

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, 1994

Commission file number 1-5318

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

PENNSYLVANIA  
(State or other jurisdiction of  
of incorporation)

25-0900168  
(I.R.S. Employer  
Identification No.)

ROUTE 981 AT WESTMORELAND COUNTY AIRPORT  
P.O. BOX 231  
LATROBE, PENNSYLVANIA 15650  
(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (412) 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 JANUARY 31, 1995
Capital Stock, par value \$1.25 per share	26,506,993

KENNAMETAL INC.  
FORM 10-Q  
FOR QUARTER ENDED DECEMBER 31, 1994

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)

	December 31, 1994	June 30, 1994
	-----	-----
ASSETS		
-----		
Current Assets:		
Cash and equivalents	\$ 10,526	\$ 17,190
Accounts receivable, less allowance for doubtful accounts of \$10,908 and \$9,328	147,331	143,691
Inventories	172,756	158,179
Deferred income taxes	13,793	13,744
	-----	-----
Total current assets	344,406	332,804
	-----	-----
Property, Plant and Equipment	480,345	467,652
Less: accumulated depreciation	(238,044)	(224,554)
	-----	-----
Net property, plant and equipment	242,301	243,098
	-----	-----
Other Assets:		
Investments in affiliated companies	6,536	6,393
Intangible assets, less accumulated amortization of \$18,157 and \$16,540	29,723	32,141
Deferred income taxes	66,097	65,606
Other	15,182	17,490
	-----	-----
Total other assets	117,538	121,630
	-----	-----
Total assets	\$ 704,245	\$ 697,532
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
-----		
Current Liabilities:		
Current maturities of term debt and capital leases	\$ 4,360	\$ 4,364
Notes payable to banks	62,071	52,753
Accounts payable	42,097	52,148
Accrued vacation pay	15,631	15,569
Other	62,954	77,193
	-----	-----
Total current liabilities	187,113	202,027
	-----	-----
Term Debt and Capital Leases, Less Current Maturities	89,778	90,178
Deferred Income Taxes	19,593	19,279
Other Liabilities	53,747	51,800
	-----	-----
Total liabilities	350,231	363,284
	-----	-----
Minority Interest	10,316	11,412
Shareholders' Equity:		
Capital stock, \$1.25 par value; 70,000,000 shares authorized; 29,369,658 shares issued	36,712	36,712
Preferred stock, 5,000,000 shares authorized; none issued	-	-
Additional paid-in capital	84,958	83,839
Retained earnings	260,045	245,428
Treasury shares, at cost (2,867,744 and 3,015,466 shares)	(37,398)	(39,247)
Pension liability adjustment	(536)	(536)
Cumulative translation adjustments	(83)	(3,360)
	-----	-----

Total shareholders' equity	343,698	322,836
	-----	-----
Total liabilities and shareholders' equity	\$ 704,245	\$ 697,532
	=====	=====

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	1994	1993	1994	1993
NET SALES	\$230,335	\$195,167	\$449,173	\$370,832
COSTS AND EXPENSES:				
Cost of goods sold	135,714	118,254	263,765	223,901
Research and development	4,363	3,958	8,782	7,590
Marketing	52,336	47,384	103,104	90,214
General and administrative	13,565	15,615	26,442	29,672
Interest expense	2,992	3,603	6,466	7,687
Amortization of intangibles	755	1,011	1,528	1,959
Restructuring charge	-	-	-	24,749
Total costs and expenses	209,725	189,825	410,087	385,772
OTHER INCOME (EXPENSE)	(137)	746	(45)	1,472
INCOME (LOSS) BEFORE TAXES ON INCOME AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	20,473	6,088	39,041	(13,468)
PROVISION FOR INCOME TAXES	8,600	2,000	16,500	500
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	11,873	4,088	22,541	(13,968)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES, NET OF INCOME TAXES:				
Postretirement benefits	-	-	-	(20,060)
Income taxes	-	-	-	5,057
NET INCOME (LOSS)	\$ 11,873	\$ 4,088	\$ 22,541	\$(28,971)
PER SHARE DATA:				
Earnings (loss) before cumulative effect of accounting changes	\$ 0.45	\$ 0.18	\$ 0.85	\$ (0.62)
Cumulative effect of accounting changes:				
Postretirement benefits	-	-	-	(0.88)
Income taxes	-	-	-	0.22
Earnings (loss) per share	\$ 0.45	\$ 0.18	\$ 0.85	\$ (1.28)
Dividends per share	\$ 0.15	\$ 0.145	\$ 0.30	\$ 0.29
Average shares outstanding (in thousands)	26,487	23,066	26,433	22,584

