

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 MARCH 31, 1995

Commission file number 1-5318

KENNAMETAL INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
 (State or other jurisdiction  
 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 APRIL 30, 1995
Capital Stock, par value \$1.25 per share	26,546,835

KENNAMETAL INC.  
 FORM 10-Q  
 FOR QUARTER ENDED MARCH 31, 1995

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)

	March 31, 1995	June 30, 1994
	-----	-----
ASSETS		
-----		
Current Assets:		
Cash and equivalents	\$ 16,360	\$ 17,190
Accounts receivable, less allowance for doubtful accounts of \$12,398 and \$9,328	178,312	143,691
Inventories	192,510	158,179
Deferred income taxes	12,561	13,744
	-----	-----
Total current assets	399,743	332,804
	-----	-----
Property, Plant and Equipment	497,456	467,652
Less: accumulated depreciation	(245,114)	(224,554)
	-----	-----
Net property, plant and equipment	252,342	243,098
	-----	-----
Other Assets:		
Investments in affiliated companies	6,684	6,393
Intangible assets, less accumulated amortization of \$18,563 and \$16,540	31,794	32,141
Deferred income taxes	68,950	65,606
Other	20,258	17,490
	-----	-----
Total other assets	127,686	121,630
	-----	-----
Total assets	\$ 779,771	\$ 697,532
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
-----		
Current Liabilities:		
Current maturities of term debt and capital leases	\$ 4,521	\$ 4,364
Notes payable to banks	70,843	52,753
Accounts payable	54,307	52,148
Accrued vacation pay	17,332	15,569
Other	72,564	77,193
	-----	-----
Total current liabilities	219,567	202,027
	-----	-----
Term Debt and Capital Leases, Less Current Maturities	93,737	90,178
Postretirement Benefits Other Than Pensions	34,342	33,752
Deferred Income Taxes	20,723	19,279
Other Liabilities	22,743	18,048
	-----	-----
Total liabilities	391,112	363,284
	-----	-----
Minority Interest	12,250	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	85,417	83,839
Retained earnings	278,219	245,428
Treasury shares, at cost (2,824,459 and 3,015,466 shares)	(36,915)	(39,247)
Pension liability adjustment	(536)	(536)
Cumulative translation adjustments	13,512	(3,360)

Total shareholders' equity	----- 376,409 -----	----- 322,836 -----
Total liabilities and shareholders' equity	\$ 779,771 =====	\$ 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		Nine Months Ended	
	March 31,		March 31,	
	1995	1994	1995	1994
NET SALES	\$268,064	\$211,809	\$717,237	\$582,641
<b>COSTS AND EXPENSES:</b>				
Cost of goods sold	148,839	123,380	412,604	347,281
Research and development	4,695	3,080	13,477	10,670
Marketing	56,743	49,183	159,847	139,397
General and administrative	14,954	14,249	41,396	43,921
Interest expense	3,136	3,099	9,602	10,786
Amortization of intangibles	363	1,012	1,891	2,971
Restructuring charge	-	-	-	24,749
Total costs and expenses	228,730	194,003	638,817	579,775
OTHER INCOME (EXPENSE)	(784)	784	(829)	2,259
INCOME BEFORE TAXES ON INCOME AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	38,550	18,590	77,591	5,125
PROVISION FOR INCOME TAXES	16,400	7,500	32,900	7,997
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	22,150	11,090	44,691	(2,872)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES, NET OF INCOME TAXES:				
Postretirement benefits	-	-	-	(20,060)
Income taxes	-	-	-	5,057
NET INCOME (LOSS)	\$ 22,150	\$ 11,090	\$ 44,691	\$(17,875)
AVERAGE SHARES OUTSTANDING (in thousands)	26,524	26,222	26,463	23,692
<b>PER SHARE DATA:</b>				
Earnings (loss) before cumulative effect of accounting changes	\$ 0.84	\$ 0.43	\$ 1.69	\$ (0.12)
Cumulative effect of accounting changes:				
Postretirement benefits	-	-	-	(0.84)
Income taxes	-	-	-	0.21
Earnings (loss) per share	\$ 0.84	\$ 0.43	\$ 1.69	\$ (0.75)
Dividends per share	\$ 0.15	\$ 0.145	\$ 0.45	\$ 0.435

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands)

