

APPLIED INDUSTRIAL TECHNOLOGIES INC
Form 11-K
June 28, 2006

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

FORM 11-K
ANNUAL REPORT
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005.

[] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 1-2299

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Applied Industrial Technologies, Inc.
Retirement Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Applied Industrial Technologies, Inc.
One Applied Plaza
Cleveland, Ohio 44115-5056

Financial Statements and Exhibit(s)

(a)	Financial Statements -----	Page No. (in this Report) -----
	Report of Independent Registered Public Accounting Firm	5
	Statement of Net Assets Available for Benefits -- December 31, 2005 and 2004	6
	Statement of Changes in Net Assets Available for Benefits -- Years Ended December 31, 2005	7

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

	and 2004	
	Notes to Financial Statements --	8 - 13
	Years Ended December 31,	
	2005 and 2004	
	Supplemental Schedule	14
(b)	Exhibit(s)	

	23 Consent of Independent Registered	
	Public Accounting Firm	15

SIGNATURES

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

APPLIED INDUSTRIAL TECHNOLOGIES,
INC. RETIREMENT SAVINGS PLAN

By: Applied Industrial
Technologies, Inc., as Plan
Administrator

By: /s/ Daniel T. Brezovec

Signature

Daniel T. Brezovec

Printed Name

Corporate Controller

Title

Date: June 28, 2006

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
RETIREMENT SAVINGS PLAN

Financial Statements
For the Years Ended December 31, 2005 and 2004,
Supplemental Schedule as of
December 31, 2005,
Report of Independent Registered Public Accounting Firm

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
RETIREMENT SAVINGS PLAN

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

TABLE OF CONTENTS

	PAGE
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FINANCIAL STATEMENTS:	1
Statements of Net Assets Available for Benefits As of December 31, 2005 and 2004	2
Statements of Changes in Net Assets Available for Benefits For the Years Ended December 31, 2005 and 2004	3
Notes to Financial Statements	4 - 9
 SUPPLEMENTAL SCHEDULE:	
Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year) As of December 31, 2005	10

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Applied Industrial Technologies, Inc. Retirement Savings Plan

We have audited the accompanying statements of net assets available for benefits of Applied Industrial Technologies, Inc. Retirement Savings Plan (the "Plan") as of December 31, 2005 and 2004, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets as of December 31, 2005 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2005 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ Deloitte & Touche LLP

Cleveland, OH
June 16, 2006

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
RETIREMENT SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS:		
Investments at fair value:		
Applied Industrial Technologies, Inc. common stock	\$101,308,754	\$ 80,646,055
Mutual funds	163,358,119	144,064,605
Common/collective trust funds	42,519,751	41,434,628
Loans to participants	8,212,544	7,423,278
	-----	-----
Total investments	315,399,168	273,568,566
	-----	-----
NET ASSETS AVAILABLE FOR BENEFITS	\$315,399,168	\$273,568,566
	=====	=====

See notes to financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
RETIREMENT SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2005 and 2004

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

ADDITIONS:

Contributions:

Participants	\$ 9,743,370	\$ 9,103
Participants' rollovers	2,478,802	561
Employer:		
Applied Industrial Technologies, Inc. common stock	6,542,977	5,752
Cash	3,599,698	2,020
	-----	-----
Total contributions	22,364,847	17,437

Investment income:

Dividends, interest and other:		
Applied Industrial Technologies, Inc. common stock	1,422,908	976
Mutual funds	4,979,301	2,814
Common/collective trust funds	69,460	55
	-----	-----
Total dividends, interest and other	6,471,669	3,846
Net appreciation in fair value of investments:		
Applied Industrial Technologies, Inc. common stock	18,407,127	32,637
Mutual funds	10,553,659	14,029
Common/collective trust funds	1,015,663	1,358
	-----	-----
Total net appreciation in fair value of investments:	29,976,449	48,025
	-----	-----
Total investment income	36,448,118	51,872
	-----	-----
Total additions	58,812,965	69,309

DEDUCTIONS:

Distributions to participants	16,753,737	15,446
Administrative expenses	228,626	224
	-----	-----
Total deductions	16,982,363	15,671

INCREASE IN NET ASSETS FOR THE YEAR 41,830,602 53,638

NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF THE YEAR 273,568,566 219,930

NET ASSETS AVAILABLE FOR BENEFITS, END OF THE YEAR \$315,399,168 \$273,568

See notes to financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

1. DESCRIPTION OF THE PLAN

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

The following description of the Applied Industrial Technologies, Inc. Retirement Savings Plan (the "Plan") is provided for general purposes only. Participants and users of the financial statements should refer to the Plan document for more complete information.

