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 SEPTEMBER 30, 1999

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 common stock, as of the latest practicable date:

Title Of Each Class	Outstanding at October 29, 1999
Capital Stock, par value $1.25 per share	30,178,552

KENNAMETAL INC.
FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 1999

TABLE OF CONTENTS

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 September 30, 1999	Three Months Ended September 30, 1998
OPERATIONS		
Net sales	$442,943	$480,922
Cost of goods sold	279,614	301,906
Gross profit	163,329	179,016
Operating expenses	122,487	138,919
Amortization of intangibles	7,003	6,405
Operating income	33,839	33,692
Interest expense	14,527	17,621
Other (income) expense, net	(258)	416
Income before provision for income taxes and minority interest	19,570	15,655
Provision for income taxes	8,709	6,700
Minority interest	948	1,561
Net income	$ 9,913	$ 7,394
PER SHARE DATA		
Basic earnings per share	$ 0.33	$ 0.25
Diluted earnings per share	$ 0.33	$ 0.25
Dividends per share	$ 0.17	$ 0.17
Weighted average shares outstanding	30,099	29,857
Diluted weighted average shares outstanding	30,165	29,940

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 1999	June 30, 1999
ASSETS		
Current assets:		
Cash and equivalents	$ 20,748	$ 17,408
Marketable equity securities available-for-sale	11,772	13,436
Accounts receivable, less allowance for doubtful accounts of $15,399 and $15,269	233,867	231,287
Inventories	431,324	434,462
Deferred income taxes	44,199	44,182
Other current assets	10,966	9,673
Total current assets	752,876	750,448
Property, plant and equipment:		
Land and buildings	233,613	235,375
Machinery and equipment	764,039	756,917
Less accumulated depreciation	(466,468)	(452,492)
Net property, plant and equipment	531,184	539,800
Other assets:		
Investments in affiliated companies	953	844
Intangible assets, less accumulated amortization of $70,073 and $64,096	678,845	685,695
Deferred income taxes	33,748	33,996
Other	34,532	32,865
Total other assets	748,078	753,400
Total assets	$2,032,138	$2,043,648
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$ 90,442	$ 117,217
Notes payable to banks	21,195	26,222
Accounts payable	106,668	89,339
Accrued vacation pay	27,199	27,323
Accrued payroll	21,849	19,730
Other current liabilities	101,956	97,035
Total current liabilities	369,309	376,866
Long-term debt and capital leases, less current maturities	703,199	717,852
Deferred income taxes	53,100	53,108
Other liabilities	98,218	97,186
Total liabilities	1,223,826	1,245,012
Minority interest in consolidated subsidiaries	54,585	53,505
SHAREOWNERS' EQUITY		
Preferred stock, no par value; 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 32,903 shares issued	41,128	41,128
Additional paid-in capital	325,998	325,382
Retained earnings	482,389	477,593
Treasury shares, at cost; 2,775 and 2,836 shares held	(56,430)	(57,199)
Unearned compensation	(2,953)	(3,330)
Accumulated other comprehensive loss	(36,405)	(38,443)
Total shareowners' equity	753,727	745,131
Total liabilities and shareowners' equity	$2,032,138	$2,043,648

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998
OPERATING ACTIVITIES		
Net income	$ 9,913	$ 7,394
Adjustments for noncash items:		
Depreciation	19,061	17,312
Amortization	7,003	6,405
Other	80	1,623
Changes in certain assets and liabilities, net of effects of acquisitions and divestiture:		
Accounts receivable	(1,041)	3,527
Inventories	4,871	(17,438)
Accounts payable and accrued liabilities	16,154	(11,587)
Other	5,762	(11,941)
Net cash flow from (used for) operating activities	61,803	(4,705)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(10,779)	(27,348)
Disposals of property, plant and equipment	5,049	1,712
Purchase of subsidiary stock	--	(332)
Other	(124)	328
Net cash flow used for investing activities	(5,854)	(25,640)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	(5,346)	1,100
Increase in long-term debt	25,000	36,807
Decrease in long-term debt	(68,535)	(945)
Dividend reinvestment and employee stock plans	1,386	1,366
Cash dividends paid to shareowners	(5,117)	(5,077)
Net cash flow from (used for) financing activities	(52,612)	33,251
Effect of exchange rate changes on cash	3	(228)
CASH AND EQUIVALENTS		
Net increase in cash and equivalents	3,340	2,678
Cash and equivalents, beginning	17,408	18,366
Cash and equivalents, ending	$ 20,748	$ 21,044
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 15,858	$ 20,814
Income taxes paid	2,914	6,909

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the company's 1999 Annual Report. The condensed consolidated balance sheet as of June 30, 1999 has been derived from the audited balance sheet included in the company's 1999 Annual Report. These interim statements are unaudited; however, management believes that all adjustments necessary for a fair presentation have been made and all adjustments are normal, recurring adjustments. The results for the three months ended September 30, 1999 are not necessarily indicative of the results to be expected for the full fiscal year. Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with the current year presentation.

