FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2001

Commission file number 1-5318

KENNAMETAL INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-0900168
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

WORLD HEADQUARTERS
1600 TECHNOLOGY WAY
P.O. BOX 231
LATROBE, PENNSYLVANIA 15650-0231
(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (724) 539-5000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate the number of shares outstanding of each of the issuer's classes of capital stock, as of the latest practicable date:

Title Of Each Class	Outstanding at January 31, 2002
Capital Stock, par value $1.25 per share	31,070,931

KENNAMETAL INC.
FORM 10-Q
FOR QUARTER ENDED DECEMBER 31, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
OPERATIONS				
Net sales	$ 380,338	$ 443,565	$ 786,992	$ 897,200
Cost of goods sold	263,873	292,149	540,688	593,168
Gross profit	116,465	151,416	246,304	304,032
Operating expense	93,139	105,166	193,016	216,452
Restructuring and asset impairment charge	17,128	812	18,706	2,347
Amortization of intangibles	689	6,147	1,379	12,470
Operating income	5,509	39,291	33,203	72,763
Interest expense	8,290	13,400	17,655	26,595
Other expense (income), net	105	2,335	(165)	4,893
Income (loss) before provision for income taxes and minority interest	(2,886)	23,556	15,713	41,275
Provision for income taxes	(923)	9,128	5,029	16,304
Minority interest	497	904	701	1,506
Income (loss) before cumulative effect of change in accounting principle	(2,460)	13,524	9,983	23,465
Cumulative effect of change in accounting principle, net of tax of $399	--	--	--	(599)
Net income (loss)	$ (2,460)	$ 13,524	$ 9,983	$ 22,866
PER SHARE DATA				
Basic earnings (loss) per share before cumulative effect of change in accounting principle	$ (0.08)	$ 0.44	$ 0.32	$ 0.77
Cumulative effect of change in accounting principle per share	--	--	--	(0.02)
Basic earnings (loss) per share	$ (0.08)	$ 0.44	$ 0.32	$ 0.75
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	$ (0.08)	$ 0.44	$ 0.32	$ 0.77
Cumulative effect of change in accounting principle per share	--	--	--	(0.02)
Diluted earnings (loss) per share	$ (0.08)	$ 0.44	$ 0.32	$ 0.75
Dividends per share	$ 0.17	$ 0.17	$ 0.34	$ 0.34
Basic weighted average shares outstanding	30,926	30,384	30,958	30,543
Diluted weighted average shares outstanding	30,926	30,548	31,405	30,639

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	December 31, 2001	June 30, 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 10,414	$ 12,940
Marketable equity securities available-for-sale	7,678	12,419
Accounts receivable, less allowance for doubtful accounts of $9,159 and $7,999	162,916	206,175
Inventories	367,724	373,221
Deferred income taxes	67,215	57,452
Other current assets	17,050	18,989
Total current assets	632,997	681,196
Property, plant and equipment:		
Land and buildings	228,555	227,382
Machinery and equipment	799,836	776,494
Less accumulated depreciation	(580,128)	(531,002)
Net property, plant and equipment	448,263	472,874
Other assets:		
Investments in affiliated companies	4,224	3,875
Intangible assets, less accumulated amortization of $109,134 and $108,675	624,058	624,760
Other	56,573	42,737
Total other assets	684,855	671,372
Total assets	$ 1,766,115	$ 1,825,442
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$ 403,389	$ 2,031
Notes payable to banks	3,288	22,499
Accounts payable	101,817	118,073
Accrued vacation pay	28,218	29,134
Accrued income taxes	1,764	16,425
Accrued payroll	19,713	22,189
Other current liabilities	81,961	84,134
Total current liabilities	640,150	294,485
Long-term debt and capital leases, less current maturities	173,514	582,585
Deferred income taxes	54,204	53,844
Other liabilities	89,880	87,898
Total liabilities	957,748	1,018,812
Minority interest in consolidated subsidiaries	9,271	9,861
SHAREOWNERS' EQUITY		
Preferred stock, no par value; 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 33,768 and 33,615 shares issued	42,210	42,018
Additional paid-in capital	368,490	353,804
Retained earnings	540,105	540,965
Treasury shares, at cost; 2,752 and 2,774 shares held	(73,976)	(65,963)
Unearned compensation	(5,359)	(2,165)
Accumulated other comprehensive loss	(72,374)	(71,890)
Total shareowners' equity	799,096	796,769
Total liabilities and shareowners' equity	$ 1,766,115	$ 1,825,442

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
OPERATING ACTIVITIES		
Net income	$ 9,983	$ 22,866
Adjustments for non-cash items:		
Depreciation	35,924	36,595
Amortization	1,379	12,470
Restructuring and asset impairment charge	12,526	524
Cumulative effect of change in accounting principle, net of tax	--	599
Other	(207)	869
Changes in certain assets and liabilities, net of acquisition:		
Accounts receivable	57,511	27,296
Proceeds from (reductions in) accounts receivable securitization	(12,200)	600
Inventories	7,913	17,695
Accounts payable and accrued liabilities	(25,866)	(22,453)
Other	(21,884)	(9,885)
Net cash flow from operating activities	65,079	87,176
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(20,114)	(22,980)
Disposals of property, plant and equipment	3,525	844
Purchase of subsidiary stock	--	(42,628)
Other	(6,356)	(196)
Net cash flow used for investing activities	(22,945)	(64,960)
FINANCING ACTIVITIES		
Net decrease in notes payable	(19,134)	(693)
Net decrease in revolver and other lines of credit	(16,122)	(9,100)
Term debt borrowings	81	675
Term debt repayments	(585)	(944)
Purchase of treasury stock	(12,417)	(16,494)
Dividend reinvestment and employee benefit and stock plans	15,139	9,862
Cash dividends paid to shareowners	(10,814)	(10,371)
Other	(665)	(805)
Net cash flow used for financing activities	(44,517)	(27,870)
Effect of exchange rate changes on cash and equivalents	(143)	1,624
CASH AND EQUIVALENTS		
Net decrease in cash and equivalents	(2,526)	(4,030)
Cash and equivalents, beginning of year	12,940	22,323
Cash and equivalents, end of period	$ 10,414	$ 18,293
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 17,300	$ 27,741
Income taxes paid	22,572	18,571

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in our 2001 Annual Report. The condensed consolidated balance sheet as of June 30, 2001 was derived from the audited balance sheet included in our 2001 Annual Report. These interim statements are unaudited; however, we believe all adjustments necessary for a fair presentation were made. The results for the three and six months ended December 31, 2001 and 2000 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. We reclassified certain amounts in the prior years' condensed consolidated financial statements to conform with the current year presentation.

2. Inventories are stated at lower of cost or market. We use the last-in, first-out (LIFO) method for determining the cost of a significant portion of our U.S. inventories. We determine cost for the remainder of our inventories under the first-in, first-out (FIFO) or average cost methods. We used the LIFO method of valuing inventories for approximately 51 percent of total inventories at December 31, 2001. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

   Inventories as of the balance sheet dates consisted of the following (in thousands):

	December 31, 2001	June 30, 2001
Finished goods	$ 287,192	$ 284,801
Work in process and powder blends	93,770	94,231
Raw materials and supplies	34,029	32,130
Inventories at current cost	414,991	411,162
Less LIFO valuation	(47,267)	(37,941)
Total inventories	$ 367,724	$ 373,221

3. We are involved in various environmental cleanup and remediation activities at several of our manufacturing facilities. In addition, we are currently named as a potentially responsible party (PRP) at several Superfund sites in the United States. In December 1999, we recorded a remediation reserve of $3.0 million with respect to our involvement in these matters, which was recorded as a component of operating expense. This represents our best estimate of the undiscounted future obligation based on our evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. We recorded this liability because certain events occurred, including the identification of other PRPs, an assessment of potential remediation solutions and direction from the government for the remedial action plan that clarified our level of involvement in these matters and our relationship to other PRPs. This led us to conclude that it was probable a liability had been incurred. Through December 31, 2001, we incurred costs of $0.4 million, which were charged against this accrual.

   In addition to the amount currently reserved, we may be subject to loss contingencies related to these matters estimated to be up to an additional $3.0 million. We believe that such undiscounted unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. The reserved and unreserved liabilities for all environmental concerns could change substantially in the near term due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs, the identification of new PRPs and the involvement of and direction taken by government agencies on these matters.

We maintain a Corporate Environmental, Health and Safety (EH&S) Department, as well as an EH&S Policy Committee, to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, we have established an EH&S administrator at all our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we establish or adjust financial provisions and reserves for environmental contingencies in accordance with Statement of Financial Accounting Standard (SFAS) No. 5, "Accounting for Contingencies."