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands)

	Six Months Ended	
	December 31,	
	1994	1993
	-----	-----
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 22,541	\$(28,971)
Adjustments for non-cash items	21,486	37,803
Changes in certain assets and liabilities	(37,341)	4,445
	-----	-----
Net cash flow from operating activities	6,686	13,277
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(16,877)	(13,350)
Purchase of Hertel AG, net of cash	-	(19,226)
Other	781	3,165
	-----	-----
Net cash flow used for investing activities	(16,096)	(29,411)
	-----	-----
<b>FINANCING ACTIVITIES:</b>		
Increase in short-term debt	8,259	3,132
Increase (decrease) in term debt	3,190	(664)
Reduction in term debt	(4,071)	(45,736)
Net proceeds from issuance of common stock	-	73,692
Dividend reinvestment and employee stock plans	2,969	3,192
Cash dividends paid to shareholders	(7,924)	(6,385)
	-----	-----
Net cash flow from financing activities	2,423	27,231
	-----	-----
Effect of exchange rate changes on cash	323	700
	-----	-----
<b>CASH AND EQUIVALENTS:</b>		
Net increase (decrease) in cash and equivalents	(6,664)	11,797
Cash and equivalents, beginning	17,190	4,149
	-----	-----
Cash and equivalents, ending	\$ 10,526	\$ 15,946
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid	\$ 6,516	\$ 6,591
Income taxes paid	\$ 14,665	\$ 3,587

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 the company's 1994 Annual Report. The condensed consolidated balance sheet as of June 30, 1994 has been derived from the audited balance sheet included in the company's 1994 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 six months ended December 31, 1994 are not necessarily indicative of the results to be expected for the full fiscal year.
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 60 percent of total inventories at December 31, 1994. 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 (dollars in thousands):

	December 31, 1994	June 30, 1994
	-----	-----
Finished goods	\$125,208	\$112,202
Work in process and powder blends	56,034	54,831
Raw materials and supplies	23,884	20,571
	-----	-----
Inventory at current cost	205,126	187,604
Less LIFO valuation	(32,370)	(29,425)
	-----	-----
Total inventories	\$172,756	\$158,179
	=====	=====

4. The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company has been named as a potentially responsible party at four 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 or financial position of the company.

The company maintains a Corporate Environmental, Health and Safety (EH&S) Department to effect compliance with all 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. On August 4, 1993, the company completed the acquisition of an 81 percent interest in Hertel AG (Hertel) for \$43 million in cash and \$55 million of assumed debt. Hertel is a manufacturer of cemented carbide tools and tooling systems based in Furth, Germany.

The Hertel acquisition was recorded under the purchase method of accounting and, accordingly, the results of operations of Hertel for the period beginning as of August 4, 1993, forward are included in the

accompanying condensed consolidated financial statements. The purchase price has been allocated to assets acquired and liabilities assumed based on fair market value at the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired has been recorded as goodwill and is being amortized over twenty years. The fair values (as adjusted) of assets acquired and liabilities assumed are summarized below (in thousands):

Current assets	\$114,800
Property, plant and equipment	70,200
Intangible assets (goodwill)	5,800
Deferred tax asset	40,600
Other noncurrent assets	12,400
Current liabilities	104,700
Long-term liabilities	89,400

As presented above, current liabilities includes a reserve of approximately \$36.0 million (pretax) for the restructuring of Hertel. The restructuring costs primarily include amounts for severance, phase-out and relocation. The cumulative charges to the restructuring reserve total \$25.6 million, leaving a balance of \$11.8 million at December 31, 1994. It is expected that the restructuring, which began in fiscal 1994, will be substantially completed during fiscal year 1995.