2. Inventories are stated at lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of domestic inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The company used the LIFO method of valuing its inventories for approximately 50 percent of total inventories at September 30, 1999. 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 management's projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

3. The major classes of inventory as of the balance sheet dates were as follows (in thousands):

	September 30, 1999	June 30, 1999
Finished goods	$320,099	$318,736
Work in process and powder blends	110,189	117,987
Raw materials and supplies	34,088	32,619
Inventory at current cost	464,376	469,342
Less LIFO valuation	(33,052)	(34,880)
Total inventories	$431,324	$434,462

4. The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company is currently named as a potentially responsible party at two Superfund sites in the United States. However, it is management's opinion, based on its evaluations and discussions with outside counsel and independent consultants, that the ultimate resolution of these environmental matters will not have a material adverse effect on the results of operations, financial position or cash flows of the company.

The company maintains 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, the company has established an EH&S administrator at each of its domestic manufacturing facilities. The company's 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 and annual basis, management establishes or adjusts financial provisions and reserves for environmental contingencies in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies."

5. For purposes of determining the number of dilutive shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due to the dilutive effect of unexercised stock options by 66,272 and 83,129 for the three months ended September 30, 1999 and 1998, respectively.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Comprehensive income for the three months ended September 30, 1999 and 1998 is as follows (in thousands):

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998
Net income	$ 9,913	$ 7,394
Unrealized loss on marketable equity securities available-for-sale, net of tax	(1,998)	--
Minimum pension liability adjustment	(26)	--
Foreign currency translation adjustments	4,062	(2,526)
Comprehensive income	$11,951	$ 4,868

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

	September 30, 1999	June 30, 1999
Unrealized gain (loss) on marketable equity securities available-for-sale, net of tax	$ (838)	$ 1,160
Minimum pension liability adjustment	(1,291)	(1,265)
Foreign currency translation adjustments	(34,276)	(38,338)
Total accumulated other comprehensive loss	$(36,405)	$(38,443)

7. In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The company must adopt the standard by the beginning of the first quarter of fiscal 2001. SFAS No. 133 establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments imbedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The company is currently evaluating the effects of SFAS No. 133 and does not believe that the adoption will have a material effect on the financial statements or results of operations of the company.

8. In March 1999, the company's management began to implement restructuring plans, including several programs to reduce costs, improve operations and enhance customer satisfaction. The costs accrued for these plans were based on management estimates using the latest information available at the time that the accrual was established. The costs charged against the accrual as of September 30, 1999 were as follows (in thousands):

	June 30, 1999	Cash Expenditures	Adjustments	September 30, 1999
Plant closure	$ 2,200	$ (1,370)	$ --	$ 830
Voluntary early retirement program	1,367	(213)	--	1,154
Total	$ 3,567	$ (1,583)	$ --	$ 1,984

Additional period costs of $1.4 million resulting from the relocation of employees, hiring and training new employees and other costs resulting from the temporary duplication of certain operations related to the plant closure were included in cost of goods sold during the September 1999 quarter. The remaining period costs related to these items are estimated to be $1.3 million and will be incurred through the remainder of fiscal 2000.

9. During the September 1999 quarter, the company entered into two interest rate swaps that effectively convert a notional amount of $50.0 million from floating to fixed interest rates. This increases the total notional amount of floating-to-fixed interest rate swaps to $100.0 million. These new agreements mature in July 2002.

At September 30, 1999, the company would have received $1.0 million to settle all interest rate swap agreements, representing the excess of fair value over carrying cost of these agreements. The effect of all interest rate swaps on the company's composite interest rate on long-term debt was not significant at September 30, 1999.

At September 30, 1999, the company had a notional amount of $23.0 million of outstanding foreign exchange forward contracts to sell foreign currency. These contracts mature before December 31, 1999. The net unrealized gain or loss on foreign currency contracts was not significant at September 30, 1999.