4. For purposes of determining the number of dilutive shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised stock options for the three months ended December 31, 2000 and for the six months ended December 31, 2001 and 2000. For the three months ended December 31, 2001, the effect of unexercised stock options is antidilutive and accordingly is excluded from the diluted loss per share calculation. Unexercised stock options to purchase our capital stock of 1.2 million and 1.6 million for the three months ended December 31, 2001 and 2000, respectively, and 1.1 million and 1.8 million shares for the six months ended December 31, 2001 and 2000, respectively, are not included in the computation of diluted earnings per share because the option price was greater than the average market price.

5. Comprehensive income (loss) for the three and six months ended December 31, 2001 and 2000 is as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Net income (loss)	$ (2,460)	$ 13,524	$ 9,983	$ 22,866
Cumulative effect of change in accounting principle, net of tax	--	--	--	1,571
Unrealized gain (loss) on derivatives designated and and qualified as cash flow hedges, net of tax	1,044	(1,838)	(489)	(2,140)
Reclassification of net unrealized gains on matured derivatives, net of tax	(414)	(455)	(1,050)	(513)
Unrealized loss on marketable equity securities available-for-sale, net of tax	(341)	(4,253)	(2,626)	(5,871)
Minimum pension liability adjustment, net of tax	127	(46)	(154)	1
Foreign currency translation adjustments	(1,417)	3,016	3,835	(7,111)
Comprehensive income (loss)	$ (3,461)	$ 9,948	$ 9,499	$ 8,803

The components of accumulated other comprehensive loss consist of the following (in thousands):

	December 31, 2001	June 30, 2001
Unrealized gain (loss) on marketable equity securities available-for-sale, net of tax	$ (1,342)	$ 1,284
Unrealized losses on derivatives designated and qualified as cash flow hedges, net of tax	(4,061)	(2,522)
Minimum pension liability adjustment, net of tax	(3,674)	(3,520)
Foreign currency translation adjustments	(63,297)	(67,132)
Total accumulated other comprehensive loss	$ (72,374)	$ (71,890)

6. On July 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," resulting in the recording of current assets of $1.6 million, long-term assets of $1.4 million, current liabilities of $1.3 million, long-term liabilities of $0.7 million, a decrease in accumulated other comprehensive loss of $1.6 million, net of tax, and a loss from the cumulative effect from the change in accounting principle of $0.6 million, net of tax. We recognized expense of $0.2 million and $0.1 million for the three months ended December 31, 2001 and 2000, respectively, and expense of $0.1 million and $0.2 million for the six months ended December 31, 2001 and 2000, respectively, as a component of other expense (income), net related to hedge ineffectiveness. Based upon foreign exchange and interest rates at December 31, 2001, we expect to recognize into earnings in the next 12 months net current liabilities of $5.4 million related to outstanding derivative instruments and net gains of $0.1 million, recorded in accumulated other comprehensive loss, related to expired derivative instruments.

7. Effective July 1, 2001, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets, including new measurement techniques for evaluating the recoverability of such assets. Under SFAS No. 142, all goodwill amortization ceased effective July 1, 2001. Material amounts of recorded goodwill attributable to each of our reporting units, including those affected by the restructuring program announced in November 2001 (see Note 8), were tested for impairment by comparing the fair value of each reporting unit with its carrying value. As a result of the adoption of this rule, we expect to record a non-cash charge of $230 million to $260 million, specific to the electronics (AMSG segment) and the industrial product group (MSSG segment) businesses, which were acquired in 1998 as part of Greenfield Industries. The fair values of these reporting units were determined using the combination of a discounted cash flow analysis and market multiples based upon historical and projected financial information. The final phase of testing, which will narrow this range to an actual charge, is expected to be completed during the March 2002 quarter. The initial phase of the impairment tests were required to be performed within six months of adoption of SFAS No. 142, or December 31, 2001, and are required at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during the June quarter, in connection with our annual budgeting process.

   Under SFAS No. 142, the impairment adjustment recognized at adoption of this standard will be reflected as a cumulative effect of a change in accounting principle, effective July 1, 2001. Impairment adjustments recognized after adoption, if any, are required to be recognized as a component of operating expense.

   The carrying amount of goodwill attributable to each segment, before the anticipated non-cash charge from the adoption of SFAS No. 142, at December 31, 2001 and June 30, 2001 is as follows (in thousands):

	December 31, 2001	June 30, 2001
MSSG	$ 316,155	$315,463
AMSG	249,503	249,345
J&L Industrial Supply	45,748	45,748
Full Service Supply	4,707	4,707
Total	$ 616,113	$615,263

   In connection with adopting SFAS No. 142, we also reassessed the useful lives and the classification of our identifiable intangible assets and determined that they continue to be appropriate. The remaining lives of these assets primarily range from one to four years. The components of our amortized intangible assets are as follows (in thousands):

	December 31, 2001		June 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract based	$ 11,556	$ (8,606)	$ 12,098	$ (7,969)
Technology based and other	4,729	(2,914)	5,098	(2,817)
Intangible pension asset	3,180	--	3,087	--
Total	$ 19,465	$ (11,520)	$ 20,283	$ (10,786)

Amortization expense for intangible assets was $0.7 million and $1.4 million for the three and six months ended December 31, 2001, respectively. Estimated amortization expense for the remainder of 2002 and the five succeeding years are as follows (in thousands):

2002 (remainder)	$1,352
2003	1,931
2004	644
2005	283
2006	219
2007	90

Actual results of operations for the three and six months ended December 31, 2001 and pro forma results of operations for the three and six months ended December 31, 2000 had we applied the non-amortization provisions of SFAS No. 142 in these periods are as follows (in thousands, except per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31	
	2001	2000	2001	2000
Reported net income (loss)	$ (2,460)	$ 13,524	$ 9,983	$ 22,866
Add: goodwill amortization, net of tax	--	5,010	--	9,221
Adjusted net income (loss)	$ (2,460)	$ 18,534	$ 9,983	$ 32,087
Basic earnings (loss) per share:				
Reported net income (loss)	$ (0.08)	$ 0.44	$ 0.32	$ 0.75
Goodwill amortization	--	0.17	--	0.30
Adjusted net income (loss)	$ (0.08)	$ 0.61	$ 0.32	$ 1.05
Diluted earnings (loss) per share:				
Reported net income (loss)	$ (0.08)	$ 0.44	$ 0.32	$ 0.75
Goodwill amortization	--	0.17	--	0.30
Adjusted net income (loss)	$ (0.08)	$ 0.61	$ 0.32	$ 1.05

8. In November 2001, we announced a restructuring program whereby we expect to recognize special charges of $15 million to $20 million, including period costs of $5 million to $6 million, for the closure of three manufacturing locations and the relocation of production of a certain product line from another plant, and associated workforce reductions. This was done in response to continued steep declines in the AMSG electronics and MSSG industrial product markets. We expect to realize ongoing annual benefits of $7 million to $9 million by the end of fiscal 2002. These actions are expected to improve our competitiveness and we expect to be substantially completed by the third quarter of fiscal 2002. Subsequently, we implemented the measures associated with the closing and consolidation of the electronics facility in Chicago, IL, and industrial product group's Pine Bluff, AR and Monticello, IN locations. As a result, we recorded restructuring charges of $11.7 million for exit costs associated with these actions, including severance for substantially all 298 employees at these facilities. Additionally, as part of the closure of the electronics plant, we recorded a non-cash charge of $0.8 million, net of salvage value, associated with the abandonment and scrapping of inventory.

This charge was recorded as a component of cost of goods sold. The total charge of $12.5 million includes non-cash items of $6.9 million. Additionally, we incurred cash expenditures of $0.5 million through December 31, 2001, resulting in an accrual of $5.1 million at December 31, 2001. We incurred period costs associated with these actions of $0.3 million in the December 2001 quarter, which were expensed as incurred as a component of cost of sales.

In 2001, we began to implement a business improvement plan in the J&L Industrial Supply (J&L) and Full Service Supply (FSS) segments. We expect to substantially complete this plan in the March 2002 quarter. In the J&L segment for the three and six months ended December 31, 2001, we recorded restructuring and asset impairment charges of $5.5 million and $7.1 million, respectively. The charge for the December 2001 quarter is comprised of $5.3 million associated with the write-down of a portion of the book value of a business system and $0.2 million for severance for 15 individuals. For the six months ended December 31, 2001, the charges for J&L are comprised of the costs associated with the business system write-down, $1.3 million for severance for 35 individuals, $0.3 million for facility closures and $0.2 million for the closure of the German operations. Additionally, as part of the closure of the German operations, we recorded a non-cash charge of $0.4 million, net of salvage value, in the December 2001 quarter associated with the abandonment and liquidation of inventory in these operations. This charge was recorded as a component of cost of goods sold.

