



DIRECTOR INDEPENDENCE STANDARDS

The New York Stock Exchange (“NYSE”) listing standards require that a majority of Applied’s directors be independent. For a director to be considered independent, the Board of Directors must determine that the director does not have a material relationship with Applied, either directly or as a partner, shareholder, or officer of an organization that has a relationship with Applied. In each case, the Board will broadly consider all relevant facts and circumstances, including the director’s commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships.

The Board has established the following categorical standards to assist it in determining independence in accordance with the NYSE listing standards and other rules and regulations.

1. A director will not be considered independent if the director fails to qualify as an “independent director” under the NYSE listing standards. In particular, a director will not be independent if:
 - (a) Within the preceding three years, the director was employed by Applied or an immediate family member of the director was an Applied executive officer;
 - (b) Within the preceding three years, the director received, or an immediate family member received, more than \$120,000 during any twelve month period in direct compensation from Applied, other than for director and committee fees and pension or other forms of deferred compensation for prior service (provided the compensation is not contingent in any way on continued service);
 - (c) (i) The director is a current partner or employee of a firm that is Applied’s internal or external auditor; (ii) the director has an immediate family member who is a current partner of such a firm; (iii) the director has an immediate family member who is a current employee of such a firm and personally works on Applied’s audit; or (iv) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on Applied’s audit within that time; or,
 - (d) Within the preceding three years, a current Applied executive officer served on the compensation committee of a company at the same time it employed the director, or an immediate family member of the director, as an executive officer.
2. In addition to the relationships described in section 1, Audit Committee members may not (i) directly or indirectly accept any consulting, advisory or other compensatory fee from Applied or (ii) be an affiliated person of Applied. Audit Committee members may receive directors’ fees, in the form of cash, stock, stock options or other consideration ordinarily available to directors, as well as standard director benefits.
3. The following commercial and charitable relationships will not be considered material relationships with Applied that preclude an independence determination:

- (a) If (i) an Applied director receives director or committee fees, or standard director benefits, or (ii) the director, or the director's immediate family member, receives or is entitled to receive pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (b) If an Applied director, or the director's immediate family member, is a director, officer, or employee of another company that, during the preceding three fiscal years, made payments to, or received payments from, Applied for goods or services in the ordinary course of business in an amount which, in each single fiscal year, was less than \$1,000,000 or 2%, whichever is greater, of the other company's annual consolidated gross revenues;
- (c) If an Applied director, or the director's immediate family member, is a director, officer, or employee of a bank or financial institution which is or was indebted to Applied, or to which Applied is or was indebted, in the preceding three fiscal years and (i) the loans or deposits were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arm's-length loans and did not involve more than a normal risk of collectibility or present other unfavorable features, or (ii) the total amount of either entity's indebtedness to the other throughout the preceding three fiscal years was less than 5% of Applied's total consolidated assets; or,
- (d) If an Applied director, or the director's immediate family member, serves as an officer, director, trustee, or employee of a foundation, university, or charitable or other non-profit organization, and Applied's aggregate contributions to the organization, in each of the preceding three fiscal years, were less than \$120,000.

4. For relationships not covered by the categorical standards in paragraphs 1 and 3, the determination of whether the relationship is material or not, and therefore whether the director would be independent or not, will be made by the directors already determined by the Board to be independent.

5. The Board will undertake an annual review of the independence of all directors. In advance of the meeting at which this review occurs, each director will be asked to provide the Board with full information regarding the director's (including immediate family members') business, charitable, and other relationships with Applied to enable the Board to evaluate the director's independence.

6. Directors will inform the Board of any material changes in their circumstances or relationships that may impact their independence. This obligation includes all business, charitable and other relationships between directors (including immediate family members) and Applied.

The ownership of stock in Applied by directors is encouraged and the ownership of a substantial amount of stock is not in itself a basis for a director to be considered not independent.

For purposes of these standards, "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than a tenant or domestic employee) who shares such person's home. Also for purposes of these standards, "Applied" includes Applied Industrial Technologies, Inc. and any of its subsidiaries.