10. The company reports three worldwide segments consisting of Metalworking; Industrial Supply; and Engineered Products, Mining & Construction and Other (EM&O). The company's external sales, intersegment sales and operating income by segment for the three months ended September 30, 1999 and 1998 are as follows (in thousands):

	Three Months Ended September 30,	
	1999	1998
External sales:		
Metalworking	$242,164	$260,837
Industrial supply	115,979	129,019
EM&O	84,800	91,066
Total external sales	$442,943	$480,922
Intersegment sales:		
Metalworking	$ 29,300	$ 18,546
Industrial supply	2,336	2,743
EM&O	11,228	9,335
Total intersegment sales	$ 42,864	$ 30,624
Total sales:		
Metalworking	$271,464	$279,383
Industrial supply	118,315	131,762
EM&O	96,028	100,401
Total sales	$485,807	$511,546
Operating income:		
Metalworking	$ 29,901	$ 35,407
Industrial supply	6,979	6,414
EM&O	10,668	12,280
Corporate	(13,709)	(20,409)
Total operating income	$ 33,839	$ 33,692

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

RESULTS OF OPERATIONS

OVERVIEW

Sales for the September 1999 quarter were $442.9 million, a decrease of 8 percent from $480.9 million in the year-ago quarter. Excluding the effects of a divestiture, sales declined 7 percent. Unfavorable foreign currency translation effects accounted for one percent of the sales decline. The remainder of the sales decline was due to weak demand in North America and reduced demand in the European metalworking market.

Net income for the quarter ended September 30, 1999 was $9.9 million, or $0.33 per share, as compared with net income of $7.4 million, or $0.25 per share, in the same quarter last year. The improvement is attributable to strong cost controls and operational improvements, which helped mitigate weak demand in the company's served markets.

METALWORKING

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998
External sales	$242,164	$260,837
Intersegment sales	29,300	18,546
Operating income	29,901	35,407

Sales in the Metalworking segment declined 7 percent during the September 1999 quarter, compared to the year-ago quarter. Sales in North America were down 5 percent compared to last year due to continued weak demand in the energy, aerospace, agriculture and light and heavy engineering markets. This was partially offset by strong sales in the automotive and truck markets, and to a lesser extent, machine tool builder and electrical equipment markets.

Sales in the European Metalworking market decreased 16 percent over the same quarter of a year ago. Unfavorable foreign currency translation effects accounted for 4 percent of this decline. In Europe, sales were unfavorably affected due to extended holiday shutdowns at customer plants, coupled with weak export demand. Sales in the United Kingdom were down due to internal plant consolidations and a weak market. Compared to the September 1998 quarter, sales were lower in the automotive and light engineering markets due to less customer demand.

Operating income declined to $29.9 million and was affected by lower sales levels, period costs associated with plant closures and lower production levels, partially offset by a reduction in operating expenses due to the cost improvement program the company initiated in November 1998. Period costs of $1.4 million related to the Solon plant closing and rearrangement were included in cost of goods sold for the September 1999 quarter. This is an increase of $0.7 million compared to the prior year.

INDUSTRIAL SUPPLY

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998
External sales	$115,979	$129,019
Intersegment sales	2,336	2,743
Operating income	6,979	6,414

Sales in the Industrial Supply market declined 10 percent compared to last year. Excluding the divestiture of the steel mill business of Strong Tool in March 1999, sales declined 7 percent. The sales decline was due to continued weak conditions in the markets served by the catalog business, coupled with weak demand at the previously acquired companies due to high exposure to the oil and gas industries. Full Service Supply (FSS) sales were flat compared to the September 1998 quarter as FSS growth was curtailed by the implementation of its new business system and an increased number of plant shutdowns in the September 1999 quarter. Additionally, the new Year 2000 J&L Industrial

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

Supply master catalog was launched in September. The company provided FSS programs to 163 customers covering 262 different facilities at September 30, 1999, compared to 123 customers covering 203 different facilities at September 30, 1998.

Despite the decline in sales, operating income increased 9 percent to $7.0 million in the September 1999 quarter. Operating expenses declined $4.8 million from the same quarter a year ago primarily from continued benefits realized from the cost reduction activities implemented in November 1998. This was partially offset by a decline of $4.2 million in gross profit due to the decline in sales. In the September 1999 quarter, the gross profit margin increased to 32.6 percent, compared to 32.5 percent in the year-ago quarter.