GENERAL - The Plan was established for the purpose of encouraging and assisting domestic employees of Applied Industrial Technologies, Inc. and its subsidiaries (the "Company") to provide long-term, tax-deferred savings for retirement. The Plan is subject to the reporting and disclosure requirements, the minimum participation and vesting standards, and the fiduciary responsibility requirements of the Employee Retirement Income Security Act of 1974.

ADMINISTRATION - The Plan is administered by the Company. The Company's powers and duties relate to making participant and employer contributions to the Trust, establishing investment options, authorizing disbursements from the Trust, and resolving any questions of Plan interpretation.

The assets of the Plan are maintained and administered by Ameriprise Trust Company and Ameriprise Retirement Services (prior to August 2005, known as American Express Retirement Services), acting as Trustee and record keeper. The Trustee is responsible for the custody of assets.

PARTICIPANT ACCOUNTS -- Each participant's account is credited with the participant's contributions and allocations of (a) the Company's contributions and (b) Plan earnings, and charged with an allocation of administrative expenses. Allocated expenses are based on participant contributions, account balances, or can be per capita, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested portion of their account.

PARTICIPATION AND CONTRIBUTIONS -- All eligible employees may participate in the Plan on the first payroll period following 30 days of employment.

Eligible employees may elect to make pretax contributions to the Plan ranging from 1% to 50% of compensation. For those eligible employees who do not make a contribution election, their compensation is automatically reduced by two percent and contributed on their behalf to the Plan as contributions until superseded by a subsequent contribution election. The Company may make additional contributions to the Plan, including, but not limited to, matching contributions equal to a percentage of participant pretax contributions not in excess of 6% of the participant's compensation, and discretionary profit-sharing contributions as determined annually. Matching employer contributions are determined based upon the Company's earnings per share for the immediately preceding calendar year quarter and the participant's investment elections. Except in the case of death, disability, or retirement, a participant must be employed through the last payroll period of the quarter to receive the Plan's quarter match. The matching employer contribution is updated annually based on the Company's June 30 fiscal year end and is currently determined using the following schedule:

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

SUBSEQUENT QUARTER MATCHING CONTRIBUTION

	\$.25	\$.35	\$.50	\$.75	\$1.00

	QUARTERLY EPS				
Quarter Ended 9/30/05	\$.27 or less	\$.27	\$.33	\$.37	\$.39
Quarter Ended 12/31/05	.24	.25	.29	.31	.33
Quarter Ended 3/31/06	.28	.29	.34	.37	.39
Quarter Ended 6/30/06	.32	.33	.39	.41	.43

The quarterly EPS amounts presented above have been restated to reflect the Company's three-for-two stock split effective June 15, 2006.

The employer match on participant contributions was \$1.00, \$1.00, \$1.00, and \$.50 for the four quarters of 2005, and \$.35, \$1.00, \$1.00 and \$1.00 for the four quarters of 2004, respectively.

Matching employer contributions are made primarily in shares of Applied Industrial Technologies, Inc. common stock to the Company Stock Fund. Participants that elect to contribute to the Company Stock Fund, receive an additional 10% Bonus Match on the participant's pretax contributions not in excess of 6% of the participant's compensation. The Bonus Match is also made primarily in shares of Applied Industrial Technologies, Inc. common stock to the Company Stock Fund. Matching employer contributions and Bonus Match are invested in the Company Stock Fund and cannot be transferred to other investment options until age 55.

The Company may also make a profit-sharing contribution to the Plan annually. Participants must be employed on June 30 of such Plan year and have completed at least one year of service, as defined in the Plan agreement, as of June 30 to be eligible to receive an allocation of the profit-sharing contribution. Additionally, the Company may contribute a special profit-sharing contribution to individuals who retire after attaining age 55 and completing ten years of service. Profit-sharing contributions are allocated to each participant's profit-sharing contribution account based upon the ratio of each participant's total compensation to the aggregate compensation of all participants eligible to receive a profit-sharing contribution. The profit-sharing contributions for the years ended December 31, 2005 and 2004 were composed of \$3,599,698 and \$2,020,515 in cash, and \$328,410 and \$173,524 in Applied Industrial Technologies, Inc. common stock, respectively.

Contributions are excluded from participants' taxable income until such amounts are received by them as a distribution from the Plan.

The Plan permits catch-up contributions for participants who are age 50 or older and defer the maximum amount allowed under the Plan. Maximum catch-up contribution limits were \$4,000 in 2005 and \$3,000 in 2004.