In anticipation of migrating to a new business system, J&L capitalized costs associated with the development of functionality specifically designed for the J&L business. In the December 2001 quarter, after further evaluation of the development of the system, we determined it was no longer feasible that J&L would use this portion of the business system because the vendor ceased supporting the system. Therefore, we recorded a non-cash charge of $5.3 million, representing the portion of costs capitalized in connection with system enhancements specifically for the J&L business.

In the FSS segment for the three and six months ended December 31, 2001, we recorded restructuring charges of $0.1 million for severance related to seven individuals. Additionally in our core business in 2001, we took actions to reduce our salaried work force in response to the weakened U.S. manufacturing sector. This core-business resize program is completed.

The costs accrued for all restructuring activities were based on estimates using the latest information available at the time that the accrual was established. We continue to review our business strategies and pursue other cost-reduction activities in all business segments, some of which could result in future charges. Charges incurred for the six months ended December 31, 2001 and the restructuring accrual at December 31, 2001 are as follows (in thousands):

	June 30, 2001	Restructuring Expense For New Initiatives	Expense Adjustments	Non-Cash Adjustments	Cash Expenditures	December 31, 2001
J&L business improvement program:						
Employee severance	$ 251	$ 1,301	$ --	$ --	$ (1,362)	$ 190
Facility closures	940	505	11	--	(500)	956
Business system	--	5,257	--	(5,257)	--	--
FSS business improvement program	141	108	(71)	--	(156)	22
Core-business resize program	2,336	--	(77)	--	(1,659)	600
Total	$ 3,668	$ 7,171	$ (137)	$ (5,257)	$ (3,677)	$ 1,768

For the six months ended December 31, 2001, we incurred period costs of $0.2 million related to these initiatives, which were included in cost of goods sold as incurred. The expense adjustments for the facility closures were due to incremental costs incurred to exit these facilities. The other expense adjustments relate to reductions in actual amounts paid for severance costs compared to what was initially anticipated. We recorded expense adjustments as a component of restructuring and asset impairment charge.

In 2000, we announced plans to close, consolidate or downsize several plants, warehouses and offices, and associated work force reductions as part of our overall plan to increase asset utilization and financial performance, and to reposition Kennametal to become the premier tooling solutions supplier. The costs charged against the restructuring accrual for the 2000 programs as of December 31, 2001 were as follows (in thousands):

	June 30, 2001	Cash Expenditures	Expense Adjustments	December 31, 2001
Employee severance	$ 153	$ (130)	$ (3)	$ 20
Facility rationalizations	2,269	(1,297)	(27)	945
Total	$ 2,422	$ (1,427)	$ (30)	$ 965

In 1999, we implemented restructuring programs to reduce costs, improve operations and enhance customer satisfaction. Accruals for these 1999 programs were $0.2 million at December 31, 2001. Costs charged against the accrual for the voluntary early retirement plan for the six months ended December 31, 2001 were $0.2 million.

9. We operate four global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG), J&L and FSS, and corporate functional shared services. Our external sales, intersegment sales and operating income by segment for the three and six months ended December 31, 2001 and 2000 are as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31	
	2001	2000	2001	2000
External sales:				
MSSG	$ 218,078	$ 245,984	$ 441,035	$ 494,661
AMSG	71,614	84,377	154,619	171,888
J&L Industrial Supply	56,003	73,581	115,124	150,204
Full Service Supply	34,643	39,623	76,214	80,447
Total external sales	$ 380,338	$ 443,565	$ 786,992	$ 897,200
Intersegment sales:				
MSSG	$ 25,876	$ 25,274	$ 57,609	$ 49,240
AMSG	5,874	6,498	12,080	13,672
J&L Industrial Supply	478	1,036	1,069	2,044
Full Service Supply	668	537	1,356	3,775
Total intersegment sales	$ 32,896	$ 33,345	$ 72,114	$ 68,731
Total sales:				
MSSG	$ 243,954	$ 271,258	$ 498,644	$ 543,901
AMSG	77,488	90,875	166,699	185,560
J&L Industrial Supply	56,481	74,617	116,193	152,248
Full Service Supply	35,311	40,160	77,570	84,222
Total sales	$ 413,234	$ 476,910	$ 859,106	$ 965,931
Operating income (loss):				
MSSG	$ 17,410	$ 31,853	$ 42,081	$ 60,612
AMSG	(652)	8,739	9,711	19,930
J&L Industrial Supply	(3,665)	2,832	(2,933)	1,637
Full Service Supply	247	1,812	1,419	3,819
Corporate and eliminations	(7,831)	(5,945)	(17,075)	(13,235)
Total operating income	$ 5,509	$ 39,291	$ 33,203	$ 72,763

J&L operating income was reduced for costs associated with restructuring and asset impairment charges of $5.9 million and $0.7 million for the three months ended December 31, 2001 and 2000, respectively, and $7.5 million and $2.2 million for the six months ended December 31, 2001 and 2000, respectively. Additionally, operating income for the three and six months ended December 31, 2000 includes $0.3 million and $2.0 million, respectively, of costs primarily related to the tender offer to acquire the outstanding shares of JLK Direct Distribution Inc. Restructuring charges included in FSS operating income for the three and six months ended December 31, 2001 were $0.1 million and for the six months ended December 31, 2000 were $0.2 million.

MSSG, AMSG and Corporate operating income was reduced by $6.2 million, $6.0 million and $0.2 million, respectively, for the three and six months ended December 31, 2001 related to restructuring and asset impairment charges.

10. In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121. This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of this standard must be applied for fiscal years beginning after December 15, 2001. We are currently evaluating the effects of SFAS No. 144 and are preparing a plan for implementation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

SALES

Sales for the December 2001 quarter were $380.3 million, a decline of 14 percent from $443.6 million in the year-ago quarter. Sales in North America contributed to the majority of the decline as these industrial markets continued to weaken with the exception of mining and construction. European sales declined slightly for the first time in three years, in line with general weakness across this region.

Sales for the six months ended December 31, 2001 were $787.0 million compared to $897.2 million in the same period a year ago, a decline of 12 percent. Sales declined 11 percent excluding unfavorable foreign currency effects of one percent, the effect of a divestiture of one percent, partially offset by more workdays in the six months ended December 31, 2001. Sales in North America contributed to the majority of this decline due to weak market conditions with the exception of mining and construction, and energy. In local currency, European sales were flat with the prior year.

GROSS PROFIT MARGIN

The gross profit margin for the December 2001 quarter was 30.9 percent, a 320 basis point decline, excluding special charges, compared with 34.1 percent in the year-ago quarter. The margin decline was due principally to under absorption of fixed manufacturing costs due to lower volumes in our businesses. Manufacturing cost reductions, lean efficiencies and a slight increase in pricing offset the effect of modestly higher raw material costs and unfavorable product and customer mix. The gross profit margin for the 2001 quarter reflects a charge of $1.2 million associated with write-down of inventory that was abandoned and scrapped in connection with facility closures.

Consolidated gross profit margin was 31.3 percent for the six months ended December 31, 2001, compared with 33.9 percent in same period a year ago. Gross profit margin was affected by the factors mentioned above, including the charge for the inventory write-down.

OPERATING EXPENSE

Operating expense for the December 2001 quarter was $93.1 million, a reduction of 11 percent compared to the year-ago quarter, excluding $0.3 million of costs in the 2000 quarter related primarily to the tender offer to acquire the minority shares of JLK Direct Distribution Inc. The elimination of waste and expense through lean initiatives and other cost-cutting measures nearly kept pace with the sales decline. Excluding foreign exchange, operating expense declined 12 percent.

