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KENNAMETAL INC  
Form 8-K  
January 28, 2004

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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): JANUARY 28, 2004

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

Commission file number 1-5318

PENNSYLVANIA  
(State or other jurisdiction  
of incorporation)

25-0900168  
(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

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ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On January 28, 2004, Kennametal Inc. ("Kennametal" or "the Company") issued a press release announcing financial results for its second quarter ended December 31, 2003.

The press release contains non-GAAP financial measures, including gross profit, operating expense, operating income, other (income) expense, net income and diluted EPS in each case excluding special items. The special items include: restructuring charges, Widia integration costs, pension curtailment, gain on Toshiba investment, and a charge related to a note receivable from a divestiture of a business by Kennametal in 2002. Kennametal management excludes these items in measuring and compensating internal performance to more easily compare the Company's financial performance period to period. We believe investors should have available the same information that management uses to measure and compensate performance. Kennametal management believes that presentation of these non-GAAP financial measures provides useful information into the results

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of operations of the Company for the current, past and future periods.

In addition to the items above, the press release also contains free operating cash flow and debt to capital. These financial measures are defined below:

### Free Operating Cash Flow

Free operating cash flow is a non-GAAP presentation and is defined as cash provided by continuing operations (in accordance with GAAP) less capital expenditures plus proceeds from asset disposals. Free operating cash flow is considered to be an important indicator of Kennametal's ability to generate liquidity because it better represents cash generated from operations that can be used for strategic initiatives, dividends or debt repayment.

### Debt-to-Capital

Debt to capital is defined by Kennametal as total current and long term debt, capital leases and notes payable divided by total Shareowner's equity plus minority interest plus total debt, capital leases and notes payable. Management believes that these financial measures provide additional insight into the underlying capital structure and performance of the Company.

Additionally, during our quarterly teleconference we may use various other non-GAAP financial measures to describe the underlying operating results. Accordingly, we have compiled below certain reconciliations as required by Regulation G.

### 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.

### 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.

### Adjusted Sales

Kennametal adjusted sales as reported under GAAP for specific items including acquisitions and foreign currency translation. Management believes that adjusting the sales as reported under GAAP provides additional insight into the underlying operations. Management uses this information in reviewing operating performance and in the determination of compensation.

### Adjusted Gross Profit

Kennametal adjusted gross profit as recorded under GAAP for specific items including Widia integration and restructuring charges and pension curtailment. Management believes that the adjusted gross profit information is an important indicator of the Company's underlying operating performance.

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### Operating Expense Reconciliation

Kennametal adjusted operating expense as reported under GAAP for Widia Integration, restructuring charges, Widia operating expense, pension curtailment, a note receivable from a divestiture of a business by Kennametal in 2002, foreign exchange and decreased pension income. Management believes that the adjusted operating expense provides additional insight into the underlying operations. Management uses this information in reviewing operating performance and in the determination of compensation.

### FINANCIAL HIGHLIGHTS

#### RECONCILIATION TO GAAP WORKING CAPITAL (UNAUDITED):

	December 31,	
	2003	2002
Current assets	\$ 751,903	\$ 755,018
Current liabilities	309,270	281,431
Working capital in accordance with GAAP	442,633	473,587
Excluded items:		
Cash and cash equivalents	(15,086)	(18,155)
Deferred income taxes	(88,020)	(80,204)
Other current assets	(39,460)	(53,868)
Total excluded current assets	\$ (142,566)	\$ (152,227)
Adjusted current assets	609,337	602,791
Short-term debt, including notes payable	(12,872)	(17,591)
Accrued liabilities	(183,835)	(171,726)
Total excluded current liabilities	\$ (196,707)	\$ (189,317)
Adjusted current liabilities	112,563	92,114
Primary working capital	\$ 496,774	\$ 510,677

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### SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

#### KENNAMETAL INC. EBIT RECONCILIATION (UNAUDITED):

	Quarter Ended December 31,		
	2003	2002	2001

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Net income, as reported	\$ 10,892	\$ 2,470	\$1
As % of sales	2.4%	0.6%	
Add back:			
Interest	6,547	9,594	1
Taxes	5,315	893	
EBIT	22,754	12,957	4
Additional adjustments:			
Minority interest	404	709	
Restructuring and asset impairment charges (1)	3,127	8,561	
Widia integration	-	1,364	
Pension Curtailment	1,299	-	
Gain on Toshiba Investment	(4,397)	-	(
Note Receivable	2,000	-	
Interest income	(439)	(849)	
Securitization fees	483	536	
Adjusted EBIT	\$ 25,231	\$ 23,278	\$5
As % of Sales	5.5%	5.4%	

(1) Includes charges in cost of goods sold and restructuring expense.

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FINANCIAL HIGHLIGHTS (CONTINUED)

MSSG SEGMENT (UNAUDITED):

	Quarter Ended December 31,		Six M De
	2003	2002	2003
Sales, as reported	\$ 283,493	\$ 269,413	\$554,62
Widia sales (1)	-	-	(26,01
Foreign currency exchange	(21,013)	-	(32,11
Adjusted sales	\$ 262,480	\$ 269,413	\$496,49

MSSG EBIT (UNAUDITED):

	Quarter Ended December 31,		Six De
	2003	2002	2003

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MSSG operating income, as reported	\$ 22,684	\$ 17,394	\$46,18
As % of sales	8.0%	6.5%	8.3
Other income	1,702	563	1,96
EBIT	24,386	17,957	48,15
Adjustments:			
MSSG restructuring (2)	1,630	4,849	5,02
Widia integration	-	1,360	1,51
EBIT, excluding special charges	\$ 26,016	\$ 24,166	\$54,68
As % of sales	9.2%	9.0%	9.9

(1) Widia was acquired on August 30, 2002. Sales related to Widia for July and August have been removed from the 2003 results in order to reflect comparable Widia activity for both years.