Since January 1, 1994, the company has purchased an additional 37,000 common shares of Hertel at a purchase price of DM128 per share. The company's ownership interest in Hertel as of December 31, 1994 was 85 percent.

In connection with the acquisition of Hertel, the company recognized a special charge in the September 1993 quarter of approximately \$20.4 million after taxes in connection with the closure of its manufacturing facility in Neunkirchen, Germany, and other integration related actions. The cumulative charges to the related reserve total \$19.8 million, a significant portion of which were cash charges, leaving a balance of \$4.1 million at December 31, 1994. It is expected that spending related to this charge will be substantially completed during fiscal year 1995.

The effect of the purchase on the company's operations, assuming the transaction had occurred on July 1, 1992, would be as follows:

Pro Forma (Unaudited)  
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended		Six Months Ended	
	December 31, 1994	December 31, 1993	December 31, 1994	December 31, 1993
	(Actual)	(Actual)	(Actual)	(Pro Forma)
Net sales	\$230,335	\$195,167	\$449,173	\$383,514
Income (loss) before cumulative effect of accounting changes	\$ 11,873	\$ 4,088	\$ 22,541	\$(15,741)
Net income (loss)	\$ 11,873	\$ 4,088	\$ 22,541	\$(30,744)
Per share data:				
Earnings (loss) before cumulative effect of accounting changes	\$ 0.45	\$ 0.18	\$ 0.85	\$ (0.70)
Cumulative effect of accounting changes:				
Postretirement benefits	-	-	-	(0.88)
Income taxes	-	-	-	0.22
Earnings (loss) per share	\$ 0.45	\$ 0.18	\$ 0.85	\$ (1.36)



The pro forma financial information presented above does not purport to present what the company's results of operations would actually have been if the acquisition of Hertel had occurred on July 1, 1992, or to project the company's results of operations for any future period.

6. Effective July 1, 1993, the company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The change did not significantly affect earnings before cumulative effect of changes in methods of accounting in the first quarter of fiscal year 1994.

The company provides varying levels of postretirement health care and life insurance benefits to most U.S. employees who retire from active service after having attained age 55 and 10 years of service. This plan remains in effect for all current retirees and employees who will retire prior to January 1, 1997. However, for those employees retiring on or after January 1, 1997, the following plan amendments will be effective. The company's retiree health care payments will be capped at 1996 levels. To qualify for medical benefits at normal retirement (age 65 or later), employees must have a minimum of 5 years of service after age 40. Medical benefits will be available for only those retirements that begin on or after the normal retirement age of 65.

The following table presents the components of the company's liability for future retiree health care and life insurance benefits as of June 30, 1994 and July 1, 1993.

	(Dollars in thousands)	
	June 30, 1994	July 1, 1993
	-----	-----
Accumulated postretirement benefit obligations:		
Retirees	\$(14,800)	\$(15,100)
Fully eligible active participants	(8,000)	(7,600)
Other active participants	(13,000)	(11,300)
	-----	-----
Total obligation	\$(35,800)	\$(34,000)
Assets at fair value	-	-
	-----	-----
Accrued postretirement benefit cost	\$(35,800)	\$(34,000)
	=====	=====

As of December 31, 1994, the company's accrued postretirement benefit liability was \$36.3 million.

The components of retiree health care cost for the three and six month periods ended December 31, 1994 were as follows:

	(Dollars in thousands)	
	Three months Ended December 31 1994	Six months Ended December 31, 1994
	-----	-----
Service cost	\$ 300	\$ 600
Interest cost	725	1,450
	-----	-----
Total cost	\$1,025	\$2,050
	=====	=====

The discount rate used in calculating the accumulated postretirement benefit obligations was 8.5 percent. In determining the accumulated postretirement benefit obligations at July 1, 1993 and June 30, 1994, the assumed rates of increase in health care were 15 percent for retirees under age 65 and 10 percent for persons age 65 and older. These rates are assumed to decrease to varying degrees annually to

6 percent for years 2002 and thereafter. A 1 percent increase in the trend rate would increase both the accumulated postretirement benefit obligation at June 30, 1994 and the total cost of the plan for the second quarter of fiscal year 1995 by approximately 8 percent. The accumulated postretirement benefit obligation is unfunded.

