Form 10-Q for the quarter ended December 31, 2005, SEC File No. 1-2299, and incorporated here by reference).
3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to the Company s Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) (now named Applied Industrial Technologies, Inc.) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to the Company s Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Private Shelf Agreement dated as of November 27, 1996, between the Company and Prudential Investment Management, Inc. (assignee of The Prudential Insurance Company of America), conformed to show all amendments (filed as Exhibit 4.2 to the Company s Form 10-Q for the quarter ended March 31, 2010, SEC File No. 1-2299, and incorporated here by reference).

Exhibit No.	Description
4.3	Credit Agreement dated as of June 3, 2005 among the Company, KeyBank National Association as Agent, and various financial institutions (filed as Exhibit 4.7 to the Company s Form 10-Q for the quarter ended December 31, 2009, SEC File No. 1-2299, and incorporated here by reference).
4.4	First Amendment Agreement dated as of June 6, 2007, among the Company, KeyBank National Association as Agent, and various financial institutions, amending June 3, 2005 Credit Agreement (filed as Exhibit 4 to the Company s Form 8-K dated June 11, 2007, SEC File No. 1-2299, and incorporated here by reference).
15	Independent Registered Public Accounting Firm s Awareness Letter.
31	Rule 13a-14(a)/15d-14(a) certifications.
32	Section 1350 certifications.
101	Interactive data files: (i) the Condensed Statements of Consolidated Income for the three and nine month periods ended March 31, 2011 and 2010; (ii) the Condensed Consolidated Balance Sheets at March 31, 2011 and June 30, 2010; (iii) the Condensed Statements of Consolidated Cash Flows for the nine months ended March 31, 2011 and 2010; and (iv) the Notes to the Condensed Consolidated Financial Statements submitted herewith pursuant to Rule 406T.

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

Table of Contents

SIGNATURES

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

	APPLIED INDUSTRIAL TECHNOLOGIES, INC. (Company)
Date: May 4, 2011	By: /s/ David L. Pugh David L. Pugh Chairman & Chief Executive Officer
Date: May 4, 2011	By: /s/ Mark O. Eisele Mark O. Eisele Vice President-Chief Financial Officer & Treasurer

Table of Contents

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
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TO FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

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Table of Contents

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