For the six months ended December 31, 2001, operating expense was $193.0 million, a decline of ten percent, compared to the same period a year ago, excluding costs of $2.0 million in the 2000 quarter related primarily to the JLK tender offer costs. Excluding foreign exchange, operating expense declined nine percent and was affected by the factors mentioned above.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGE

In November 2001, we announced a restructuring program whereby we expect to recognize special charges of $15 million to $20 million, including period costs of $5 million to $6 million, for the closure of three manufacturing locations and the relocation of production of a certain product line from another plant, and associated workforce reductions. This was done in response to continued steep declines in the AMSG electronics and MSSG industrial product markets. We expect to realize ongoing annual benefits of $7 million to $9 million by the end of fiscal 2002. These actions are expected to improve our competitiveness and we expect to be substantially completed by the third quarter of fiscal 2002. Subsequently, we implemented the measures associated with the closing and consolidation of the electronics facility in Chicago, IL, and industrial product group's Pine Bluff, AR and Monticello, IN locations. As a result, we recorded restructuring charges of $11.7 million for exit costs associated with these actions, including severance for substantially all 298 employees at these facilities. Additionally, as part of the closure of the electronics plant, we recorded a non-cash charge of $0.8 million, net of salvage value, associated with the abandonment and scrapping of inventory. This charge was recorded as a component of cost of goods sold. The total charge of $12.5 million includes non-cash items of $6.9 million. Additionally, we incurred cash expenditures of $0.5 million through December 31, 2001, resulting in an accrual of $5.1 million at December 31, 2001. We incurred period costs associated with these actions of $0.3 million in the December 2001 quarter, which were expensed as incurred as a component of cost of sales.

In 2001, we began to implement a business improvement plan in the J&L Industrial Supply (J&L) and Full Service Supply (FSS) segments. We expect to substantially complete this plan in the March 2002 quarter. In the J&L segment for the three and six months ended December 31, 2001, we recorded restructuring and asset impairment charges of $5.5 million and $7.1 million, respectively. The charge for the December 2001 quarter is comprised of $5.3 million associated with the write-down of a portion of the book value of a business system and $0.2 million for severance for 15 individuals. For the six months ended December 31, 2001, the charges for J&L are comprised of the costs associated with the business system write-down, $1.3 million for severance for 35 individuals, $0.3 million for facility closures and $0.2 million for the closure of the German operations. Additionally, as part of the closure of the German operations, we recorded a non-cash charge of $0.4 million, net of salvage value, in the December 2001 quarter associated with the abandonment and liquidation of inventory in these operations. This charge was recorded as a component of cost of goods sold.

In anticipation of migrating to a new business system, J&L capitalized costs associated with the development of functionality specifically designed for the J&L business. In the December 2001 quarter, after further evaluation of the development of the system, we determined it was no longer feasible that J&L would use this portion of the business system because the vendor ceased supporting the system. Therefore, we recorded a non-cash charge of $5.3 million, representing the portion of costs capitalized in connection with system enhancements specifically for the J&L business.

In the FSS segment for the three and six months ended December 31, 2001, we recorded restructuring charges of $0.1 million for severance related to seven individuals. Additionally in our core businesses in 2001, we took actions to reduce our salaried work force in response to the weakened U.S. manufacturing sector. This core-business resize program is completed.

The costs accrued for all restructuring activities were based on estimates using the latest information available at the time that the accrual was established. We continue to review our business strategies and pursue other cost-reduction activities in all business segments, some of which could result in future charges. Charges incurred for the six months ended December 31, 2001 and the restructuring accrual at December 31, 2001 are as follows (in thousands):

	June 30, 2001	Restructuring Expense For New Initiatives	Expense Adjustments	Non-Cash Adjustments	Cash Expenditures	December 31, 2001
J&L business improvement program:						
Employee severance	$ 251	$ 1,301	$ --	$ --	$ (1,362)	$ 190
Facility closures	940	505	11	--	(500)	956
Business system	--	5,257	--	(5,257)	--	--
FSS business improvement program	141	108	(71)	--	(156)	22
Core-business resize program	2,336	--	(77)	--	(1,659)	600
Total	$ 3,668	$ 7,171	$ (137)	$ (5,257)	$ (3,677)	$ 1,768

For the six months ended December 31, 2001, we incurred period costs of $0.2 million related to these initiatives, which were included in cost of goods sold as incurred. The expense adjustments for the facility closures were due to incremental costs incurred to exit these facilities. The other expense adjustments relate to reductions in actual amounts paid for severance costs compared to what was initially anticipated. We recorded these expense adjustments as a component of restructuring and asset impairment charge.

In 2000, we announced plans to close, consolidate or downsize several plants, warehouses and offices, and associated work force reductions as part of our overall plan to increase asset utilization and financial performance, and to reposition Kennametal to become the premier tooling solutions supplier. The costs charged against the restructuring accrual for the 2000 programs as of December 31, 2001 were as follows (in thousands):

	June 30, 2001	Cash Expenditures	Expense Adjustments	December 31, 2001
Employee severance	$ 153	$ (130)	$ (3)	$ 20
Facility rationalizations	2,269	(1,297)	(27)	945
Total	$ 2,422	$ (1,427)	$ (30)	$ 965

AMORTIZATION EXPENSE

We adopted Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets" on July 1, 2001. As a result of the non-amortization provisions of SFAS No. 142, we ceased amortizing goodwill resulting in amortization expense of $0.7 million for the quarter ended December 31, 2001, compared to $6.1 million in the year-ago quarter. Similarly, for the six months ended December 31, 2001, amortization expense was $1.4 million compared to $12.5 million in the year-ago period.

INTEREST EXPENSE

Interest expense for the December 2001 quarter declined 38 percent to $8.3 million, compared to the same quarter last year, due to ongoing reduction in debt and lower average borrowing rates. Our average U.S. borrowing rate of 5.02 percent was 246 basis points below year ago levels due to Federal Reserve rate cuts and improved pricing under our credit facility due to improved credit ratios. For the six months ended December 31, 2001, interest expense declined 34 percent to $17.7 million for the same reasons. Our average U.S. borrowing rate of 5.28 percent was 218 basis points lower than year-ago levels.

OTHER EXPENSE (INCOME), NET

Other expense for the December 31, 2001 and 2000 quarters of $0.1 million and $2.3 million, respectively, included fees of $0.6 million and $1.6 million, respectively, incurred in connection with the accounts receivable securitization program. The decline in these fees is due primarily to lower interest rates in the commercial paper market. The remainder of the decline in other expense, net was primarily due to higher realized gains on foreign exchange transactions and lower royalty expense due to reduced business levels.

For the six months ended December 31, 2001, other income, net was $0.2 million compared to other expense, net of $4.9 million in the year-ago period. Fees associated with the accounts receivable securitization program declined $1.7 million to $1.5 million in 2002 due to the factor mentioned above. The remainder of the decline was due to higher foreign exchange gains of $1.3 million, a gain of $0.8 million from the sale of miscellaneous underutilized assets and lower royalty expense.

INCOME TAXES

The effective tax rate for the three and six months ended December 31, 2001 was 32.0 percent compared to an effective tax rate of 38.8 percent for the quarter, and 39.5 percent for the six month period ended December 31, 2000. The pro forma effective tax rate for the three and six months ended December 31, 2000 would have been 32.5 percent and 33.9 percent, respectively, reflecting the non-amortization provisions of SFAS No. 142. The remainder of the decline primarily reflects a reduction of the statutory German tax rate effective July 1, 2001.

CHANGE IN ACCOUNTING PRINCIPLE

On July 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," resulting in the recording of a loss from the cumulative effect from the change in accounting principle of $0.6 million, net of tax, or $0.02 per diluted share. The loss primarily relates to the write-down of previously paid option premiums.

NET INCOME (LOSS)

Net loss for the quarter ended December 31, 2001 was $2.5 million, or $0.08 per diluted share, compared to net income of $13.5 million, or $0.44 per diluted share, in the same quarter last year. Pro forma earnings for the December 2000 quarter were $18.5 million, or $0.61 per diluted share, reflecting the non-amortization provisions of SFAS No. 142. Excluding special charges in each quarter, net income was $10.0 million, or $0.32 per diluted share, in the December 2001 quarter, compared to pro forma net income of $19.3 million, or $0.63 per diluted share, in the December 2000 quarter. The decline in earnings is attributable to lower sales levels and margins, partially offset by lower operating expense and interest costs, and a decline in our effective tax rate.

Special charges in the December 2001 quarter of $18.3 million, or $0.40 per diluted share, relate to business improvement plans currently being executed. Special charges in the December 2000 quarter of $1.1 million, or $0.03 per diluted share, relate to the J&L business improvement plan and costs associated with the tender offer to acquire the outstanding shares of JLK.

Net income for the six months ended December 31, 2001 was $10.0 million, or $0.32 per diluted share, compared to net income of $22.9 million, or $0.75 per diluted share, in the same period last year. Pro forma earnings for the six months ended December 31, 2000 were $32.1 million, or $1.05 per diluted share, reflecting the non-amortization provisions of SFAS No. 142. Excluding special charges in each period, net income was $23.5 million, or $0.75 per diluted share, in the six months ended December 31, 2001 compared to pro forma net income of $35.2 million, or $1.15 per diluted share, in the six months ended December 31, 2000. The decline in earnings is attributable to the factors mentioned above.