Effective July 1, 1994, the company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under the new standard, the company must recognize the obligation to provide benefits to former or inactive employees after employment, but before retirement. The implementation of the new standard did not have a material impact on the results of operations or financial position of the company.

7. Effective July 1, 1993, the company adopted SFAS No. 109, "Accounting for Income Taxes." The company previously accounted for income taxes pursuant to the provisions of APB No. 11. The new standard requires the use of the liability method to recognize deferred income tax assets and liabilities using enacted tax rates. As a result of implementing the change in accounting principle, a net deferred tax liability of \$5.6 million was recognized relating to net operating loss carryforwards and other tax attributes existing as of July 1, 1993. In addition, the income tax effect of the new method of accounting related to the company's adoption of SFAS No. 106 as of July 1, 1993 was the recognition of additional deferred tax assets of \$13.9 million. The combined effect of these items resulted in the recognition of an \$8.3 million net deferred tax asset and a net income tax benefit of \$5.1 million.

As a component of its cumulative adjustment from implementing SFAS No. 109, the company recognized a charge of \$1.1 million to establish a valuation reserve related to certain tax attributes comprising its net deferred tax asset. As of July 1, 1993, deferred tax liabilities associated with existing taxable temporary differences exceeded deferred tax assets from future deductible temporary differences, excluding those attributable to SFAS No. 106, by approximately \$5.7 million. The recognition by the company as of July 1, 1993, of the entire transition obligation related to adopting the provisions of SFAS No. 106 resulted in the recognition of a \$13.9 million deferred tax asset. Future operating costs under SFAS No. 106 are expected to exceed deductible amounts for income tax purposes for many years. In addition, under current federal tax regulations, should the company incur tax losses in future periods, such losses may be carried forward to offset taxable income for a period of up to 15 years. Based upon the length of the period during which the SFAS No. 106-generated deferred tax asset can be utilized, the company believes that it is more likely than not that future taxable income will be sufficient to offset fully these future deductions and a valuation allowance for this deferred tax asset is not necessary.

At June 30, 1994, the company had unused tax benefits of \$50.8 million related to non-U.S. net operating loss (NOL) carryforwards for income tax purposes, of which \$46.7 million can be carried forward indefinitely with the balance expiring at various dates through 2001. A significant portion (\$46.7 million) of the unused tax benefits relate to the Federal Republic of Germany.

The company believes that it is more likely than not that \$45.1 million of NOL carryforwards will be utilized in future periods. The recorded tax benefits are expected to be realized by achieving future profitable operations in Germany. The German NOL carryforwards can be carried forward indefinitely.

8. On January 3, 1995, the company acquired Adaptive Technologies Corporation (ATC) for approximately \$2.8 million. ATC is a manufacturer of steel toolholding devices based in Michigan. The ATC acquisition will be accounted for under the purchase method and, accordingly, the results of operations of ATC for the period beginning as of January 4, 1995, forward will be included in the company's consolidated financial statements.

On February 1, 1995, the company acquired Grupo Tecnico de Herramientas S.A. de C.V. (GTH) for approximately \$1 million. GTH is a distributor of metalcutting tools and supplies based in Mexico. The GTH acquisition will be accounted for under the purchase method and, accordingly, the results of operations of GTH for the period beginning as of February 2, 1995, forward will be included in the company's consolidated financial statements.

## FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

There were no material changes in financial position, liquidity or capital resources between June 30, 1994 and December 31, 1994. The ratio of current assets to current liabilities was 1.8 as of December 31, 1994 as compared with 1.6 as of June 30, 1994. The debt to capital ratio (i.e., total debt divided by the sum of total debt and shareholders' equity) was 31 percent as of December 31, 1994 unchanged from June 30, 1994.