(2) Includes charges in cost of goods sold and restructuring expense.

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FINANCIAL HIGHLIGHTS (CONTINUED)

AMSG SEGMENT (UNAUDITED):

	Quarter Ended December 31,		
	2003	2002	
Sales, as reported	\$ 94,751	\$ 83,305	
Widia acquisition (1)	-	-	
Foreign currency exchange	(4,592)	-	
Adjusted sales	\$ 90,159	\$ 83,305	

AMSG EBIT (UNAUDITED):

	Quarter Ended December 31,		
	2003	2002	
AMSG operating income, as reported	\$ 9,407	\$ 6,339	
As % of sales	9.9%	7.6%	
Other income (expense)	947	(103)	

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EBIT	10,354	6,236
Adjustments:		
AMSG restructuring (2)	1,497	2,259
Widia integration	-	4
EBIT, excluding special charges	\$ 11,851	\$ 8,499
As % of sales	12.5%	10.2%

(1) Widia was acquired on August 30, 2002. Sales related to Widia for July and August have been removed from the 2003 results in order to reflect comparable Widia activity for both years.

(2) Includes charges in cost of goods sold and restructuring expense.

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FINANCIAL HIGHLIGHTS (CONTINUED)

J&L SEGMENT (UNAUDITED):

	Quarter Ended December 31,		Six D
	2003	2002	2003
Sales, as reported	\$ 50,341	\$ 48,076	\$ 98
Foreign currency exchange	(450)	-	
Adjusted sales	\$ 49,891	\$ 48,076	\$ 97

J&L EBIT (UNAUDITED):

	Quarter Ended December 31,		Six
	2003	2002	2003
J&L operating income, as reported	\$ 4,306	\$ 1,722	\$ 6
As % of sales	8.6%	3.6%	
Other (expense)	25	(38)	
EBIT	4,331	1,684	7
Adjustments:			

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J&L restructuring	-	466	
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EBIT, excluding special charges	\$ 4,331	\$ 2,150	\$ 7
	=====	=====	=====
As % of sales	8.6%	4.5%	

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FINANCIAL HIGHLIGHTS (CONTINUED)

FSS SEGMENT (UNAUDITED):

	Quarter Ended December 31,		Six Mo Decem
	2003	2002	2003
	-----	-----	-----
Sales, as reported	\$ 32,193	\$ 30,937	\$63,869
Foreign currency exchange	(137)	-	(216)
	-----	-----	-----
Adjusted sales	\$ 32,056	\$ 30,937	\$63,653
	=====	=====	=====

FSS EBIT (UNAUDITED):

	Quarter Ended December 31,		Six M Dece
	2003	2002	2003
	-----	-----	-----
FSS operating (loss), as reported	\$ (159)	\$ (332)	\$ (440)
As % of sales	-0.5%	-1.1%	-0.7%
Other (expense) income	-	(42)	2
	-----	-----	-----
EBIT	(159)	(374)	(438)
Adjustments:			
FSS restructuring	-	29	-
	-----	-----	-----
EBIT, excluding special charges	\$ (159)	\$ (345)	\$ (438)
	=====	=====	=====
As % of sales	-0.5%	-1.1%	-0.7%

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## SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

### RECONCILIATION TO GAAP - GROSS PROFIT (UNAUDITED):

	QUARTER ENDED DECEMBER 31,		QUARTER ENDED DECEMBER 31,		SI
	2003	AS A % OF SALES	2002	AS A % OF SALES	2
Gross profit	\$147,632	32.0%	\$137,483	31.8%	\$
Widia integration and restructuring charges	7	0.0%	54	0.0%	
Pension Curtailment	779	0.2%	-	0.0%	
Gross profit, excluding special items	\$ 148,418	32.2%	\$137,537	31.8%	\$

	SIX MONTHS ENDED DECEMBER 31,	
	2002	AS A % OF SALES
Gross profit	\$ 268,452	32.1%
Widia integration and restructuring charges	54	0.0%
Pension Curtailment	-	0.0%
Gross profit, excluding special items	\$ 268,506	32.1%

### OPERATING EXPENSE RECONCILIATION (UNAUDITED):

	Quarter Ended Dec. 31, 2003	Quarter Ended Dec. 31, 2002	Six Mo Dec.
Operating expense, as reported	\$ 124,723	\$ 115,677	
Integration costs	-	(1,310)	
Pension Curtailment	(520)	-	
Note Receivable	(1,817)	-	
Operating expense, excluding special items	122,386	114,367	
Less:			
Widia operating expense (1)	-	-	
Unfavorable foreign exchange	7,220	-	



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Operating expense, excluding special items,  
Widia expense and foreign exchange

	\$ 115,166	\$ 114,367
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(1) Widia was acquired on August 30, 2002. Operating expenses related to Widia for July and August have been removed from the 2003 results in order to reflect comparable Widia activity for both years.

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Exhibit	Exhibit Index
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99.1 Press Release dated January 28, 2004. Furnished herewith.

SIGNATURE

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 hereunto duly authorized.

KENNAMETAL INC.

Date: January 28, 2004

By: /s/ TIMOTHY A. HIBBARD

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Timothy A. Hibbard  
Corporate Controller and  
Chief Accounting Officer