EM&O

	Three Months Ended September 30,	
	1999	1998
External sales	$84,800	$91,066
Intersegment sales	11,228	9,335
Operating income	10,668	12,280

Sales in this segment declined $6.3 million, or 7 percent, from the September 1998 quarter due primarily to continued weakness in the oil and gas industry and lower underground coal production. This was partially offset by continued strong demand for construction tools in North America, coupled with a slight increase in demand for electronic circuit board drills.

Operating income in the EM&O segment decreased 13 percent from a year ago due to lower sales levels and lower production levels, partially offset by a reduction in operating expenses due to maintaining the cost improvement program the company initiated in November 1998.

GROSS PROFIT MARGIN

As a percentage of sales, the gross profit margin for the September 1999 quarter was 36.9 percent as compared with 37.2 percent in the prior year. The gross profit margin declined slightly due to lower production levels, a slightly unfavorable sales mix and plant consolidation and rearrangement costs. This was partially offset by the continued strong cost controls and reduced employment levels.

OPERATING EXPENSES

Operating expenses for the September 1999 quarter were $122.5 million, a reduction of 12 percent from $138.9 million in the same quarter last year. Operating expenses decreased significantly due to the company's cost improvement program. Operating expense as a percentage of sales was 27.7 percent, a reduction of 120 basis points from the same quarter last year, despite the decline in sales and the restoration of a portion of a salary reduction measure implemented in November 1998. Overall employment declined 6 percent compared to the September 1998 quarter.

INTEREST EXPENSE

Interest expense for the September 1999 quarter declined to $14.5 million due to reduced debt levels and lower borrowing rates. Average U.S. borrowing rates of 6.4 percent were down 30 basis points from a year ago.

OTHER (INCOME) EXPENSE

Other income for the September 1999 quarter included a one-time gain of $1.4 million from sales of assets as part of the company's ongoing efforts to generate cash from underutilized assets. This was partially offset by $1.1 million in fees incurred in connection with the company's accounts receivable securitization program initiated in June 1999.

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

INCOME TAXES

The effective tax rate for the September 1999 quarter was 44.5 percent compared to an effective tax rate of 42.8 percent in the prior year. The increase in the effective tax rate is attributable to the non-recurring utilization of tax benefits from costs to repay senior debt in fiscal 1999.

LIQUIDITY AND CAPITAL RESOURCES

The company's cash flow from operations is the primary source of financing for capital expenditures and internal growth. During the quarter ended September 30, 1999, the Company generated $61.8 million in cash flow from operations. Compared to the year-ago quarter, the increase in cash flow from operations resulted primarily from improved working capital requirements and higher levels of net income and non-cash items.

Net cash used for investing activities was $5.9 million. The decrease in net cash used for investing activities was due to lower capital expenditures, coupled with the proceeds from the sale of underutilized assets.

Net cash used for financing activities was $52.6 million. This compares to cash flow from financing activities of $33.3 million in the September 1998 quarter. The reduction in debt in the September 1999 quarter is attributable to the increase in operating cash flows, as well as the company's focus on debt repayment.

FINANCIAL CONDITION

Total assets were $2.0 billion at September 30, 1999, a one percent decline from June 30, 1999. Net working capital was $383.6 million, down 15 percent from $452.1 million from last year and up three percent from $373.6 million at June 30, 1999. The ratio of current assets to current liabilities remained at 2.0 compared to June 30, 1999. The total debt-to-total-capital ratio declined to 50.2 percent as of September 30, 1999 from 51.9 percent as of June 30, 1999.

YEAR 2000

Management believes that the company has substantially mitigated its exposure relative to year 2000 issues for both information and non-information technology systems. The company initiated a program beginning in 1996 to assess the exposure to the year 2000 issue, and to prepare its computer systems, computer applications and other systems for the year 2000. A management committee actively monitors the status of the readiness program of each of the company's business units. The company has currently completed the tasks identified to remediate its mission critical systems and processes.

Year 2000 exposure related to information systems has been mitigated throughout key metalworking and mining and construction operations through the implementation of SAP R3 for most business processes.

The company has completed the process of modifying existing non-compliant business systems in the former Greenfield industrial product and engineered product operations to ensure these operations are supported by a year 2000 compliant information system. These modifications were completed and tested by September 1999.