In the September 1993 quarter, the company recorded cumulative effect charges aggregating \$15 million after taxes for the adoption of SFAS No. 106 and SFAS No. 109. While these charges did not involve the use of cash, they had a significant effect on various components of the company's consolidated financial position at December 31, 1993.

Capital expenditures are estimated to be \$50-55 million in fiscal year 1995. Expenditures are being made to modernize facilities and upgrade machinery and equipment. Capital expenditures are being financed with cash from operations and borrowings under existing revolving credit agreements with banks.

### RESULTS OF OPERATIONS

#### SALES AND EARNINGS

During the quarter ended December 31, 1994, consolidated sales were \$230 million, up 18 percent from \$195 million in the same quarter last year.

Net income for the December 1994 quarter was \$11.9 million, or \$0.45 per share, as compared with \$4.1 million, or \$0.18 per share last year.

During the six month period ended December 31, 1994, consolidated sales were \$449 million, up 21 percent from \$371 million last year. The prior year sales include only five months of Kennametal Hertel AG (Hertel) revenues. Hertel is a German toolmaker acquired by Kennametal in August 1993.

For the six month period, net income was \$22.5 million, or \$0.85 per share, as compared with a net loss of \$29.0 million, or \$1.28 per share in the same period last year. The net loss reported in the prior year includes the unfavorable cumulative noncash effect of adopting Statement of Financial Accounting Standards (SFAS) No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" (\$20.1 million net of income tax effect) and the favorable cumulative noncash effect of adopting SFAS No. 109 "Accounting for Income Taxes" (\$5.1 million). In addition to the cumulative effect of changes in accounting principles, prior year results included a restructuring charge of \$20.4 million after taxes.

The following table presents the company's sales by product class and geographic area (dollars in thousands):

	Three Months Ended December 31,			Six Months Ended December 31,		
	1994	1993	% Change	1994	1993	% Change
<b>Sales by Product Class:</b>						
Metalworking	\$197,637	\$166,121	19.0	\$381,218	\$311,112	22.5
Mining and construction	25,407	23,294	9.1	53,774	48,572	10.7
Metallurgical	7,291	5,752	26.8	14,181	11,148	27.2
Net sales	\$230,335	\$195,167	18.0	\$449,173	\$370,832	21.1
<b>Sales by Geographic Area:</b>						
Within the U.S.	\$141,330	\$123,088	14.8	\$281,899	\$242,335	16.3
Foreign and export	89,005	72,079	23.5	167,274	128,497	30.2
Net sales	\$230,335	\$195,167	18.0	\$449,173	\$370,832	21.1

#### METALWORKING PRODUCTS

During the December 1994 quarter, worldwide sales of metalworking products

increased 19 percent from those of the prior year.

In the United States, sales of metalcutting inserts and toolholding devices increased 15 percent. Total sales of industrial supply products increased 22 percent as a result of increased sales through mail order catalogs and full service supply programs.

International sales of metalworking products increased 26 percent from the previous year primarily because of higher sales volume in Europe and Canada and favorable foreign currency translation effects. Excluding currency translation effects, metalworking sales increased an estimated 17 percent.

For the six month period, worldwide sales of metalworking products increased 23 percent from the prior year because of increased sales of metalworking products in the United States and Europe, the impact of the acquisition of Hertel and favorable foreign currency translation effects. Excluding foreign currency translation effects, international sales of metalworking products increased 28 percent from last year. The prior year sales include only five months of Hertel revenues.

#### MINING AND CONSTRUCTION PRODUCTS

During the December 1994 quarter, sales of mining and construction tools increased nine percent from the previous year because of strong domestic demand for highway construction and mining tools. International demand for highway construction and mining tools remains weak, particularly in Europe.

For the six month period, sales of mining and construction tools increased 11 percent from the prior year primarily because of strong domestic demand for highway construction and mining tools.

#### METALLURGICAL PRODUCTS

During the December 1994 quarter, sales of metallurgical products increased 27 percent from the previous year primarily because of strong international demand for carbide powders.

For the six month period, sales of metallurgical products rose 27 percent primarily because of strong international demand for carbide powders.