Special charges in the six months ended December 31, 2001 of $19.9 million, or $0.43 per diluted share, relate to business improvement plans currently being executed. Special charges in the six months ended December 31, 2000 of $4.3 million, or $0.08 per diluted share, related to the J&L and FSS business improvement plans and costs associated with the tender offer to acquire the outstanding shares of JLK, coupled with a charge of $0.6 million, net of tax, or $0.02 per diluted share, related to the adoption of SFAS No. 133.

BUSINESS SEGMENT REVIEW

We operate four global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG), J&L Industrial Supply (J&L) and Full Service Supply (FSS), and corporate functional shared services.

METALWORKING SOLUTIONS & SERVICES GROUP

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
External sales	$ 218,078	$ 245,984	$ 441,035	$ 494,661
Intersegment sales	25,876	25,274	57,609	49,240
Operating income	17,410	31,853	42,081	60,612

MSSG sales declined 11 percent compared to the December 2000 quarter, due predominately to weak market conditions in North America. In North America and Europe, sales were down 18 and one percent, respectively, while Asia was up eight percent, all in local currency. In North America, the light and heavy engineering end markets suffered the steepest declines, while automotive stabilized at lower levels. European growth softened as the manufacturing recession expanded. Demand in automotive declined for the first time in this cycle, as well as in light engineering.

Operating income was $23.7 million compared to $34.2 million last year, excluding restructuring charges of $6.2 million in 2002 and goodwill amortization in 2001. The decline in operating income is primarily due to lower sales, offset by operating expense reductions of $4.6 million. Restructuring charges primarily relate to the closure of two manufacturing plants and related severance costs for 184 individuals.

For the six months ended December 31, 2001, MSSG sales declined 10 percent compared to the same period last year, excluding unfavorable foreign exchange effects, due predominately to weak market conditions in North America. Most major end markets weakened year-over-year. In North America, sales were down 16 percent, while Europe and Asia were up two and eight percent, respectively, all in local currency.

Operating income was $48.3 million compared to $65.3 million last year, excluding restructuring charges of $6.2 million in 2002 and goodwill amortization in 2001. Unfavorable foreign exchange effects reduced operating income by $2.4 million. The remainder of the decline in operating income is due to the factors mentioned above.

ADVANCED MATERIALS SOLUTIONS GROUP

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
External sales	$ 71,614	$ 84,377	$ 154,619	$ 171,888
Intersegment sales	5,874	6,498	12,080	13,672
Operating income (loss)	(652)	8,739	9,711	19,930

AMSG sales declined 15 percent, compared to the December 2000 quarter, as weak demand in the electronics business due to a depressed market accounted for 11 percent of this decline. Higher demand for mining and construction products contributed two percent to the growth in sales while sales in energy and engineered products each contributed three percent to the overall sales decline due to reduced exploration activities and broad-based market contraction.

Operating income was $5.3 million compared to $11.0 million last year, excluding restructuring costs in 2002 and goodwill amortization in 2001. The decline is due to lower gross profit from under-utilization of capacity caused by volume declines, primarily in electronics, partially offset by $1.1 million of operating expense reductions. Restructuring costs in 2002 of $6.0 million relate to the reorganization of the North American electronics business, including the closure of a plant in Chicago and related severance for 114 individuals.

Compared to the same period last year, AMSG sales declined nine percent in the six months ended December 31, 2001, excluding foreign exchange effects. The decline is predominately attributable to weak market conditions in the electronics business. Operating income was $15.7 million compared to $24.4 million last year, excluding restructuring costs in 2002 and goodwill amortization in 2001. Unfavorable foreign currency effects reduced operating income by $0.8 million. The remainder of the decline is due to the factors mentioned above.

J&L INDUSTRIAL SUPPLY

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
External sales	$ 56,003	$ 73,581	$ 115,124	$ 150,204
Intersegment sales	478	1,036	1,069	2,044
Operating income (loss)	(3,665)	2,832	(2,933)	1,637

J&L sales declined 19 percent compared to last year excluding the effects of the ATS divestiture. The decline in sales is primarily attributed to the North American automotive downturn and further weakening in the broader industrial market. Operating income was $2.2 million in the December 2001 quarter, compared to $4.6 million in the prior year, excluding special charges in each period and goodwill amortization in 2001. Operating income declined primarily due to the reduction in sales despite the lower cost structure as a result of the business improvement plan. J&L operating income for the quarter ended December 31, 2001 and 2000 was reduced by $5.9 million and $0.7 million, respectively, related to restructuring and asset impairment charges. Additionally, operating income for the December 31, 2000 quarter includes $0.3 million of costs primarily related to the tender offer to acquire the outstanding shares of JLK.

For the six months ended December 31, 2001, J&L sales declined 19 percent compared to last year, excluding the effects of the ATS divestiture, due to the factors noted above. Operating income was $4.5 million for the six months ended December 31, 2001, compared to $7.2 million in the prior year, excluding special charges in each period and goodwill amortization in 2001. Operating income declined due to the factors noted above. J&L operating income for the six months ended December 31, 2001 and 2000 was reduced by $7.5 million and $2.2 million, respectively, related to restructuring and asset impairment charges. Additionally, operating income for the six months ended December 31, 2000 includes $2.0 million of costs primarily related to the tender offer to acquire the outstanding shares of JLK.

FULL SERVICE SUPPLY

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
External sales	$ 34,643	$ 39,623	$ 76,214	$ 80,447
Intersegment sales	668	537	1,356	3,775
Operating income	247	1,812	1,419	3,819

FSS sales for the December 2001 quarter declined 13 percent compared to the year-ago quarter due to the general weakness in the North American industrial market. Operating income of $0.3 million, declined $1.5 million compared to the December 2000 quarter, excluding a restructuring charge of $0.1 million in the December 2001 quarter for severance. The decline is due to lower sales levels coupled with overall lower gross margins due to higher percentage of sales to the automotive sector.

Compared to the same period last year, FSS sales declined five percent for the six months ended December 31, 2001. Operating income of $1.4 million, declined $2.5 million compared to the same period last year, excluding a restructuring charge of $0.2 million in 2001 related to severance. These declines are due to the same factors as mentioned above.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flow from operations is the primary source of financing for capital expenditures and internal growth. The most significant risks associated with our ability to generate sufficient cash flow from operations is the overall level of demand for our products. However, we believe we can adequately control costs and manage our working capital to meet our cash flow needs, despite low levels of demand.

During the six months ended December 31, 2001, we generated $65.1 million in cash flow from operations, a decline of $22.1 million compared to the year-ago. The decline resulted primarily from lower earnings in 2002 of $12.9 million and lower working capital improvements of $7.8 million. The lower working capital improvements include a reduction in the level of accounts receivable securitized, resulting in the repayment of $12.2 million to the financial institution counterparty, due to overall lower levels of accounts receivable resulting from lower sales levels. Periodically, this can occur when we do not generate sufficient new, qualifying receivables to replenish the pool as a result of an overall reduction in the level or quality, or change in the composition of accounts receivable. We believe our cash flow from operations and borrowing capacity provide sufficient alternative sources of liquidity in the event of a reduction in the level of securitized accounts receivable.

Net cash used for investing activities was $22.9 million, a decline of $42.0 million compared to the six months ended December 31, 2000. The decline is primarily due to a reduction in the purchase of minority interests of consolidated subsidiaries of $42.6 million. We lowered our projection of capital expenditures for 2002 to be in the range of $40 to $50 million as a result of further weakening of the U.S. economy. We believe this level of capital spending is sufficient to maintain competitiveness and improve productivity.

Net cash used for financing activities was $44.5 million, an increase of $16.6 million compared to the six months ended December 31, 2000. This increase primarily is due to higher debt repayments in 2002 of $25.7 million, offset by higher proceeds from employee stock plans of $5.3 million and lower treasury stock purchases of $4.1 million in 2002.

In September 2001, we continued our program to repurchase, from time to time, our outstanding capital stock for investment or other general corporate purposes. We purchased 375,000 shares of our capital stock at a total cost of $12.4 million. As a result of these repurchases, we have completed our repurchase program announced January 31, 1997 of 1.6 million shares. Additionally, we brought the total purchased under the authority of the repurchase program announced in October 2000 to approximately 0.2 million shares. We are permitted to repurchase up to 2.0 million shares under the October 2000 program. The repurchases were financed principally by cash from operations and short-term borrowings. Repurchases may be made from time to time in the open market, in negotiated or other permissible transactions.

