

KENNAMETAL INC
Form 8-K
October 19, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): October 19, 2005

Kennametal Inc.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania

(State or Other Jurisdiction of Incorporation)

1-5318

25-0900168

(Commission File Number)

(IRS Employer Identification No.)

World Headquarters

1600 Technology Way

P.O. Box 231

Latrobe, Pennsylvania 15650-0231

(Address of Principal Executive Offices) (Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 9.01. Financial Statements and Exhibits

Item 2.02 Results of Operations and Financial Condition

Attached hereto as Exhibit 99.1 and incorporated by reference herein is the text of a presentation delivered on October [19], 2005 by Markos I. Tambakeras, Chairman, President and Chief Executive Officer of Kennametal Inc. to Financial Executives International. This information is furnished pursuant to Item 2.02 of Form 8-K. The information in this report shall not be treated as filed for purposes of the Securities Exchange Act of 1934, as amended. The information presented by the Company contains certain non-GAAP financial measures including adjusted return on invested capital (ROIC), earnings before interest and taxes (EBIT), primary working capital (PWC), and debt to capital.

Kennametal management believes that presentation of these non-GAAP financial measures provides useful information about the results of operations of the Company for the current, past and future periods. Management believes that investors should have available the same information that management uses to assess operational performance, determine compensation, and assess the capital structure of the Company. Non-GAAP financial measures should not be considered in isolation or as a substitute for the most comparable GAAP measures. Non-GAAP financial measures utilized by the Company may not be comparable to non-GAAP financial measures used by other companies.

Reconciliations to the most comparable GAAP measure for the following forecasted non-GAAP financial measures are not available: EBIT and ROIC. The comparable GAAP measures are Net Income and ROIC calculated utilizing net income, respectively. As these measures are dependent on many factors and not derived from a specific calculation, reconciliation to comparable GAAP measures is not available. For the purposes of this presentation, the Company does not consider the lack of these reconciliations to be significant.

Accordingly, we have compiled below certain definitions and reconciliations as required by Regulation G.

ROIC

Adjusted Return on Invested Capital is a non-GAAP financial measure and is defined as the previous 12 months net income, adjusted for interest expense and special items, divided by the sum of the previous 12 months average balances of debt, securitized accounts receivable, minority interest and shareowners equity. Management believes that this financial measure provides additional insight into the underlying capital structuring and performance of the Company. Management utilizes this non-GAAP measure in determining compensation and assessing the operations of the Company.

EBIT

EBIT is an acronym for Earnings Before Interest and Taxes and is not a calculation in accordance with GAAP. The most directly comparable GAAP measure is net income. However, we believe that EBIT is widely used as a measure of operating performance and we believe EBIT to be an important indicator of the Company's operational strength and performance. Nevertheless, the measure should not be considered in isolation or as a substitute for operating income, cash flows from operating activities or any other measure for determining liquidity that is calculated in accordance with GAAP. Additionally, Kennametal will adjust EBIT for restructuring charges, interest income and other items. Management uses this information in reviewing operating performance and in the determination of compensation.

Primary Working Capital

Primary working capital is a non-GAAP presentation and is defined as accounts receivable, net plus inventories, net minus accounts payable. The most directly comparable GAAP measure is working capital, which is defined as current assets less current liabilities. We believe primary working capital better represents Kennametal's performance in managing certain assets and liabilities controllable at the business unit level and is used as such for internal performance measurement.

Debt-to-Capital

Debt-to-equity in accordance with GAAP is defined as total debt divided by Shareowners equity and total debt. Debt-to-capital is defined by Kennametal as total current and long term debt divided by total Shareowner's equity plus minority interest plus total debt. Management believes that these financial measures provide additional insight into the underlying capital structuring and performance of the Company.

RECONCILIATIONS**DEBT TO CAPITAL RECONCILIATION (Unaudited):**

| (in thousands) | | June 30, | |
|---------------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2003 |
| Total debt | \$ 437,374 | \$ 440,207 | \$ 525,687 |
| Total shareowners' equity | 972,862 | 887,152 | 721,577 |
| Debt to equity, GAAP | 45.0% | 49.6% | 72.9% |
| Total debt | \$ 437,374 | \$ 440,207 | \$ 525,687 |
| Minority interest | 17,460 | 16,232 | 18,880 |
| Total shareowners' equity | 972,862 | 887,152 | 721,577 |
| Total capital | \$ 1,427,696 | \$ 1,343,591 | \$ 1,266,144 |
| Debt to Capital | 30.6% | 32.8% | 41.5% |