The Plan provides for Rollover Contributions (amounts previously distributed to the participants from certain other tax-qualified plans) and Transfer Contributions (assets transferred from certain other tax-qualified plans) by or on behalf of an employee in accordance with

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

procedures established by the Company.

INVESTMENT OF CONTRIBUTIONS - Participants elect investment of profit-sharing and pretax contributions in 1% increments in the Company's Stock, RVST Income Fund II, American Fundamental Investors Fund, American EuroPacific Growth Fund, T Rowe Price Mid-Cap Growth Fund, Pimco Total Return Fund, Franklin Small-Cap Growth II Fund, Vanguard Asset Allocation Fund, AIT Large-Cap Growth Fund (consisting of Vanguard Growth Index

5

Fund, Harbor Capital Appreciation Fund and Wilshire Target Large Growth Fund), RVS S&P 500 Index Fund, Lord Abbett Mid-Cap Value Fund, Royce Total Return Fund, Calamos Growth Fund, or the Washington Mutual Investors Fund. The portion of the Plan that is invested in the Company Stock Fund is intended to be an Employee Stock Ownership Plan (ESOP) under code section 4975 (e) (7) and ERISA section 407 (d) (6). Participants may elect to change their investment elections as to future contributions and may also elect to reallocate a portion or all of their account balances among the investment choices in increments of 1% of the total amount to be reallocated. All such elections are filed with the Trustee and become effective daily.

During plan year 2004, the Washington Mutual investor's Fund was added to the Plan and the Alliance Growth & Income Fund was removed.

The value of the Company's common stock and other funds and the interest of individual participants under each investment are calculated daily (daily valuation).

VESTING AND DISTRIBUTIONS - Each participant is immediately and fully vested in their participant contributions and earnings thereon. Participants vest in Matching Employer Contributions and Profit-Sharing Contributions at a rate of 25% for each year of eligible service, becoming completely vested after four years, or at death, termination of employment due to physical or mental disability determined by the Company upon the basis of a written certificate of a physician selected by it, or normal early retirement as defined in the Plan.

Upon termination of employment, participants may receive lump sum or installment distributions of their vested account balances as soon as administratively possible. The Plan permits hardship withdrawals, if the hardship criteria is met, or in-service distributions at age 59 1/2. These distributions are limited to participant rollovers, salary deferral and catch-up contributions.

Forfeitures of nonvested amounts are applied to reduce future matching employer contributions. Total forfeitures were \$45,459 in 2005 and \$72,687 in 2004.

LOANS - Participants may borrow from their 401(k) contributions, 401(k) catch-up contributions, rollover contributions and transferred contributions a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of the aggregate sum of the participants' accounts. Loan terms range from 1-5 years or up to ten years if used for the purchase of a primary residence. Loans that originated from merged plans are also reflected in loans to participants in the Plan's financial statements. These loans are to be repaid to the Plan in

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

accordance with their original terms. The loans are secured by the balance in the participants' accounts and bear interest at rates prevailing at the time the loans were made. Principal and interest are paid ratably through bi-weekly payroll deductions. Funds cannot be borrowed from the profit-sharing or Company matching contributions.

Deemed distributed loans, as defined by the Department of Labor, are included as part of loans to participants, which are included in the assets of the Plan. The amount of deemed distributed loans were \$243,056 in 2005 and \$189,645 in 2004.

PLAN TERMINATION - The Plan was adopted with the expectation that it will continue indefinitely. The Company may, however, terminate the Plan at any time and may amend the Plan from time to time. In the event of termination of the Plan, all participants will immediately become fully vested in their accounts.

6

TAX STATUS OF THE PLAN - The Plan obtained its latest determination letter dated July 12, 2003, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving this determination letter. The amended Plan is dated November 5, 2005 which amends the Plan effective March 1, 2003. The Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

RECLASSIFICATIONS - Certain prior period amounts have been reclassified to conform to the current year presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The accompanying financial statements have been prepared on the accrual basis of accounting.

USE OF ESTIMATES -- The preparation of the 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 amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

VALUATION OF INVESTMENTS - Investments are accounted for at cost on the trade-date and are reported in the statement of net assets available for benefits at fair value. The investment in Applied Industrial Technologies, Inc. common stock is valued using the year-end closing price listed by the New York Stock Exchange. Investment funds are stated at values using year-end closing prices for each of the funds or quoted market prices. Participant loans are stated at cost, which approximates fair value.