FINANCIAL CONDITION

Total assets were $1,766.1 million at December 31, 2001, a decline of three percent compared to June 30, 2001. Net working capital, excluding the revolving credit loan of $388.6 million, was $381.4 million, down one percent from $386.7 million at June 30, 2001. Primary working capital as a percentage of sales (PWC%) at December 31, 2001 was 27.7 percent, compared to 27.3 percent at June 30, 2001 and 27.8 percent at December 31, 2000. The decline in net working capital is primarily due to lower sales levels and our focus on controlling growth in these accounts. The increase in PWC% from June 30, 2001 is due to lower sales levels. Inventory turnover increased to 3.0 at December 31, 2001, compared to 2.9 at June 30, 2001 and 2.8 at December 31, 2000, due to initiatives aimed at increasing inventory turns. The total debt-to-total capital ratio declined to 41.8 percent at December 31, 2001 from 42.9 percent at June 30, 2001 and 46.7 percent at December 31, 2000 primarily due to continued focus on debt reduction, despite lower earnings levels. The revolving credit loan under the Bank Credit Facility is due in August 2002 and is classified as a current liability. We currently intend on refinancing this loan on or before the maturity date.

NEW ACCOUNTING STANDARD

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121. This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of this standard must be applied for fiscal years beginning after December 15, 2001. We are currently evaluating the effects of SFAS No. 144 and are preparing a plan for implementation.

OUTLOOK

Sales for the third quarter of fiscal 2002 are expected to decline 10 to 15 percent, with diluted earnings per share between $0.50 and $0.55, excluding special charges. In addition, based upon current assessments, we are forecasting diluted earnings per share for fiscal 2002 to range from $1.90 to $2.10, excluding special charges. Despite the reduction in earnings expectations, cash flow for the year should still attain the ongoing long-term range of $100 million to $150 million.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to the impact of the terrorist attacks on September 11, 2001 and their aftermath; the extent that global economic conditions deteriorate or do not improve materially in the second half of fiscal 2002; domestic and foreign government spending, budgetary and trade policies; risks associated with integrating and divesting businesses; demands on management resources; risks associated with international markets such as currency exchange rates, and social and political environments; competition; commodity prices; demand for and market acceptance of new and existing products; risks associated with the implementation of restructuring actions and environmental remediation activities, as well as other risks and uncertainties, including but not limited to those detailed from time to time in our filings with the Securities and Exchange Commission. We undertake no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our exposure to market risk from June 30, 2001.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information set forth in Part II, Item 4 of the company's September 30, 2001 Form 10-Q is incorporated by reference herein.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(3) Articles of Incorporation and Bylaws

3.1 Bylaws of Kennametal Inc., as amended through January 29, 2002, are filed herewith.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2001.

SIGNATURES

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.

KENNAMETAL INC.

Date: February 14, 2002 By: /s/ F. NICHOLAS GRASBERGER III

F. Nicholas Grasberger III
Vice President and
Chief Financial Officer

Exhibit 3.1

BY-LAWS
OF
KENNAMETAL INC.

As Amended Through January 29, 2002

ARTICLE I

Office

The principal office of the Corporation shall be in Unity Township, Westmoreland County, Pennsylvania.

ARTICLE II

Seal

The Corporation may have a seal which shall be circular in form and which shall have inscribed thereon the name of the Corporation and the words "Seal--Pennsylvania."

ARTICLE III

Shareholders' Meetings

Section 1. PLACE OF MEETING. All meetings of shareholders shall be held at the principal office of the Corporation, unless the Board of Directors shall decide otherwise, in which case such meetings may be held within or without the Commonwealth of Pennsylvania, as the Board of Directors may from time to time direct.

Section 2. ANNUAL MEETING. The annual meeting of shareholders shall be held during the month of October in each calendar year on such date and at such time as may be fixed by the Board of Directors, for the election of directors and the transaction of such other business as may properly come before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the state where the meeting is to be held, such meeting shall be held on the next succeeding business day.

Section 3. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the Chairman of the Board, the President, the Secretary, or by the Board of Directors. At any time, upon written request of any person entitled to call a special meeting of the shareholders, it shall be the duty of the Secretary to call a special meeting to be held at such time as the Secretary may fix. If the Secretary shall neglect or refuse to issue such call, the person or persons making the request may do so.

Section 4. NOTICE. Except as provided in this Section 4, written notice of every meeting of the shareholders shall be given by, or at the direction of, the secretary or other authorized person or, if they neglect or refuse to do so, may be given by the person or persons calling the meeting, to each shareholder of record entitled to vote at the meeting, at least five (5) days prior to the day named for a meeting, unless a greater period of notice is required by statute in the particular case. The notice of meeting shall specify the place, day and hour of the meeting and, in the case of a special meeting, the general nature of the business to be transacted, and, if applicable, the notice shall state that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of the By-Laws in which case the notice shall include, or be accompanied by, a copy of the proposed amendment or a summary of the changes to be effected thereby.

When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at the adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

Written notice includes notice given by facsimile transmission, e-mail, or other electronic communication to the shareholder's facsimile number or address for e-mail or other electronic communication provided by such shareholder to the Corporation for the purpose of notice.

Section 5. QUORUM. At any meeting of the shareholders, the presence in person or by proxy of the holders of the majority of the outstanding shares entitled to vote shall constitute a quorum. The shareholders present at a duly organized meeting may continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum. If a meeting cannot be organized because a quorum has not attended, those present may adjourn the meeting to such time and place as they may determine. Those shareholders entitled to vote who attend a meeting called for the election of directors that has previously been adjourned for lack of a quorum, although less than a quorum as fixed herein, shall nevertheless constitute a quorum for the purpose of electing directors. In other cases, those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least fifteen (15) days because of an absence of a quorum, although less than a quorum as fixed herein, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the notice of the meeting, provided that the notice of the meeting states that those shareholders who attend such adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter set forth in the notice.

Section 6. VOTING. Every shareholder entitled to vote at any shareholders' meeting shall be entitled to one vote for every share of capital stock standing in his name on the books of the Corporation. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent corporate action in writing without a meeting, may do so in person or may authorize another person or persons to act for him by proxy. Whenever any corporate action is to be taken by vote of the shareholders, it shall be authorized by a majority of the votes cast at a duly organized meeting of shareholders by the holders of shares entitled to vote thereon, except where a different vote is required by law or the articles or these By-Laws.

Section 7. VOTING LISTS. The officer or agent having charge of the transfer books for shares of the Corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting, and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof. Failure to comply with the requirements of this By-Law shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list.

Section 8. NOMINATING AND PROPOSAL PROCEDURES. Without limiting any other notice requirements imposed by law, the Articles or these By-Laws, any nomination for election to the Board of Directors or other proposal to be presented by any shareholder at a shareholders' meeting (the "Proponent") will be properly presented only if written notice of the Proponent's intent to make such nomination or proposal has been personally delivered to and otherwise in fact received by the Secretary of the Corporation, not later than (i) for an annual meeting to be held during the month of October of any year, prior to the 1st day of July, but not before the first day of May, immediately preceding such October meeting, (ii) for an annual meeting to be held on any other date for which the Corporation gives at least 90 days prior notice of such date to shareholders, not less than 50 nor more than 75 days prior to such meeting, or (iii) for any other annual meeting or a special meeting, the close of business on the tenth day after notice of such meeting is first given to shareholders; provided, however, that nothing contained herein shall limit or restrict the right of any shareholder to present at a shareholders' meeting any proposal made by such shareholder in accordance with Rule 14a-8 promulgated pursuant to the Securities Exchange Act of 1934, as it may hereafter be amended, or any successor rule. Such notice by the Proponent to the corporation shall set forth in reasonable detail information concerning the nominee (in the case of a nomination for election to the Board of Directors) or the substance of the proposal (in the case of any other shareholder proposal), and shall include: (a) the name and residence address and business address of the shareholder who intends to present, the nomination or other proposal or of any person who participates or is expected to participate in making such nomination and of the person or persons, if any, to be nominated and the principal occupation or employment and the name, type of business and address of the business and address of the corporation or other organization in which such employment is carried on of each such shareholder, participant and nominee; (b) a representation that the Proponent is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to present the nomination or other proposal specified in the notice; (c) a description of all arrangements or understandings between the Proponent and any other person or persons (naming such person or persons) pursuant to which the nomination or other proposal is to be made by the Proponent; (d) such other information regarding each proposal and each nominee as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nomination or other proposal been made by the Board of Directors; and (e) the consent of each nominee, if any, to serve as a director of the Corporation if elected. Within fifteen (15) days following the receipt by the Secretary of a notice of nomination or proposal pursuant hereto, the Board of Directors or a committee of the Board of Directors shall advise the Proponent and the Secretary of the Corporation in writing of any deficiencies in the notice and of any additional information the Corporation is requiring to determine the eligibility of the proposed nominee or the substance of the proposal. A Proponent who has been notified of deficiencies in the notice of nomination or proposal and/or of the need for additional information shall cure such deficiencies and/or provide such additional information within fifteen (15) days after receipt of the notice of such deficiencies and/or the need for additional information. The chairman of the meeting may, in his or her sole discretion, refuse to acknowledge a nomination or other proposal presented by any person that does not comply with the foregoing procedure and, upon his or her instructions, all votes cast for such nominee or with respect to such proposal may be disregarded.