	Nine Months Ended	
	-----	
	March 31,	
	1995	1994
	-----	-----
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 44,691	\$(17,875)
Adjustments for non-cash items	38,274	48,877
Changes in certain assets and liabilities	(60,371)	(12,640)
	-----	-----
Net cash flow from operating activities	22,594	18,362
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(27,323)	(21,111)
Purchase of Hertel AG, net of cash	-	(19,226)
Other	(385)	4,949
	-----	-----
Net cash flow used for investing activities	(27,708)	(35,388)
	-----	-----
<b>FINANCING ACTIVITIES:</b>		
Increase in short-term debt	11,093	11,636
Increase in term debt	5,206	3,938
Reduction in term debt	(4,791)	(62,144)
Net proceeds from issuance of common stock	-	73,692
Dividend reinvestment and employee stock plans	3,910	8,126
Cash dividends paid to shareholders	(11,901)	(10,196)
Other	-	210
	-----	-----
Net cash flow from financing activities	3,517	25,262
	-----	-----
Effect of exchange rate changes on cash	767	1,044
	-----	-----
<b>CASH AND EQUIVALENTS:</b>		
Net increase (decrease) in cash and equivalents	(830)	9,280
Cash and equivalents, beginning	17,190	4,149
	-----	-----
Cash and equivalents, ending	\$ 16,360	\$ 13,429
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid	\$ 8,285	\$ 8,440
Income taxes paid	\$ 18,707	\$ 7,752

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 nine months ended March 31, 1995 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 March 31, 1995. 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):

	March 31, 1995	June 30, 1994
	-----	-----
Finished goods	\$135,594	\$112,202
Work in process and powder blends	67,896	54,831
Raw materials and supplies	28,085	20,571
	-----	-----
Inventory at current cost	231,575	187,604
Less LIFO valuation	(39,065)	(29,425)
	-----	-----
Total inventories	\$192,510	\$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 \$27.3 million, leaving a balance of \$10.9 million at March 31, 1995. 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 shares of Hertel at a purchase price of DM128 per share. The company's ownership interest in Hertel as of March 31, 1995 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 \$20.0 million, a significant portion of which were cash charges, leaving a balance of \$4.4 million at March 31, 1995. 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		Nine Months Ended	
	March 31, 1995	March 31, 1994	March 31, 1995	March 31, 1994
	(Actual)	(Actual)	(Actual)	(Pro Forma)
Net sales	\$268,064	\$211,809	\$717,237	\$595,323
Income (loss) before cumulative effect of accounting changes	\$ 22,150	\$ 11,090	\$ 44,691	\$ (4,651)
Net income (loss)	\$ 22,150	\$ 11,090	\$ 44,691	\$(19,654)
Per share data:				
Earnings (loss) before cumulative effect of accounting changes	\$ 0.84	\$ 0.43	\$ 1.69	\$ (0.20)
Cumulative effect of accounting changes:				
Postretirement benefits	-	-	-	(0.84)
Income taxes	-	-	-	0.21
Earnings (loss) per share	\$ 0.84	\$ 0.43	\$ 1.69	\$ (0.83)



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 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 March 31, 1995, the company's accrued postretirement benefit liability was \$36.9 million.

The components of retiree health care cost for the three and nine month periods ended March 31, 1995 were as follows:

	(Dollars in thousands)	
	Three months Ended March 31 1995	Nine months Ended March 31, 1995
	-----	-----
Service cost	\$ 300	\$ 900
Interest cost	725	2,175
	-----	-----
Total cost	\$1,025	\$3,075
	=====	=====

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

third 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.

9. On May 8, 1995, management initiated a plan to integrate Hertel Cutting Technologies Inc. into the Metalworking Systems Division of Kennametal Inc. The integration is expected to result in operational efficiencies and cost savings. Management does not expect that the implementation of the plan will have a significant effect on the results of operations or financial position of the company.

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

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

There were no material changes in financial position, liquidity or capital resources between June 30, 1994 and March 31, 1995. The ratio of current assets to current liabilities was 1.8 as of March 31, 1995 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 March 31, 1995 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 June 30, 1994.

Capital expenditures are estimated to be \$40-45 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 March 31, 1995, consolidated sales were \$268 million, up 27 percent from \$212 million in the same quarter last year.

Net income for the March 1995 quarter was \$22.2 million, or \$0.84 per share, as compared with \$11.1 million, or \$0.43 per share last year.

During the nine month period ended March 31, 1995, consolidated sales were \$717 million, up 23 percent from \$583 million last year. The prior year sales include only eight months of Kennametal Hertel AG (Hertel) revenues. Hertel is a German toolmaker acquired by Kennametal in August 1993.