EBIT RECONCILIATION (Unaudited):

| | Twelve Months Ended June 30, | | |
|-------------------------|------------------------------|------------|-----------|
| | 2005 | 2004 | 2003 |
| Net income, as reported | \$ 119,291 | \$ 73,578 | \$ 18,130 |
| As % of sales | 5.2% | 3.7% | 1.0% |
| Add back: | | | |
| Interest | 27,277 | 25,884 | 36,166 |
| Taxes | 61,394 | 35,500 | 14,300 |
| EBIT | 207,962 | 134,962 | 68,596 |
| Additional adjustments: | | | |
| Minority interest | 3,592 | 1,596 | 1,860 |
| Interest income | (3,462) | (1,437) | (2,815) |
| Securitization fees | 3,186 | 1,679 | 1,892 |
| Adjusted EBIT | \$ 211,278 | \$ 136,800 | \$ 69,533 |

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RETURN ON INVESTED CAPITAL RECONCILIATION (Unaudited):
For the Period Ended June 30, 2005

| Invested Capital | 6/30/2005 | 3/31/2005 | 12/31/2004 | 9/30/2004 | 6/30/2004 | Average |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | \$ 437,374 | \$ 485,168 | \$ 405,156 | \$ 435,435 | \$ 440,207 | \$ 440,668 |
| Accounts receivable securitized | 109,786 | 120,749 | 115,253 | 115,309 | 117,480 | 115,715 |
| Minority interest | 17,460 | 19,664 | 19,249 | 17,377 | 16,232 | 17,996 |
| Shareowners equity | 972,862 | 1,021,186 | 1,003,507 | 924,432 | 887,152 | 961,828 |
| Total | \$ 1,537,482 | \$ 1,646,767 | \$ 1,543,165 | \$ 1,492,553 | \$ 1,461,071 | \$ 1,536,207 |

| Interest Expense | Quarter Ended | | | | Total |
|---|----------------------|------------------|-------------------|------------------|------------------|
| | 6/30/2005 | 3/31/2005 | 12/31/2004 | 9/30/2004 | |
| Interest expense | \$ 7,897 | \$ 6,803 | \$ 6,121 | \$ 6,456 | \$ 27,277 |
| Securitization interest | 981 | 868 | 757 | 580 | 3,186 |
| Total interest expense | \$ 8,878 | \$ 7,671 | \$ 6,878 | \$ 7,036 | \$ 30,463 |
| Income tax benefit | | | | | 10,175 |
| Total Interest Expense, net of tax | | | | | \$ 20,288 |

| Total Income | Quarter Ended | | | | Total |
|--|----------------------|------------------|-------------------|------------------|-------------------|
| | 6/30/2005 | 3/31/2005 | 12/31/2004 | 9/30/2004 | |
| Net Income, as reported | \$ 37,740 | \$ 30,650 | \$ 28,181 | \$ 22,720 | \$ 119,291 |
| Restructuring and asset impairment charges | | 3,306 | | | 3,306 |
| Loss on assets held for sale | | 1,086 | | | 1,086 |
| Minority interest expense | 238 | 1,449 | 928 | 977 | 3,592 |
| Total Income, excluding special items | \$ 37,978 | \$ 36,491 | \$ 29,109 | \$ 23,697 | \$ 127,275 |
| Total Income, excluding special items | | | | | \$ 127,275 |
| Total Interest Expense, net of tax | | | | | 20,288 |
| Average invested capital | | | | | \$ 147,563 |
| | | | | | \$ 1,536,207 |

Adjusted Return on Invested Capital 9.6%

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Return on Invested Capital calculated utilizing Net Income, as reported is as follows:

| | |
|------------------------------------|--------------|
| Net Income, as reported | \$ 119,291 |
| Total Interest Expense, net of tax | 20,288 |
| | \$ 139,579 |
| Average invested capital | \$ 1,536,207 |
| Return on Invested Capital | 9.1% |