Section 9. ELECTION OF DIRECTORS. Election of directors need not be by ballot, except upon demand by a shareholder made at the election and before the voting begins. In each election for directors every shareholder entitled vote shall have the right in person or by proxy to multiply the number of shares which the shareholder is entitled to vote by the number of directors to be elected in that election, and cast the whole number of votes so determined for one candidate or distribute them among any two or more candidates in that election.

Section 10. ORDER OF BUSINESS. All meetings of the shareholders shall be called to order and presided over by the Chairman of the Board or the President, or in their absence by a Vice President, or in his absence by the Secretary, and if none of these be present by a chairman elected by the shareholders.

Section 11. PROXIES. Every proxy shall be executed or authenticated by the shareholder, or by his duly authorized attorney in-fact, and shall be filed with or transmitted to the Secretary of the Corporation before being voted. A shareholder or his duly authorized attorney in-fact may execute or authenticate a writing or transmit an electronic message authorizing another person to act for him by proxy. A telegram, telex, cablegram, datagram, e-mail or Internet communication or other similar means of electronic transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact shall be treated as properly executed for purposes of this section; provided such transmission or reproduction sets forth a confidential and unique identification number or other mark furnished by the Corporation to the shareholder for the purposes of a particular meeting or transaction.

Section 12. JUDGES OF ELECTION. In advance of any meeting of shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of any such meeting may, and on the request of any shareholder shall, make such appointment at the meeting. The number of judges shall be one or three. No person who is a candidate for office to be filled at the meeting shall act as a judge. In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof. The judge or judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, shall receive votes or ballots, shall hear and determine all challenges and questions in any way arising in connection with the right to vote, shall count and tabulate all votes and determine the result and shall do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judge or judges of election shall perform their duties impartially, in good faith, to the best of their ability, and as expeditiously as is practical. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all. On request of the presiding officer of the meeting, or of any shareholder, the judge or judges shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

ARTICLE IV

Directors

Section 1. BOARD OF DIRECTORS. All powers vested by law in the Corporation shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors. The Board shall consist of not less than eight nor more than twelve directors, the exact number to be fixed from time to time by resolution of the Board of Directors. Each director shall hold office for the term for which he is elected and until his successor is elected and qualified or until his earlier death, resignation or removal. Compensation may be allowed to the directors for their services, and a director also may be a salaried officer of the Corporation. Directors need not be shareholders.

Section 2. CLASSIFICATION. The directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes as nearly equal in number as possible. Each class shall hold office for a term of three years, and the term of office of one class shall expire in each succeeding year. At each annual meeting of shareholders, the successors to the directors of the class whose terms expire that year shall be elected to hold office for a term of three years. If at any meeting of the shareholders, whether an annual meeting or a special meeting for the election of directors, directors of more than one class are to be elected, separate elections shall be held for the directors of each class.

Section 3. VACANCIES. Vacancies in the Board of Directors and newly-created directorships resulting from any increase in the authorized number of directors shall be filled by a majority vote of the remaining members of the Board, though less than a quorum, and each person so elected shall be a director to serve for the balance of the unexpired term and until his or her successor has been selected and qualified or until said member's earlier death, resignation or removal.

Section 4. MEETINGS. The Board of Directors shall hold a meeting without other notice immediately after the annual meeting of the shareholders, and other meetings at such times and places as it may determine. Special meetings of the Board may be called by the Chairman of the Board, the President, the Secretary, or any two directors. Meetings of the Board of Directors may be held at such places within the Commonwealth of Pennsylvania or elsewhere as a majority of the directors may from time to time determine.

Section 5. NOTICE. No notice of regular meetings of the Board of Directors need be given. A written notice of all special meetings of the Board of Directors specifying the place, day and hour shall be given to each director at least 48 hours prior to the time set for the meeting.

When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting, or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

Section 6. QUORUM. A majority of the directors in office shall be necessary to constitute a quorum for the transaction of business and the acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting a quorum shall not be present, the meeting may be adjourned from time to time until a quorum shall be present.

Section 7. ELECTION OF OFFICERS AND BOARD CHAIRMAN. The Board of Directors shall elect a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and a Controller. The Board shall also from time to time elect such other officers and agents as it deems necessary or advisable. The Chairman of the Board must be selected from among the members of the Board of Directors, but the President and other officers may or may not be Directors. Unless sooner removed by the Board of Directors, all officers shall hold office for the term fixed by the Board and until their successors are elected and qualified or until their earlier death or resignation. Any two or more offices may be held by the same person, except the office of President and Secretary, but in no case shall the same person act in the same matter in two such official capacities. At the time of the election of the Chairman of the Board, the Board of Directors shall specify whether or not the individual so elected shall serve in the capacity of an officer-employee entitled to receive a salary, or in the capacity of a director entitled only to receive director's fees and allowances.

Section 8. REMOVAL OF OFFICERS. Any officer or agent of the Corporation may be removed by the Board of Directors with or without cause, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. The Board of Directors shall have power to fill any vacancies in any office occurring in any manner.

Section 9. COMMITTEES. The Board of Directors may from time to time by resolution adopted by a majority of the directors in office, designate one or more committees, each committee to consist of two or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee to the extent provided in the designating resolution of the Board of Directors shall have and exercise the authority of the Board of Directors in the management of the business and affairs of the Corporation except that a committee shall not have any power or authority as to: (i) the submission to shareholders of any action requiring the approval of shareholders pursuant to the Business Corporation Law, as it may hereafter be amended, (ii) the creation or filling of vacancies in the Board of Directors, (iii) the adoption, amendment or repeal of the By-Laws, (iv) the amendment, adoption or repeal of any resolution of the Board that by its terms is amendable or repealable only by the Board, or (v) action on matters committed by the By-Laws or resolution of the Board to another committee of the Board. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member. Each committee of the Board shall serve at the pleasure of the Board. Unless the Board of Directors provides otherwise by resolution each committee shall conduct its business and take action in the same manner as the Board conducts its business pursuant to the articles of the Corporation and these By-Laws.

Section 10. OTHER POWERS. In addition to the powers and authorities expressly conferred by these By-Laws, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these By-Laws directed or required to be exercised or done by the shareholders.

ARTICLE V

Officers and Board Chairman

Section 1. CHAIRMAN OF THE BOARD. The Chairman of the Board of Directors shall preside at all meetings of the shareholders and of the Board of Directors at which he is present. He shall perform such other duties as may be assigned to him from time to time by the Board of Directors.

Section 2. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall be responsible for directing the implementation of the general policies and procedures of the Corporation and for the performance of such other duties as may be assigned from time to time by the Board of Directors. Except when prohibited by law or regulation, he shall be ex-officio a member of all Committees of the Board of Directors.

Section 3. PRESIDENT. The President shall have general and active management of the Corporation's business, and shall perform the usual duties incident to the office of President as required by law, the Articles of the Corporation or these By-Laws, and such other duties as may be assigned to him from time to time by the Board of Directors. Except when prohibited by law or regulation, he shall be ex-officio a member of all Committees of the Board of Directors.

Section 4. VICE PRESIDENT. Any Vice President shall perform such duties as shall be assigned to him by the Board of Directors or President, and, in the absence or disability of the President, he shall perform the duties of the President.

Section 5. SECRETARY. The Secretary shall attend the meetings of the shareholders and Board of Directors and keep minutes thereof in suitable books kept for that purpose. He shall have custody of the stock books and stock ledgers of this Corporation, and shall give, or cause to be given, all notices as are required by law, or by the Articles of Incorporation, or by these By-Laws. He shall perform such other duties as may be prescribed by the Board of Directors or by the President, as well as all the usual duties incident to the office of Secretary.

