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APPLIED INDUSTRIAL TECHNOLOGIES INC  
Form 8-K  
January 13, 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): January 13, 2004

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

OHIO ----	1-2299 -----	34-0117420 -----
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

One Applied Plaza, Cleveland, Ohio 44115  
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(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 January 13, 2004 regarding second quarter results.

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

SIGNATURE  
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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: January 13, 2004

### Applied Industrial Technologies Reports Improved Second Quarter Sales, Earnings

CLEVELAND, OHIO (January 13, 2004) - Applied Industrial Technologies (NYSE: AIT) today reported sales and earnings that exceeded guidance for its fiscal 2004 second quarter, which ended December 31, 2003. Earnings per share rose by more than 20% for the fifth consecutive quarter.

Net sales for the quarter were \$359,711,000, up 1.1% compared with \$355,707,000 in the same period a year ago. Net income for the quarter increased 33% to \$5,133,000 from \$3,860,000. Earnings per share increased by 30% to \$0.26 from \$0.20 per share last year.

For the six months ended December 31, 2003, sales decreased 0.4% to \$720,857,000 from \$723,726,000 in the same period last year. Net income increased 28% to \$9,965,000, or \$0.51 per share, compared to \$7,765,000, or \$0.40 per share, last year.

Commenting on results, Applied Chairman & Chief Executive Officer David L. Pugh said, "We continue to show good attention to detail in driving efficiencies in our operations. The discipline we have instilled should serve us well when the economic recovery reaches the MRO buyers. If the manufacturing sector continues on its current path, we should begin to see the benefits in our fourth quarter.

"While optimism reigns, our current quarter sales trend remained similar to what we had been experiencing. Canada still is showing improvement to offset a decline of 1.5% in our U.S. same store sales compared to last year. Our operations have done an excellent job of increasing their profitability.

"Looking ahead, we expect our third quarter to offer more of the same that we have been seeing with sales in the \$370 million to \$380 million range, delivering earnings between \$0.26 and \$0.31 per share. We expect to end the year in line with previous guidance of sales in the \$1.4 billion to \$1.5 billion range and earnings of \$1.10 to \$1.20 per share."

For the six months ended December 31, 2003, the company repurchased 96,000 shares of stock for \$2.1 million. At December 31, 2003, board authorization was in place to repurchase up to 1 million additional shares.

Applied will host its second quarter conference call at 3 p.m. today (Tuesday, January 13). To join in the call, dial 1-800-810-0924 and use passcode 381657. The call will be conducted by Chairman & CEO David L. Pugh, President & COO Bill L. Purser and CFO Mark O. Eisele. The call will also be webcast and can be accessed live online at [www.applied.com](http://www.applied.com) and will be archived there for seven days. A replay of the teleconference will be available at 1-888-203-1112 from 6 p.m. on January 13 through 12 midnight on January 28.

With more than 430 facilities and 4,300 employee associates across North America, Applied Industrial Technologies offers more than 2 million parts critical to the operations of MRO and OEM customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for

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industrial and fluid power applications, as well as customized mechanical, fabricated rubber and fluid power shop services. For its fiscal year

ended June 30, 2003, the Company posted sales of \$1.46 billion. Applied can be visited on the Internet at [www.applied.com](http://www.applied.com).

This press release contains statements that are forward-looking, as that term is defined by the Securities and Exchange Commission in its rules, regulations and releases. Forward-looking statements are often identified by qualifiers such as "expect," "should," "see" and similar expressions. Applied intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors including trends in the industrial sector of the economy, and other risk factors identified in Applied's most recent periodic report and other filings made with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved. Applied assumes no obligation to update publicly or revise any forward-looking statements, whether due to new information, or events, or otherwise.

(A financial summary is attached.)

For more information, contact Mark O. Eisele, Vice President - Chief Financial Officer & Treasurer, at 216/426-4417.

### APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

#### CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Thousands, except per share data)

	Three Months Ended		
	December 31		
	2003	2002	
NET SALES	\$ 359,711	\$ 355,707	\$ 72
Cost of sales	264,545	264,516	53
GROSS PROFIT	95,166	91,191	18
Selling, distribution and administrative	85,916	83,871	17
OPERATING INCOME	9,250	7,320	1
Interest expense, net	1,405	1,342	
Other	(108)	38	
INCOME BEFORE INCOME TAXES	7,953	5,940	1
INCOME TAXES	2,820	2,080	

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NET INCOME	\$ 5,133	\$ 3,860	\$
NET INCOME PER SHARE - BASIC	\$ 0.27	\$ 0.20	\$
NET INCOME PER SHARE - DILUTED	\$ 0.26	\$ 0.20	\$
AVERAGE SHARES OUTSTANDING - BASIC	19,227	18,954	1
AVERAGE SHARES OUTSTANDING - DILUTED	19,637	19,233	1

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) During the quarter ended September 30, 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 December 31, 2003 was \$327 or \$.01 per share. During the six months ended December 31, 2003, compensation expense recorded for stock based compensation was \$686 or \$.02 per share.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amount in Thousands)

	December 31, 2003	June 30, 2003
<b>ASSETS</b>		
Cash	\$ 24,401	\$ 55,079
Accounts receivable, less allowances of \$6,200 and \$6,100	170,074	173,915
Inventories	191,249	159,798
Other current assets	13,536	11,702
<b>Total current assets</b>	<b>399,260</b>	<b>400,494</b>
Property - net	81,207	77,942
Goodwill	50,433	49,687
Other assets	25,600	25,281

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TOTAL ASSETS	\$556,500	\$553,404
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LIABILITIES		
Accounts payable	\$ 74,040	\$ 75,411
Other current liabilities	58,592	65,724
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Total current liabilities	132,632	141,135
Long-term debt	78,163	78,558
Other liabilities	26,684	25,855
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TOTAL LIABILITIES	237,479	245,548
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SHAREHOLDERS' EQUITY	319,021	307,856
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$556,500	\$553,404
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APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Amount in Thousands)

	Six Months Ended December 31	
	2003	2002
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CASH PROVIDED FROM OPERATIONS:		
Net income	\$ 9,965	\$ 7,765
Items not requiring cash:		
Depreciation and amortization	8,491	7,953
Other	3,380	1,394
Gain on sale of property	(89)	(2,577)
Cash effect of changes in working capital	(35,053)	8,063
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CASH PROVIDED FROM (USED IN) OPERATIONS	(13,306)	22,598
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INVESTING ACTIVITIES:		
Property purchases	(10,317)	(5,049)
Proceeds from property sales	373	5,151
Net cash paid for acquisition of business	(1,285)	(10,255)
Deposits and other	(149)	1,426
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CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES	(11,378)	(8,727)
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FINANCING ACTIVITIES:		
Borrowings and repayments of notes payable - net	(2,850)	
Repayment of long-term debt		(5,714)
Proceeds from termination of interest rate swap		2,517
Purchase of common stock for treasury	(2,091)	(3,934)
Cash dividends paid	(4,610)	(4,596)

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Exercise of stock options	3,557	275
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CASH USED BY FINANCING ACTIVITIES	(5,994)	(11,452)
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INCREASE (DECREASE) IN CASH	\$ (30,678)	\$ 2,419
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