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RETURN ON INVESTED CAPITAL RECONCILIATION (Unaudited):
For the Period Ended June 30, 2004

| Invested Capital | 6/30/2004 | 3/31/2004 | 12/31/2003 | 9/30/2003 | 6/30/2003 | Average |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | \$ 440,207 | \$ 494,312 | \$ 481,327 | \$ 520,138 | \$ 525,687 | \$ 492,334 |
| Accounts receivable securitized | 117,480 | 108,916 | 101,422 | 95,318 | 99,316 | 104,490 |
| Minority interest | 16,232 | 16,598 | 16,286 | 16,089 | 18,880 | 16,817 |
| Shareowners equity | 887,152 | 809,904 | 791,442 | 746,562 | 721,577 | 791,327 |
| Total | \$ 1,461,071 | \$ 1,429,730 | \$ 1,390,477 | \$ 1,378,107 | \$ 1,365,460 | \$ 1,404,968 |

| Interest Expense | Quarter Ended | | | | Total |
|---|----------------------|------------------|-------------------|------------------|------------------|
| | 6/30/2004 | 3/31/2004 | 12/31/2003 | 9/30/2003 | |
| Interest expense | \$ 6,405 | \$ 6,332 | \$ 6,547 | \$ 6,600 | \$ 25,884 |
| Securitization interest | 443 | 356 | 483 | 397 | 1,679 |
| Total interest expense | \$ 6,848 | \$ 6,688 | \$ 7,030 | \$ 6,997 | \$ 27,563 |
| Income tax benefit | | | | | 8,820 |
| Total interest expense, net of tax | | | | | \$ 18,743 |

| Total Income | Quarter Ended | | | | Total |
|--|----------------------|------------------|-------------------|------------------|---------------------|
| | 6/30/2004 | 3/31/2004 | 12/31/2003 | 9/30/2003 | |
| Net income, as reported | \$ 29,852 | \$ 24,070 | \$ 10,892 | \$ 8,764 | \$ 73,578 |
| Minority interest expense | (36) | 533 | 404 | 695 | 1,596 |
| MSSG restructuring | | | 1,109 | 2,307 | 3,416 |
| AMSG restructuring | | | 1,018 | | 1,018 |
| Widia integration costs MSSG | | | | 1,027 | 1,027 |
| Widia integration costs AMSG | | | | 33 | 33 |
| Pension curtailment | | | 883 | | 883 |
| Gain on Toshiba investment | | | (2,990) | | (2,990) |
| Note receivable | | | 1,360 | | 1,360 |
| Total Income, excluding special items | \$ 29,816 | \$ 24,603 | \$ 12,676 | \$ 12,826 | \$ 79,921 |
| Total Income, excluding special items | | | | | \$ 79,921 |
| Total Interest Expense, net of tax | | | | | 18,743 |
| | | | | | \$ 98,664 |
| Average invested capital | | | | | \$ 1,404,968 |

**Adjusted Return on Invested
Capital**

7.0%

Return on Invested Capital calculated utilizing Net Income, as reported is as follows:

| | |
|------------------------------------|-----------|
| Net Income, as reported | \$ 73,578 |
| Total Interest Expense, net of tax | 18,743 |

| | |
|--------------------------|--------------|
| | \$ 92,321 |
| Average invested capital | \$ 1,404,968 |

Return on Invested Capital

6.6%

- more

RETURN ON INVESTED CAPITAL RECONCILIATION (Unaudited):
For the Period Ended June 30, 2003

| Invested Capital | 6/30/2003 | 3/31/2003 | 12/31/2002 | 9/30/2002 | 6/30/2002 | Average |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | \$ 525,687 | \$ 580,135 | \$ 617,016 | \$ 616,607 | \$ 411,367 | \$ 550,162 |
| Accounts receivable securitized | 99,316 | 93,614 | 100,000 | 95,117 | 95,900 | 96,789 |
| Minority interest | 18,880 | 18,070 | 17,594 | 17,685 | 10,671 | 16,580 |
| Shareowners equity | 721,577 | 756,511 | 737,729 | 721,007 | 713,962 | 730,157 |
| Total | \$ 1,365,460 | \$ 1,448,330 | \$ 1,472,339 | \$ 1,450,416 | \$ 1,231,900 | \$ 1,393,688 |

| Interest Expense | 6/30/2003 | 3/31/2003 | Quarter Ended 12/31/2002 | 9/30/2002 | Total |
|---|------------------|------------------|-------------------------------------|------------------|------------------|
| Interest expense | \$ 9,108 | \$ 8,979 | \$ 9,594 | \$ 8,485 | \$ 36,166 |
| Securitization interest | 413 | 406 | 536 | 537 | 1,892 |
| Total interest expense | \$ 9,521 | \$ 9,385 | \$ 10,130 | \$ 9,022 | \$ 38,058 |
| Income tax benefit | | | | | 11,417 |
| Total interest expense, net of tax | | | | | \$ 26,641 |