#### GROSS PROFIT MARGIN

As a percentage of sales, the gross profit margin for the December 1994 quarter was 41.1 percent as compared with 39.4 percent in the prior year. The gross profit margin benefited from a favorable sales mix and increased manufacturing efficiencies. However, these benefits were partially offset by higher raw material costs.

For the six month period, the gross profit margin was 41.3 percent, up from 39.6 percent last year. The gross profit margin was favorably affected by sales mix and increased manufacturing efficiencies. However, these benefits were partially offset by higher raw material costs.

#### OPERATING EXPENSES

For the quarter ended December 31, 1994, research and development, marketing and general and administrative expenses increased five percent as a result of higher sales volume and unfavorable foreign currency translation effects.

As a percentage of sales, operating expenses were 30.5 percent for the quarter ended December 31, 1994, as compared with 34.3 percent for the same period last year. The operating expense ratio decreased as a result of the decrease in general and administrative expenses combined with the increase in consolidated sales.

For the six month period, as a percentage of sales, operating expenses were 30.8 percent, as compared with 34.4 percent in the same period last year. The operating expense ratio decreased as a result of the decrease in general and administrative expenses combined with the increase in consolidated sales.

#### INTEREST EXPENSE

Interest expense was \$3.0 million and \$6.5 million for the quarter and six months ended December 31, 1994, respectively, as compared with \$3.6 million and \$7.7 million, respectively, for the same periods last year. The decrease in both periods was primarily due to the lower amount of debt outstanding during the respective periods. As of December 31, 1994 approximately 39 percent of the company's total debt was subject to variable interest rates.

#### INCOME TAXES

For the quarter ended December 31, 1994, the effective tax rate was 42.0 percent as compared with 32.9 percent in the same period last year.

For the six month period ended December 31, 1994, the effective tax rate was 42.3 percent. Excluding the effects of the accounting changes and the restructuring charge, the effective tax rate for the comparable prior year period was 42.9 percent.

#### OUTLOOK

In looking to the third quarter ending March 31, 1995, management expects consolidated sales to increase from the \$212 million achieved in the same quarter last year. Sales of metalworking products in the United States should continue to benefit from catalog sales and full service supply programs. In addition, international sales are expected to improve as the German economy strengthens. Sales of mining and construction tools should continue to grow as a result of increased domestic demand for highway construction and mining tools.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The information set forth in footnote 4 to the condensed consolidated financial statements, contained in Part I, Item 1 of this Form 10-Q, is incorporated by reference herein and supplements the information previously reported in Part I, Item 3(c) of the company's Form 10-K for the year ended June 30, 1994, which is also incorporated by reference herein.

It is management's opinion, based on its evaluation and discussions with outside counsel, that the company has viable defenses to these cases and that, in any event, this litigation will not have a materially adverse effect on the results of operations or financial position of the company.

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

Part II, Item 4 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.

#### ITEM 5. OTHER INFORMATION

On January 30, 1995, the Board of Directors elected A. Peter Held to the Board. Mr. Held joins the company's Board as a result of the retirement of Eugene R. Yost. Mr. Held is President of the Cooper Power Tools Division of Cooper Industries.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

- (27) Financial Data Schedule for the six months ended December 31, 1994, submitted to the Securities and Exchange Commission in electronic format.

##### (b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 1994.

### 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 13, 1995

By: /s/ RICHARD J. ORWIG

-----  
Richard J. Orwig  
Vice President  
Chief Financial and Administrative Officer

This schedule contains summary financial information extracted from the December 31, 1994 Condensed Consolidated Financial Statements (unaudited) and is qualified in its entirety by reference to such financial statements.

1,000

6-MOS	
	JUN-30-1995
	JUL-01-1994
	DEC-31-1994
	10,526
	0
	147,331
	10,908
	172,756
	344,406
	480,345
	238,044
	704,245
187,113	0
	36,712
0	0
	306,986
704,245	449,173
	449,173
	263,765
	410,087
	45
	0
	6,466
	39,041
	16,500
22,541	0
	0
	0
	22,541
	.85
	.85