At JLK, HK Systems' Enterprise Information System was implemented, tested and completed in August 1999 in the FSS business to address the year 2000 issue. The company has modified the existing non-compliant systems in the catalog business to ensure that J&L is supported by a year 2000 compliant information system. Testing of these modifications was performed in September 1999.

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

The company also has completed an assessment of the impact of this issue on its non-information technology systems, including the company's personal computers, embedded technology in manufacturing and processing equipment, and other non-information technology items, and has determined that the mission critical systems are year 2000 compliant. The company has identified a few non-information systems, critical to the manufacturing operations, as non-year 2000 compliant and remediated these systems. The company has taken action to remedy other non-compliant systems through replacement of or modification to the existing systems. Such remedies were tested for year 2000 compliance in September 1999.

Other systems that have been identified as not year 2000 compliant are not considered "mission critical" systems to the overall manufacturing operations, however, management expects to remedy these systems by November 1999. Contingency plans include shifting production processes to year 2000 compliant manufacturing operations. The company does not anticipate employing this contingency plan.

The company estimates the total year 2000 expenditures to be approximately $53.0 to $55.0 million, approximately half of which are for computer hardware to replace non-compliant computer systems and the other half to replace non-compliant computer software, including software implementation and employee training. These costs include both internal and external personnel costs related to the assessment and remediation processes, as well as the cost of purchasing certain hardware and software. There can be no guarantee that these estimates will be achieved and actual results could differ from those planned.

The majority of these costs were incurred in 1997 and 1996. Total expenditures expected to be incurred in fiscal 2000 are estimated to be $3.3 million to $4.3 million related to the year 2000 issues. Expenditures incurred to date in fiscal 2000 approximate $1.3 million. Cash flows from operations have provided, and should continue to provide, funding for these expenditures.

Management believes the most significant impact of the year 2000 issue could be an interrupted supply of goods and services from the company's vendors. The company has an ongoing effort to gain assurances and certifications of suppliers' readiness programs. To date, the results of this effort indicate that the company's suppliers are well positioned to provide the company with sufficient goods and services in the year 2000. To mitigate this risk, the company is modestly increasing safety stock of critical materials and supplies. The company will continue to expand its efforts to determine whether major third-party businesses and public and private providers of infrastructure services, such as utilities, communications services and transportation, also will be prepared for the year 2000, and will attempt to address any failures on their part to become year 2000 compliant. Contingency plans may include purchasing raw materials and supplies from alternate certified vendors and a further increase of safety stock of critical materials and supplies. The company does not anticipate employing these contingency plans.

There can be no guarantee that the efforts of the company or of third parties, whose systems the company relies upon, will completely mitigate a year 2000 problem that could have a material adverse affect on the company's operations or financial results. While such problems could affect important operations of the company and its subsidiaries, either directly or indirectly, in a significant manner, the company cannot at present estimate either the likelihood or the potential cost of such failures. However, the company will continue to aggressively pursue all the year 2000 remediation activities discussed herein.

OUTLOOK

Seasonally, sales in the September and December quarters are usually flat. Economic indicators in the United States and Germany that are leading indicators for demand of the company's products are positive. In looking to the second quarter ending December 31, 1999, management expects

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

Kennametal's consolidated sales to increase slightly over the September 1999 quarter. This outlook anticipates that the year 2000 issue will have neither a positive or negative impact on the December 1999 quarter.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. 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 extent that the economic conditions in the United States and Europe, and to a lesser extent, Asia Pacific are not sustained, risks associated with integrating businesses, demands on management resources, risks associated with international markets such as currency exchange rates and competition, risks associated with environmental remediation, the effect of third party or company failures to achieve timely remediation of year 2000 issues, and the effect of the conversion to the Euro on the company's operations. The company undertakes 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

During the September 1999 quarter, the company entered into two interest rate swaps that effectively convert a notional amount of $50.0 million from floating to fixed interest rates. This increases the total notional amount of floating-to-fixed interest rate swaps to $100.0 million. These new agreements mature in July 2002.

At September 30, 1999, the company would have received $1.0 million to settle all interest rate swap agreements, representing the excess of fair value over carrying cost of these agreements. The effect of all interest rate swaps on the company's composite interest rate on long-term debt was not significant at September 30, 1999.

At September 30, 1999, the company had a notional amount of $23.0 million of outstanding foreign exchange forward contracts to sell foreign currency. These contracts mature before December 31, 1999. A hypothetical 10 percent change in the applicable September 30, 1999 quarter-end forward rates would result in an increase or decrease in pretax income of approximately $2.1 million related to these positions.