| Total Income | 6/30/2003 | 3/31/2003 | Quarter Ended 12/31/2002 | 9/30/2002 | Total |
|--|------------------|------------------|-------------------------------------|------------------|------------------|
| Net income, as reported | \$ (4,868) | \$ 9,699 | \$ 2,470 | \$ 10,829 | \$ 18,130 |
| Minority interest expense | 74 | 739 | 709 | 338 | 1,860 |
| MSSG restructuring | 2,194 | 754 | 3,394 | | 6,342 |
| AMSG restructuring | 857 | 773 | 1,577 | (123) | 3,084 |
| AMSG Electronics impairment | 15,269 | | | | 15,269 |
| Corporate restructuring | (69) | 195 | 670 | | 796 |
| Widia integration costs MSSG | 1,758 | 1,337 | 967 | 483 | 4,545 |
| Widia integration costs AMSG | 818 | 13 | 3 | | 834 |
| J&L restructuring | (45) | 561 | 327 | | 843 |
| FSS restructuring | | 6 | 20 | | 26 |
| Total Income, excluding special items | \$ 15,988 | \$ 14,077 | \$ 10,137 | \$ 11,527 | \$ 51,729 |
| Total Income, excluding special items | | | | | \$ 51,729 |
| Total Interest Expense, net of tax | | | | | 26,641 |

| | |
|--|--------------|
| Average invested capital | \$ 78,370 |
| | \$ 1,393,688 |
| Adjusted Return on Invested Capital | 5.6% |
| Return on Invested Capital calculated utilizing Net Income, as reported is as follows: | |
| Net Income, as reported | \$ 18,130 |
| Total Interest Expense, net of tax | 26,641 |
| | \$ 44,771 |
| Average invested capital | \$ 1,393,688 |
| Return on Invested Capital | 3.2% |

- more-

PRIMARY WORKING CAPITAL RECONCILIATION (Unaudited):
For the Period Ended June 30, 2005

| | FISCAL 2005 | | | | 6/30/04 | Average |
|---|--------------|--------------|--------------|--------------|--------------|-------------------------|
| | 6/30/05 | 3/31/05 | 12/31/04 | 9/30/04 | | |
| Current assets | \$ 831,062 | \$ 885,829 | \$ 845,374 | \$ 820,187 | \$ 796,945 | \$ 835,879 |
| Current liabilities | 428,658 | 458,464 | 397,921 | 483,485 | 486,527 | 451,011 |
| Working capital in accordance with GAAP | \$ 402,404 | \$ 427,365 | \$ 447,453 | \$ 336,702 | \$ 310,418 | \$ 384,868 |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (43,220) | (34,792) | (32,168) | (28,688) | (25,940) | (32,961) |
| Deferred income taxes | (70,391) | (98,063) | (99,731) | (96,144) | (95,240) | (91,914) |
| Other current assets | (37,466) | (82,822) | (39,605) | (37,178) | (40,443) | (47,503) |
| Total excluded current assets | \$ (151,077) | \$ (215,677) | \$ (171,504) | \$ (162,010) | \$ (161,623) | \$ (172,378) |
| Adjusted current assets | 679,985 | 670,152 | 673,870 | 658,177 | 635,322 | 663,501 |
| Short-term debt, including notes payable | (50,889) | (56,225) | (28,888) | (116,446) | (126,807) | (75,851) |
| Accrued liabilities | (222,930) | (259,971) | (226,568) | (220,496) | (211,504) | (228,294) |
| Total excluded current liabilities | \$ (273,819) | \$ (316,196) | \$ (255,456) | \$ (336,942) | \$ (338,311) | \$ (304,145) |
| Adjusted current liabilities | 154,839 | 142,268 | 142,465 | 146,543 | 148,216 | 146,866 |
| Primary working capital | \$ 525,146 | \$ 527,884 | \$ 531,405 | \$ 511,634 | \$ 487,106 | \$ 516,635 |
| Five quarter average PWC Sales, for the twelve months ended June 30, 2005 | | | | | | \$ 516,635 2,304,167 |