RISKS AND UNCERTAINTIES -- In general, investment securities are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

in the values of investment securities could occur in the near term, and such changes could materially affect the amounts reported in the statements of net assets available for benefits and statement of changes in net assets available for benefits.

BENEFIT PAYMENTS - Distributions to participants are recorded by the Plan when payments are made.

ADMINISTRATIVE EXPENSES - Administrative expenses of the Plan are paid by the Plan or the Company, as determined by the Company.

3. INVESTMENTS

The Plan provides that, in accordance with the investment objectives established by the Company, the Trustee of the Plan shall hold, invest, reinvest, manage and administer all assets of the Plan as a trust fund for the exclusive benefit of participants and their beneficiaries.

Plan investments exceeding 5% of net assets available for benefits as of December 31, 2005 and 2004 were as follows:

7

DESCRIPTION OF INVESTMENT	2005 -----
Applied Industrial Technologies, Inc. Common Stock	\$101,308,754
RVST Income II Fund	42,519,751
American Fundamental Investors Fund	35,314,446
American EuroPacific Growth Fund	24,842,975
AIT Large-Cap Growth Fund	24,446,949

4. NON-PARTICIPANT-DIRECTED INVESTMENTS

The Plan's only non-participant directed transactions are contained within the Company Stock Fund, which includes both participant and non-participant directed transactions. Information about the net assets and the significant components of the changes in net assets relating to the Company Stock Fund is as follows:

	2005 -----	2004 -----
Net Assets:		
Common stock	\$101,308,754	\$ 80,6

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

Change in Net Assets:		
Contributions	\$ 7,778,848	\$ 6,5
Dividends	1,422,908	9
Net appreciation in fair value	18,407,127	32,6
Benefits paid to participants	(4,931,604)	(2,6
Transfers to participant-directed investments, net	(2,014,580)	(1,7
	-----	-----
	\$ 20,662,699	\$ 35,7
	=====	=====

5. SUBSEQUENT EVENTS

As of May 8, 2006, the diversification rules relating to Matching Contributions invested in the Company Stock Fund were expanded. Any Participant under age 50 is now permitted to elect during a Plan Year to transfer up to 25% of the portion of his or her Matching Contribution Account invested in the Company Stock Fund to other investment options offered under the Plan; provided, however, that at least 12 months have elapsed since the immediately preceding election. Any Participant who has attained age 50 is now permitted to transfer up to 100% of his or her Matching Contribution Account invested in the Company Stock Fund to other investment options offered under the Plan.

On May 2, 2006, the Company's Board of Directors declared a three-for-two stock split of the Company's common stock. The stock split was paid on June 15, 2006 to shareholders of record on June 1, 2006. All share and per share data have been restated to reflect this three-for-two stock split.

8

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
RETIREMENT SAVINGS PLAN

Employer ID Number: 34-0117420
Plan Number: 003

SCHEDULE H LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2005

(a)	(b)	(c)
	IDENTITY OF ISSUER, BORROWER, LESSOR OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT
*	Applied Industrial Tech., Inc.	Common Stock - 3,329,895 units
*	Ameriprise Trust Company	RVST Income Fund II - 1,666,171 units

Edgar Filing: APPLIED INDUSTRIAL TECHNOLOGIES INC - Form 11-K

The American Funds Group	American Fundamental Investors Fund - 997,583 units
The American Funds Group	American EuroPacific Growth Fund - 603,839 units
T. Rowe Price	T Rowe Price Mid-Cap Growth Fund - 266,526 units
Pimco Fund	Pimco Total Return Fund - 1,370,475 units
Franklin Templeton	Franklin Small-Cap Growth II Fund - 1,012,910 units
The Vanguard Group	Vanguard Asset Allocation Fund - 373,101 units
The Vanguard Group Index Fund	Vanguard Growth Index Fund - 609,459 units
* Participant Loans	Participant Loans (with interest rates ranging from 7.00% to 11.50% and maturity dates ranging from January 2006 to July 2027)
Wilshire Target Fund	Wilshire Target Large Growth Fund - 472,461 units
Harbor Fund	Harbor Capital Appreciation Fund - 498,217 units
* Ameriprise Trust Company	RVS S&P 500 Index Fund - 1,502,250 units
Lord Abbett Mid-Cap Value	Lord Abbett Mid-Cap Value Fund - 268,697 units
Royce Total Return	Royce Total Return Fund - 421,644 units
Calamos Fund	Calamos Growth Fund - 83,186 units
Washington Mutual	Washington Mutual Investors Fund - 147,776 units

Total

* Represents a party-in-interest

** Indicates a participant-directed fund. The cost disclosure not required.