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APPLIED INDUSTRIAL TECHNOLOGIES INC  
Form 8-K  
April 15, 2004

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

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): April 15, 2004

APPLIED INDUSTRIAL TECHNOLOGIES, INC.  
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(Exact name of registrant as specified in its charter)

OHIO  
----  
(State or Other Jurisdiction of  
Incorporation or Organization)

1-2299  
-----  
(Commission File  
Number)

34-01  
-----  
(I.R.S. E  
Identifica

One Applied Plaza, Cleveland, Ohio 44115  
-----  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (216) 426-4000.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Attached to this filing and incorporated by reference herein is the text of registrant's press release dated April 15, 2004 regarding third quarter results.

None of the contents of this Form 8-K should be deemed incorporated by reference into a Securities Act registration statement.

SIGNATURE

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

APPLIED INDUSTRIAL TECHNOLOGIES, INC.  
(Registrant)

By: /s/ Fred D. Bauer

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Fred D. Bauer  
Vice President-General Counsel  
& Secretary

Date: April 15, 2004

## APPLIED INDUSTRIAL TECHNOLOGIES REPORTS INCREASED SALES AND EARNINGS FOR ITS THIRD QUARTER, RAISES GUIDANCE FOR FOURTH QUARTER

CLEVELAND, OH (April 15, 2004) - Applied Industrial Technologies (NYSE: AIT) today reported significantly improved financial results for its fiscal 2004 third quarter, which ended March 31, 2004. Sales and earnings exceeded management's previous guidance.

Net sales for the quarter were \$391,053,000, up 6.2% compared with \$368,203,000 in the same period a year ago. Net income for the quarter increased 142.1% to \$10,611,000 from \$4,383,000 last year. Earnings per share increased by 134.8% to \$0.54 from \$0.23 per share in the third quarter of 2003. The third quarter of fiscal 2003 did include non-operating charges of \$1.7 million, or \$0.06 per share, to provide for potential losses on investments and advances to an affiliated company.

The third quarter of 2004 includes non-recurring tax benefits primarily from a late-March settlement with the Internal Revenue Service related to audits of the company's 1997 and 1998 tax returns as well as acceptance by the IRS of tax refund claims for 1999, 2000, and 2001. These items added \$1,587,000, or \$0.08 per share, to quarterly earnings.

For the nine months ended March 31, 2004, sales increased 1.8% to \$1,111,910,000 from \$1,091,929,000 in the same period last year. Net income increased 69.4% to \$20,576,000 or \$1.05 per share versus \$12,148,000, or \$0.63 per share, last year.

Commenting on results, Applied Chairman & Chief Executive Officer David L. Pugh said, "Riding the tide of a strengthening economy, our sales growth across North America accelerated throughout the quarter and exceeded even our most optimistic forecasts. This drove greater-than-expected operating earnings. We are benefiting from the additional earnings potential created in our business by aggressive actions taken over the past two years to improve margins, manage assets and contain costs. Our gross margin, return on assets, and SD&A as a percent of sales all improved during the third quarter from year-ago levels.

"This enhanced level of operating discipline and efficiency has allowed us to provide positive results even in a difficult economy. We will be working hard to improve our profit levels as the industrial economy rebounds.

"Looking ahead, sales guidance for our fiscal fourth quarter is \$385 million to \$400 million. Recognizing our gains in margin improvement and cost containment, earnings per share are expected to come in within a range of \$0.45 to \$0.50. Thus, for the full fiscal year ended June 30, 2004, we expect earnings per share to come in within the range of \$1.50 to \$1.55."



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NET SALES	\$ 391,053	\$ 368,20
Cost of sales	286,630	270,47
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GROSS PROFIT	104,423	97,73
Selling, distribution and administrative	89,543	87,57
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OPERATING INCOME	14,880	10,15
Interest expense, net	1,397	1,29
Other	(458)	1,96
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INCOME BEFORE INCOME TAXES	13,941	6,89
INCOME TAXES	3,330	2,51
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NET INCOME	\$ 10,611	\$ 4,38
=====		
NET INCOME PER SHARE - BASIC	\$ 0.55	\$ 0.2
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NET INCOME PER SHARE - DILUTED	\$ 0.54	\$ 0.2
=====		
AVERAGE SHARES OUTSTANDING - BASIC	19,296	18,83
=====		
AVERAGE SHARES OUTSTANDING - DILUTED	19,656	19,09
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- (1) Cost of sales for interim financial statements is computed using estimated gross profit percentages that are adjusted throughout the year based upon available information. Adjustments to actual cost are primarily made based upon physical inventories and the effect of year-end inventory quantities on LIFO costs.
- (2) Effective July 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," using the modified prospective method for the transition. Under the modified prospective method, stock based compensation cost recognized during this fiscal year is the same as that which would have been recognized had the fair value recognition provisions been applied to all awards granted after July 1, 1995. The compensation expense recorded during the quarter ended March 31, 2004 was \$629 or \$.02 per share. During the nine months ended March 31, 2004, compensation expense recorded for stock based compensation was \$1,315 or \$.04 per share.
- (3) During the quarter ended March 31, 2004, the Company recorded non-recurring tax benefits primarily from a settlement with the Internal Revenue Service related to audits of our 1997 and 1998 tax returns and the acceptance by the IRS of tax refund claims for 1999, 2000, and 2001. These items added \$1,587, or \$0.08 per share, to net income.
- (4) During the quarter ended March 31, 2003, the Company recorded a liability of \$1,700 to provide for potential losses on investments and advances for iSource Performance Materials L.L.C. (iSource) of which the Company is a minority owner. iSource is a certified minority-owned distributor of

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standard-use industrial specialty and general maintenance items requiring special shipping and handling. In accordance with FIN 46, "Consolidation of Variable Interest Entities," iSource's financial statements were consolidated with the Company's beginning in July 2003. The effect of the consolidation was not material to the Company's consolidated financial statements.

### APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

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(Amount in Thousands)

	March 31, 2004
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ASSETS	
Cash	\$ 33,386
Accounts receivable, less allowances of \$6,600 and \$6,100	190,932
Inventories	178,209
Other current assets	15,751
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Total current assets	418,278
Property - net	78,662
Goodwill	49,934
Other assets	26,486
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TOTAL ASSETS	\$ 573,360
=====	
LIABILITIES	
Accounts payable	\$ 80,714
Other current liabilities	62,579
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Total current liabilities	143,293
Long-term debt	77,965
Other liabilities	26,464
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TOTAL LIABILITIES	247,722
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SHAREHOLDERS' EQUITY	325,638
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 573,360
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### APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (Amount in Thousands)

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	Nine Months
	2004
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CASH PROVIDED FROM OPERATIONS:	
Net income	\$ 20,576
Items not requiring cash:	
Depreciation and amortization	12,882
Other	4,109
Gain on sale of property	(102)
Cash effect of changes in working capital	(35,077)
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CASH PROVIDED FROM OPERATIONS	2,388
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INVESTING ACTIVITIES:	
Property purchases	(11,916)
Proceeds from property sales	1,004
Net cash paid for acquisition of business	(1,285)
Deposits and other	(966)
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CASH USED IN INVESTING ACTIVITIES	(13,163)
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FINANCING ACTIVITIES:	
Borrowings and repayments of notes payable - net	(2,850)
Repayment of long-term debt	
Proceeds from termination of interest rate swap	
Purchase of common stock for treasury	(6,258)
Cash dividends paid	(6,945)
Exercise of stock options	5,135
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CASH USED BY FINANCING ACTIVITIES	(10,918)
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INCREASE (DECREASE) IN CASH	\$ (21,693)
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