Section 6. TREASURER. The Treasurer shall have custody of the corporate funds and securities and shall keep, or cause to be kept, full and accurate accounts of receipts and disbursements in books kept for that purpose. He shall deposit all monies, and other valuable effects, in the name and to the credit of the Corporation, in such depository as shall be designated from time to time by the Board of Directors. As directed by the Board of Directors or the President, he shall disburse monies of the Corporation, taking proper vouchers for such disbursements and shall render upon request from time to time to the President and directors an account of all his transactions as Treasurer and of the financial condition of the Corporation. In addition, he shall perform all the usual duties incident to the office of Treasurer and such other duties as the Board of Directors or the President may prescribe.

Section 7. CONTROLLER The Controller shall have charge of the accounting of the Corporation, and shall perform all the usual duties incident to the office of Controller and such other duties as the Board of Directors may prescribe or require.

Section 8. DELEGATION OF DUTIES. In case of the absence or disability of any officer of the Corporation, or if it is deemed expedient and desirable so to do, the Board of Directors or the President may delegate the powers or duties of any officer to any other officer or director for such time or period as may be specified.

Section 9. CONTRACTS. All promissory notes, drafts, bills of exchange or other negotiable instruments shall be signed by the President or a Vice President and the Secretary or the Treasurer, or by such officer or officers or such other person or persons as the Board of Directors may from time to time designate. All other written contracts shall be signed by the President or a Vice President, or by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

ARTICLE VI

Share Certificates and Transfers

Section 1. SHARE CERTIFICATES. Share certificates shall be in such form as the Board of Directors may from time to time determine. Every share certificate shall be signed by the President or a Vice President and countersigned by the Treasurer, or Assistant Treasurer or by the Secretary or Assistant Secretary and may be sealed with the corporate seal, which may be a facsimile, engraved or printed, but where such certificate is signed by a transfer agent or a registrar, the signature of any corporate officer upon such certificate may be a facsimile, engraved or printed.

Section 2. TRANSFERS. Shares of the Corporation shall upon the surrender and cancellation of the certificate or certificates representing the same be transferred upon the books of the Corporation at the request of the holder thereof named in the surrendered certificate or certificates, in person or by his legal representative, or by his attorney duly authorized by written power of attorney filed with the Corporation or its transfer agent.

Section 3. TRANSFER AGENT AND REGISTRAR. The Board of Directors may appoint a transfer agent or transfer clerk or a registrar of transfers, or both, and it may require all stock certificates to bear the signature of either or both. The Board of Directors may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of the Corporation.

Section 4. LOSS, THEFT OR DESTRUCTION OF CERTIFICATES. In case of loss, theft or destruction of a share certificate another may be issued in lieu thereof in such manner and upon such terms as the Board of Directors shall from time to time authorize.

Section 5. DETERMINATION OF SHAREHOLDERS OF RECORD. The Board of Directors may fix a time, not more than seventy days prior to the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, or the date fixed for any other matter as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares or entitled to receive or take action with respect to any other matter. In such case, only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights or to receive or take action with respect to any other matter as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid.

ARTICLE VII

Waiver of Notice, Action Without Meeting and Meetings By Conference Telephone

Section 1. WAIVER OF NOTICE. Whenever any written notice is required to be given under the Pennsylvania Business Corporation Law, the articles or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a special meeting of shareholders, neither the business to be transacted at nor the purpose of the meeting need be specified in the waiver of notice of such meeting.

The attendance of a person either in person or by proxy at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

Section 2. ACTION BY CONSENT. Any action which may be taken at a meeting of the shareholders or of the directors, or of any committee of directors, may be taken without a meeting, if a consent in writing setting forth the action so taken shall be signed by all the shareholders who would be entitled to vote at a meeting for such purpose or by all of the directors, or by all of the members of such committee, as the case may be, and shall be filed with the Secretary of the Corporation.

Section 3. MEETINGS BY CONFERENCE TELEPHONE. One or more directors may participate in a meeting of the Board or of a committee of the Board, and the Board of Directors may provide by resolution with respect to a specific meeting or with respect to a class of meetings that one or more persons may participate in a meeting of the shareholders of the Corporation, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person at the meeting.

Section 4. MANNER OF GIVING NOTICE. Whenever written notice is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these By-Laws, it may be given to the person either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by telecopier, to the shareholder's address (or to the shareholder's telex, TWX, telecopier or telephone number) appearing on the books of the Corporation or, in the case of directors, supplied by the director to the Corporation for the purpose of notice. Notice sent by mail, by telegraph or by courier service shall be deemed to have been given when deposited in the United States mail or with a telegraph office or courier service for delivery [except that, in the case of directors, notice sent by regular mail shall be deemed to have been given forty-eight hours after being deposited in the United States mail] or, in the case of telex, TWX or telecopier, when dispatched.

ARTICLE VIII

Fiscal Year

The fiscal year of the Corporation shall end on the 30th day of June.

ARTICLE IX

Limitation of Director's Liability and Indemnification

Section 1. LIMITATION OF DIRECTOR'S LIABILITY. A director of the Corporation shall not be personally liable for monetary damages for any action taken or failure to take any action unless the director has breached or failed to perform the duties of his office under Section 8363 of the Directors' Liability Act [15 Pa. C.S. ss. 511 and ss. 1721] and such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director (i) for any responsibility or liability of such director pursuant to any criminal statute, or (ii) for any liability of a director for the payment of taxes pursuant to local, State or Federal law. No repeal or modification of this Article IX, Section 1 nor the adoption of any provision inconsistent with this Article IX, Section 1 shall adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification or the adoption of such inconsistent provision.

Section 2. INDEMNIFICATION OF DIRECTORS AND OFFICERS

(a) Right to Indemnification.

Except as otherwise provided below, each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding") and whether or not by or in the right of the Corporation or otherwise, by reason of the fact that he or she, or a person of whom he or she is the heir, executor or administrator, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director or officer or trustee, or in any other capacity while serving as a director or officer or trustee, shall be indemnified and held harmless by the Corporation against all reasonable expenses, including attorneys' fees, and any liability and loss, including judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement, incurred or paid by such person in connection therewith; provided, however, that such person shall not be entitled to indemnification hereunder if the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness; provided further, that except with respect to the enforcement of claims described in paragraph (b) hereof, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this section shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of the final disposition thereof; provided, however, that to the extent required by law, the payment of such expenses incurred by an officer or director in advance of the final disposition of a proceeding shall be made only upon receipt of an undertaking, by or on behalf of such person, to repay all amounts so advanced if it shall ultimately be determined that he or she is not entitled to be indemnified under this section or otherwise. The right to indemnification including the right to the advancement of expenses provided herein shall be a contract right and continue as to a person who has ceased to be a director or officer or trustee, and shall inure to the benefit of the heirs, executors and administrators of such person.

(b) Right of Claimant to Bring Suit.

If a claim under paragraph (a) of this section is not paid in full by the Corporation within forty-five (45) days after a written claim has been received by the Corporation, the claimant may, at any time thereafter, bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim.

(c) Non-Exclusivity of Rights.

The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of a final disposition conferred in this Article IX shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses hereunder may be entitled under any by-law, agreement, vote of stockholders or directors, applicable law, or otherwise, both as to action in his official capacity and as to action in any other capacity while holding that office, the Corporation having the express authority to enter into such agreements as the Board of Directors deems appropriate for the indemnification and advancement of expenses to present or future directors and officers of the Corporation.

(d) Funding.

The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations, whether arising under or pursuant to this By-Law or otherwise.

ARTICLE X

Resignations

Any director or officer may resign from office at any time, such resignation to be made in writing and to take effect from the time of its receipt, unless some time be fixed in the resignation and then from that time. The acceptance of a resignation shall not be required to make it effective.

ARTICLE XI

Amendments

These By-Laws may be amended or repealed, and new By-Laws may be adopted, by the Board of Directors, regardless of whether the shareholders have previously adopted or approved the By-Law being amended or repealed, except where the power to repeal, adopt or amend a By-Law on any subject is expressly committed to the shareholders by the Business Corporation Law, and subject always to the power of the shareholders to change any action taken by the Board. Any change in the By-Laws shall take effect when adopted unless otherwise provided in the resolution effecting the change.

ARTICLE XII

Miscellaneous

When used in these By-Laws, any terms stated in the singular and/or masculine gender (such as he or him) shall be construed to include the plural and/or feminine gender as the context and circumstances shall warrant appropriate.

ARTICLE XIII

Applicability of Certain Provisions of the Pennsylvania Business Corporation Law

Subchapters G (relating to control share acquisitions), H (relating to disgorgement by certain controlling shareholders following attempts to acquire control), I (relating to severance compensation for employees terminated following certain control share acquisitions), and J (relating to the status of labor contracts following certain business combination transactions) of Chapter 25 of the Pennsylvania Business Corporation Law shall not be applicable to the Corporation.