There were no other material changes in the company's exposure to market risk from June 30, 1999.

PART II. OTHER INFORMATION

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

At the Annual Meeting of Shareowners on October 25, 1999, the shareowners of the company voted on the election of three directors, the approval of the Kennametal Inc. Stock Option and Incentive Plan of 1999 and the election of independent public accountants. The following is the number of shares voted in favor of and against each matter and the number of shares having authority to vote on each matter but withheld.

1. With respect to the votes cast for the election of three directors whose terms expire in 2002:

	For	Withheld	Broker Non-Vote
Peter B. Bartlett	21,811,696	1,130,264	--
Robert L. McGeehan	21,734,355	1,207,605	--
Markos I. Tambakeras	22,703,285	238,675	--

The following other directors' terms of office continued after the meeting:
Richard C. Alberding, A. Peter Held, Timothy S. Lucas, Aloysius T. McLaughlin, Jr., William R. Newlin, and Larry Yost.

2. With respect to the votes cast for the approval of the Kennametal Inc. Stock Option and Incentive Plan of 1999:

	For	Against	Abstained
Kennametal Inc. Stock Option and Incentive Plan of 1999	15,324,739	4,098,795	98,504

3. With respect to the election of the firm of Arthur Andersen LLP, independent public accountants, to audit the financial statements of the company and its subsidiary companies for the fiscal year ending June 30, 2000:

	For	Against	Abstained
Arthur Andersen LLP	22,822,714	59,410	59,836

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(10) Material Contracts

10.1 Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of October 1, 1999. Filed herewith.

(27) Financial Data Schedule for the three months ended September 30, 1999, submitted to the Securities and Exchange Commission in electronic format. Filed herewith.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1999.

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: November 10, 1999 By: /s/ FRANK P. SIMPKINS

Frank P. Simpkins
Corporate Controller and
Chief Accounting Officer

EXHIBIT 10.1

AMENDMENT TO TRANSACTION DOCUMENTS

THIS AMENDMENT, dated as of October 1, 1999, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), the Lenders parties to the Credit Agreement referred to below, and MELLON BANK, N.A., as Administrative Agent under such Credit Agreement.

RECITALS:

WHEREAS, the Borrower has entered into a Credit Agreement, dated as of November 17, 1997, by and among the Borrower, the Lenders parties thereto from time to time, and Mellon Bank, N.A., as Administrative Agent (as amended by an Amendment to Transaction Documents, dated as of November 26, 1997, an Amendment to Transaction Documents, dated as of December 19, 1997, an Amendment to Transaction Documents, dated as of March 19, 1998, an Amendment to Transaction Documents, dated as of December 15, 1998, and an Amendment to Transaction Documents, dated as of March 31, 1999, the "Credit Agreement"); and

WHEREAS, the parties hereto desire to amend further the Credit Agreement as set forth herein.

NOW THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

SECTION 1. AMENDMENTS RELATING TO STANDARD NOTICE. In Section 1.01 of Annex A of the Credit Agreement, the definition of "Standard Notice" is amended by deleting clause (a) and replacing it with the following:

> (a) On the same Business Day in the case of selection of, conversion to or renewal of the Base Rate Option or prepayment of any Base Rate Portion; and

SECTION 2. AMENDMENTS RELATING TO EQUITY HYBRID SECURITIES.

(a) Section 2.07(b)(i) to the Credit Agreement is amended by deleting the second sentence and replacing it with the following:

> If a Reduction Event shall occur, an amount not less than the corresponding Reduction Event Application Amount shall be applied (x) first, to prepayment of the unpaid principal amount of outstanding Term Loans, if any, and then (y) the balance, if any, shall be applied to reduction of the aggregate Revolving Credit Committed Amounts; provided, that the Borrower shall not be obligated to make any application pursuant to the foregoing clause (y) in the event that
>
> (A) the Investment Grade Rating Condition is satisfied on the Reduction Event Date corresponding to such Reduction Event;
>
> (B) such Reduction Event arises under Section 2.07(b)(iv) (relating to equity issuance) or Section 2.07(b)(v) (relating to issuance of Equity Hybrid Securities and settlement of Purchase Contracts), the Equity Recapture Condition is satisfied on the Reduction Event Date corresponding to such Reduction Event, and such Reduction Event Date is on or before March 31, 2000; or
>
> (C) such Reduction Event arises under Section 2.07(b)(vi) (relating to Excess Cash Flow).