For the nine month period, net income was \$44.7 million, or \$1.69 per share, as compared with a net loss of \$17.9 million, or \$0.75 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 March 31,			Nine Months Ended March 31,		
	1995	1994	% Change	1995	1994	% Change
<b>Sales by Product Class:</b>						
Metalworking	\$235,134	\$180,412	30.3	\$616,352	\$491,524	25.4
Mining and construction	25,006	25,293	(1.1)	78,780	73,865	6.7
Metallurgical	7,924	6,104	29.8	22,105	17,252	28.1
	-----	-----		-----	-----	
Net sales	\$268,064	\$211,809	26.6	\$717,237	\$582,641	23.1
	=====	=====		=====	=====	
<b>Sales by Geographic Area:</b>						
Within the U.S.	\$164,605	\$134,777	22.1	\$446,504	\$377,112	18.4
Foreign and export	103,459	77,032	34.3	270,733	205,529	31.7
	-----	-----		-----	-----	
Net sales	\$268,064	\$211,809	26.6	\$717,237	\$582,641	23.1
	=====	=====		=====	=====	

## METALWORKING PRODUCTS

During the March 1995 quarter, worldwide sales of metalworking products increased 30 percent from those of the prior year.

In the United States, sales of metalcutting inserts and toolholding devices increased 21 percent. Total sales of industrial supply products increased 31 percent as a result of increased sales through mail order catalogs and full service supply programs.

International sales of metalworking products increased 42 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, international metalworking sales increased an estimated 26 percent.

For the nine month period, worldwide sales of metalworking products increased 25 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 26 percent from last year. The prior year sales include only eight months of Hertel revenues.

## MINING AND CONSTRUCTION PRODUCTS

During the March 1995 quarter, sales of mining and construction tools decreased one percent from the previous year because of weak international demand for highway construction and mining tools. Domestic demand for highway construction and mining tools remains fairly strong, with sales increasing seven percent when compared to the prior year.

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

## METALLURGICAL PRODUCTS

During the March 1995 quarter, sales of metallurgical products increased 30 percent from the previous year primarily because of strong international demand for carbide powders.

For the nine month period, sales of metallurgical products rose 28 percent primarily because of strong international demand for carbide powders.

## GROSS PROFIT MARGIN

As a percentage of sales, the gross profit margin for the March 1995 quarter was 44.5 percent as compared with 41.7 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 nine month period, the gross profit margin was 42.5 percent, up from 40.4 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 March 31, 1995, research and development, marketing and general and administrative expenses increased 15 percent as a result of higher sales volume and unfavorable foreign currency translation effects.

As a percentage of sales, operating expenses were 28.5 percent for the quarter ended March 31, 1995, as compared with 31.4 percent for the same period last year. The operating expense ratio decreased as a result of the containment of general and administrative expenses combined with the increase in consolidated sales.

For the nine month period, as a percentage of sales, operating expenses were 29.9 percent, as compared with 33.3 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 \$3.1 million and \$9.6 million for the quarter and nine months ended March 31, 1995, respectively, as compared with \$3.1 million and \$10.8 million, respectively, for the same periods last year. The decrease in

the nine month period was primarily due to the lower amount of debt outstanding during the periods. As of March 31, 1995 approximately 43 percent of the company's total debt was subject to variable interest rates.

#### INCOME TAXES

For the quarter ended March 31, 1995, the effective tax rate was 42.5 percent as compared with 40.3 percent in the same period last year.

For the nine month period ended March 31, 1995, the effective tax rate was 42.4 percent. Excluding the effects of the accounting changes and the restructuring charge, the effective tax rate for the comparable prior year period was 41.6 percent.

#### OUTLOOK

In looking to the fourth quarter ending June 30, 1995, management expects consolidated sales to increase from the \$220 million achieved in the same quarter last year. Sales of metalworking products in the United States should continue to benefit from favorable economic conditions and catalog sales. International sales are expected to continue to grow as the German economy expands. Sales of mining and construction tools should grow as a result of increased domestic demand for highway construction 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 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

- (27) Financial Data Schedule for the nine months ended March 31, 1995, 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 March 31, 1995.

#### 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: May 12, 1995 By: /s/ RICHARD J. ORWIG

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Richard J. Orwig  
Vice President  
Chief Financial and Administrative Officer

This schedule contains summary financial information extracted from the March 31, 1995 Condensed Consolidated Financial Statements (unaudited) and is qualified in its entirety by reference to such financial statements.

1,000

9-MOS	JUN-30-1995	JUL-01-1994	MAR-31-1995
			16,360
			0
		190,710	
		12,398	
		192,510	
	399,743		497,456
		245,114	
		779,771	
219,567			0
			36,712
	0		0
		339,697	
779,771			717,237
	717,237		412,604
		638,817	
		829	
		0	
	9,602		
		77,591	
		32,900	
44,691			0
			0
			0
		44,691	
		1.69	
		1.69	