22.4%

PWC as a percentage
of sales

-more-

**PRIMARY WORKING CAPITAL RECONCILIATION (Unaudited):
For the Period Ended June 30, 2004**

| | FISCAL 2004 | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | 6/30/04 | 3/31/04 | 12/31/03 | 9/30/03 | 6/30/03 | Average |
| Current assets | \$ 796,945 | \$ 790,892 | \$ 752,703 | \$ 768,634 | \$ 782,352 | \$ 778,305 |
| Current liabilities | 486,527 | 340,743 | 307,190 | 316,606 | 345,008 | 359,215 |
| Working capital in accordance with GAAP | \$ 310,418 | \$ 450,149 | \$ 445,513 | \$ 452,028 | \$ 437,344 | \$ 419,090 |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (25,940) | (27,528) | (15,086) | (14,720) | (15,093) | (19,673) |
| Deferred income taxes | (95,240) | (88,480) | (88,820) | (86,888) | (97,237) | (91,333) |
| Other current assets | (40,443) | (38,803) | (39,460) | (47,003) | (48,606) | (42,863) |
| Total excluded current assets | \$ (161,623) | \$ (154,811) | \$ (143,366) | \$ (148,611) | \$ (160,936) | \$ (153,869) |
| Adjusted current assets | 635,322 | 636,081 | 609,337 | 620,023 | 621,416 | 624,436 |
| Short-term debt, including notes payable | (126,807) | (8,193) | (12,872) | (11,375) | (10,845) | (34,018) |
| Accrued liabilities | (211,504) | (200,304) | (181,755) | (197,578) | (215,654) | (201,359) |
| Total excluded current liabilities | \$ (338,311) | \$ (208,497) | \$ (194,627) | \$ (208,953) | \$ (226,499) | \$ (235,377) |
| Adjusted current liabilities | 148,216 | 132,246 | 112,563 | 107,653 | 118,509 | 123,837 |
| Primary working capital | \$ 487,106 | \$ 503,835 | \$ 496,774 | \$ 512,370 | \$ 502,907 | \$ 500,599 |
| Five quarter average PWC | | | | | | \$ 500,599 |
| Sales, for the twelve months ended June 30, 2004 | | | | | | 1,971,441 |

PWC as a percentage
of sales

25.4%

-more-

PRIMARY WORKING CAPITAL RECONCILIATION (Unaudited):
For the Period Ended June 30, 2003

| | FISCAL 2003 | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | 6/30/03 | 3/31/03 | 12/31/02 | 9/30/02 | 6/30/02 | Average |
| Current assets | \$ 782,352 | \$ 788,091 | \$ 755,018 | \$ 750,397 | \$ 637,384 | \$ 742,648 |
| Current liabilities | 345,008 | 344,865 | 281,431 | 289,860 | 262,100 | 304,653 |
| Working capital in accordance with GAAP | \$ 437,344 | \$ 443,226 | \$ 473,587 | \$ 460,537 | \$ 375,284 | \$ 437,995 |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (15,093) | (17,250) | (18,155) | (14,300) | (10,385) | (15,037) |
| Deferred income taxes | (97,237) | (81,651) | (80,204) | (71,084) | (71,375) | (80,310) |
| Other current assets | (48,606) | (44,286) | (53,868) | (40,110) | (31,447) | (44,263) |
| Total excluded current assets | \$ (160,936) | \$ (143,187) | \$ (152,227) | \$ (125,494) | \$ (113,207) | \$ (139,010) |
| Adjusted current assets | 621,416 | 644,904 | 602,791 | 624,903 | 524,177 | 603,638 |
| Short-term debt, including notes payable | (10,845) | (15,068) | (17,591) | (16,992) | (23,480) | (16,795) |
| Accrued liabilities | (215,654) | (208,816) | (171,726) | (171,045) | (137,034) | (180,855) |
| Total excluded current liabilities | \$ (226,499) | \$ (223,884) | \$ (189,317) | \$ (188,037) | \$ (160,514) | \$ (197,650) |
| Adjusted current liabilities | 118,509 | 120,981 | 92,114 | 101,823 | 101,586 | 107,003 |
| Primary working capital | \$ 502,907 | \$ 523,923 | \$ 510,677 | \$ 523,080 | \$ 422,591 | \$ 496,635 |
| Five quarter average PWC | | | | | | \$ 496,635 |
| Sales, for the twelve months ended June 30, 2003 | | | | | | 1,758,957 |

PWC as a percentage
of sales

28.2%

Item 9.01 Financial Statements and Exhibits

Exhibit 99.1

Presentation by Markos I. Tambakeras delivered to Financial Executives International on October 19, 2005.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KENNAMETAL INC.

Date: October 19, 2005 By: /s/ Timothy A. Hibbard

Timothy A. Hibbard
Corporate Controller and Chief
Accounting Officer