(b) Section 2.07(b)(v) of the Credit Agreement is deleted and replaced with the following:

> (v) ISSUANCE OF EQUITY HYBRID SECURITIES AND SETTLEMENT OF PURCHASE CONTRACTS. "Reduction Event" shall include the following: (i) issuance, sale or other disposition by the Borrower or any of its Subsidiaries of any Equity Hybrid Securities, and (ii) settlement of, or other receipt of proceeds by the Borrower or any of its Subsidiaries in connection with, a Purchase Contract (whether such settlement or receipt occurs by reason of cash payment by the holder of such Purchase Contract, receipt of proceeds of remarketing or other disposition of

Equity Hybrid Securities pledged to secure such Purchase Contracts, receipt of proceeds of cash collateral for Purchase Contracts upon maturity or liquidation thereof, or otherwise), excluding from clause (ii) the following: (x) the portion of the aggregate proceeds received (in cash or marketable securities, valued at their fair market value) by the Borrower in settlement of Purchase Contracts, if any, equal to the amount concurrently paid by the Borrower or its Subsidiaries to redeem Equity Hybrid Securities in a redemption permitted under clause (i)(y) of the definition of "Equity Hybrid Securities" and (y) Equity Hybrid Securities acquired by the Borrower in satisfaction of the obligation of the owners of such Equity Hybrid Securities under Purchase Contracts. The "Reduction Event Application Amount" corresponding to the foregoing Reduction Event shall be 100% of the Net Proceeds thereof. The "Reduction Event Date" corresponding to the foregoing Reduction Event shall be five Business Days after the Borrower or its Subsidiaries receives Net Proceeds from such event.

(c) In Article VII of the Credit Agreement, the following new Section 7.12 is added:

7.12. LIMITATION ON PAYMENTS ON CERTAIN OBLIGATIONS. The Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, pay, prepay, purchase, redeem, retire, defease or acquire, or otherwise make any payment (on account of principal, interest, premium or otherwise) of, any obligation under or evidenced by any Equity Hybrid Security, except that the Borrower may

(a) make payments on and purchases of the Equity Hybrid Securities as and when required to do so by the mandatory terms of such Equity Hybrid Security, consistent with the definition of that term in this Agreement, and

(b) purchase or redeem Equity Hybrid Securities from time to time, provided that the aggregate principal or face amount of all such purchases and redemptions of any class or series of Equity Hybrid Securities shall not exceed 5% of the aggregate principal or face amount of Equity Hybrid Securities of such class or series originally issued.

(d) In Article VIII of the Credit Agreement, Section 8.01(f) is amended as follows:

(i) In Section 8.01(f)(i), the word "and" at the end is deleted and replaced with the following: "or (C) an event or condition shall occur which gives any holder the right to put any Equity Hybrid Security to the issuing trust or the Borrower (other than a put in accordance with clause (i) of the definition of "Equity Hybrid Security"), and".

(ii) In Section 8.01(f)(ii), the word "and" before clause (C) is deleted and the semicolon at the end of Section 8.01(f)(ii) is deleted and replaced with the following: ", and (D) any Equity Hybrid Security (or set of related Equity Hybrid Securities) having an aggregate principal or face amount in excess of $10,000,000 (or the equivalent thereof in one or more foreign currencies);"

(d) In Section 1.01 of Annex A of the Credit Agreement, the definition of "Equity Hybrid Security" is deleted and replaced with the following:

"Equity Hybrid Security" means (a) a beneficial interest issued by a trust which constitutes a Subsidiary of the Borrower, substantially all the assets of which trust are unsecured Indebtedness of the Borrower or proceeds thereof, and all payments of which Indebtedness are required to be, and are, distributed to the holders of beneficial interests in such trust, or (b) a note, bond or debenture issued by, and evidencing unsecured Indebtedness of, the Borrower, or any combination of one or more of the Equity Hybrid Securities in clauses (a) and (b); provided, however, that no Equity Hybrid Security shall by its terms (or by the terms of any security into which it is convertible or exchangeable) impose (either absolutely or upon the happening of an event or the passage of time) any payment, prepayment, redemption, repurchase, put or similar obligation on the Borrower or any Subsidiary of the Borrower on or prior to the Revolving Credit Maturity Date, except as follows:

(i) The holders of an Equity Hybrid Security may be given the right to put, convert, exchange or exercise such Equity Hybrid Security on or before the Revolving Credit Maturity Date, provided that either (x) the consideration payable by the Borrower or the issuing trust in connection with such put, conversion, exchange or exercise is common stock of the Borrower, or (y) the Borrower or the issuing trust shall have received or shall concurrently receive aggregate net proceeds (in cash or marketable securities, valued at their fair market value) from Purchase Contracts issued concurrently

with the issuance of such Equity Hybrid Security at least equal to the aggregate principal or face amount, as the case may be, of such Equity Hybrid Security;

(ii) The holders of an Equity Hybrid Security may be given the right to put such Equity Hybrid Security to the issuing trust or the Borrower, or to accelerate the maturity of such Equity Hybrid Security, upon (x) the occurrence of a change of control or an event of default (as such terms may be defined in the documentation relating to such Equity Hybrid Security), so long as such change of control or event of default also constitutes an Event of Default under Section 8.01 (other than solely under Section 8.01(f), except in the case of an event of default arising solely from breach of a purely ministerial requirement imposed by the terms of the Equity Hybrid Security, including but not limited to such matters as a requirement to maintain a New York payment office for the Equity Hybrid Securities and customary representations and warranties made at closing with respect to the Equity Hybrid Security), or (y) a payment default with respect to such Equity Hybrid Securities; and

(iii) obligations to make payments other than payments that reduce the outstanding principal or face amount of the Equity Hybrid Securities.

As used in this definition, "Purchase Contract" means a contract between a holder of an Equity Hybrid Security (or a person who purchased such Purchase Contract on the same date on which an Equity Hybrid Security was issued, or the assignee or transferee of any such person) and the Borrower whereby such holder (or such purchaser, or such assignee or transferee, as the case may be) is obligated to purchase, and the Borrower is obligated to sell, for an amount in cash or marketable securities (valued at their fair market value) equal to the principal or face amount of such Equity Hybrid Security, shares of common stock of the Borrower.

(e) In Section 1.01 of Annex A of the Credit Agreement, the definition of "Severed Equity Hybrid Security" is deleted, and the clause defining the terms "Purchase Contract," "Purchase Contract Cash Collateral" and "Purchase Contract Settlement Date" is revised to read as follows:

"Purchase Contract" has the meaning given that term in the definition of "Equity Hybrid Securities.

(f) Section 1.01 of Annex A of the Credit Agreement is amended by adding the following new definition in its appropriate place in alphabetical order:

"Equity Recapture Condition": The Borrower shall be deemed to satisfy the "Equity Recapture Condition" on a particular day if and only if, on such day, the Borrower's senior unsecured long-term debt is rated "BBB-" or higher by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (or a comparable rating from a generally recognized successor to such rating agency) or "Baa3" or higher by Moody's Investors Service, Inc. (or a comparable rating from a generally-recognized successor to such rating agency).

SECTION 3. EFFECTIVENESS AND EFFECT, ETC. This Amendment shall become effective when Mellon Bank, N.A., as Administrative Agent, shall have received counterparts hereof duly executed by the Borrower and the Administrative Agent and consents hereto duly executed by the Required Lenders (as defined in the Credit Agreement). The Credit Agreement, as amended by the Amendment to Transaction Documents dated as of November 26, 1997, the Amendment to Transaction Documents dated as of December 19, 1997, the Amendment to Transaction Documents dated as of March 19, 1998, the Amendment to Transaction Documents dated as of December 15, 1998, the Amendment to Transaction Documents, dated as of March 31, 1999, and as further amended hereby, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Except to the extent expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy under the Credit Agreement or constitute a waiver of any provision of the Credit Agreement.

SECTION 4. MISCELLANEOUS. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same document. Section and other headings herein are for reference purposes only and shall not affect the interpretation of this Amendment in any respect. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to choice of law principles. This Amendment is a requested amendment within the meaning of Section 10.06(a)(ii) of the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

KENNAMETAL INC.

By: /s/ James E. Morrison
Name: James E. Morrison
Title: Vice President and Treasurer

MELLON BANK, N.A.,
individually and as Administrative Agent

By: /s/ Peter K. Lee
Name: Peter K. Lee
Title: Vice President

5

This schedule contains summary financial information extracted from the
September 30, 1999 Condensed Consolidated Financial Statements (unaudited) and
is qualified in its entirety by reference to such financial statements.

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3-MOS
JUN-30-2000
JUL-01-1999
SEP-30-1999
20,748
11,772
249,266
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431,324
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