KENNAMETAL INC
Form 10-Q
May 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009
Commission file number 1-5318
KENNAMETAL INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	**25-0900168**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

World Headquarters	
1600 Technology Way	
P.O. Box 231	
Latrobe, Pennsylvania	**15650-0231**
(Address of principal executive offices)	(Zip Code)

Website: **www.kennametal.com**
Registrant s telephone number, including area code: **(724) 539-5000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

Indicate the number of shares outstanding of each of the issuer s classes of capital stock, as of the latest practicable date.

Title of Each Class	Outstanding at April 30, 2009
Capital Stock, par value $1.25 per share	73,182,230

KENNAMETAL INC.
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This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify forward-looking statements by the fact they use words such as should, anticipate, estimate, approximate, expect, may, will, project, intend, plan, believe and meaning and expression in connection with any discussion of future operating or financial performance or events. Forward-looking statements in this Form 10-Q may concern, among other things, Kennametal s expectations regarding our strategy, goals, plans and projections regarding our financial position, liquidity and capital resources, results of operations, market position, and product development, all of which are based on current expectations that involve inherent risks and uncertainties. Among the factors that could cause the actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties related to: the recent downturn in our industry; global and regional economic conditions; compliance with our debt arrangements; availability and cost of the raw materials we use to manufacture our products; our ability to protect our intellectual property in foreign jurisdictions; our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; energy costs; commodity prices; competition; integrating recent acquisitions, as well as any future acquisitions, and achieving the expected savings and synergies; business divestitures; demands on management resources; future terrorist attacks or acts of war; labor relations; demand for and market acceptance of new and existing products; and implementation of restructuring plans and environmental remediation matters. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, actual outcomes could vary materially from those indicated. These and other risks are more fully described in the Risk Factors Section of our Annual Report on Form 10-K, in this Form 10-Q and in our other periodic filings with the Securities and Exchange Commission. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Nine Months Ended March 31, 2009	Nine Months Ended March 31, 2008
Sales	$ 441,311	$689,669	$1,679,260	$1,952,168
Cost of goods sold	337,529	451,803	1,193,385	1,281,273
Gross profit	103,782	237,866	485,875	670,895
Operating expense	108,054	150,461	392,084	443,414
Restructuring and asset impairment charges (Note 7)	143,476	35,000	158,092	35,000
Amortization of intangibles	3,196	3,487	9,874	10,058
Operating (loss) income	(150,944)	48,918	(74,175)	182,423
Interest expense	6,672	8,005	21,814	24,335
Other (income) expense, net	(5,243)	385	(8,630)	(1,711)
(Loss) income before income taxes and minority interest expense	(152,373)	40,528	(87,359)	159,799
(Benefit) provision for income taxes	(14,660)	16,616	(1,456)	48,953
Minority interest expense	161	742	845	2,651
Net (loss) income	$(137,874)	$ 23,170	$ (86,748)	$ 108,195
PER SHARE DATA (Note 14)				
Basic (loss) earnings	$ (1.90)	$ 0.30	$ (1.18)	$ 1.41
Diluted (loss) earnings	$ (1.90)	$ 0.30	$ (1.18)	$ 1.38
Dividends per share	$ 0.12	$ 0.12	$ 0.36	$ 0.35
Basic weighted average shares outstanding	72,673	76,463	73,238	76,984
Diluted weighted average shares outstanding	72,673	77,503	73,238	78,374

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share data)	March 31, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,190	$ 86,478
Accounts receivable, less allowance for doubtful accounts of $22,538 and $18,473	295,322	512,794
Inventories	426,455	460,800
Deferred income taxes	47,953	53,330
Other current assets	52,892	38,584
Total current assets	920,812	1,151,986
Property, plant and equipment:		
Land and buildings	359,269	375,128
Machinery and equipment	1,350,429	1,382,028
Less accumulated depreciation	(979,915)	(1,007,401)
Property, plant and equipment, net	729,783	749,755
Other assets:		
Investments in affiliated companies	2,142	2,325
Goodwill (Note 16)	496,836	608,519
Intangible assets, less accumulated amortization of $48,638 and $42,010 (Note 16)	173,291	194,203
Deferred income taxes	24,080	25,021
Other	50,427	52,540
Total other assets	746,776	882,608
Total assets	$2,397,371	$ 2,784,349
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases (Note 11)	$ 26,469	$ 813
Notes payable to banks	16,178	32,787
Accounts payable	110,873	189,050
Accrued income taxes	5,631	28,102
Accrued expenses	82,234	121,639
Foreign exchange contract payable to bank	30,626	
Other current liabilities (Note 7)	137,583	148,920
Total current liabilities	409,594	521,311
Long-term debt and capital leases, less current maturities (Note 11)	459,446	313,052
Deferred income taxes	75,486	76,980

Accrued pension and postretirement benefits	111,975	129,179
Accrued income taxes	16,315	17,213
Other liabilities	56,549	57,180
Total liabilities	1,129,365	1,114,915
Commitments and contingencies		
Minority interest in consolidated subsidiaries	18,678	21,527
SHAREOWNERS EQUITY		
Preferred stock, no par value; 5,000 shares authorized; none issued		
Capital stock, $1.25 par value; 120,000 shares authorized; 73,124 and 76,858 shares issued and outstanding	91,410	96,076
Additional paid-in capital	354,085	468,169
Retained earnings	828,119	941,553
Accumulated other comprehensive (loss) income	(24,286)	142,109
Total shareowners equity	1,249,328	1,647,907
Total liabilities and shareowners equity	$2,397,371	$ 2,784,349

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Nine months ended March 31 (in thousands)	2009	2008
OPERATING ACTIVITIES		
Net (loss) income	$ (86,748)	$ 108,195
Adjustments for non-cash items:		
Depreciation	62,650	59,262
Amortization	9,874	10,058
Stock-based compensation expense	6,241	7,387
Restructuring and asset impairment charges (Note 7)	113,730	35,000
Deferred income tax provision	(8,369)	19,730
Other	(190)	(1,411)
Changes in certain assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	173,901	11,266
Inventories	4,319	(56,813)
Accounts payable and accrued liabilities	(87,953)	(17,941)
Accrued income taxes	(12,759)	(18,384)
Other	(10,957)	2,209
Net cash flow provided by operating activities	163,739	158,558
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(92,712)	(130,587)
Disposals of property, plant and equipment	2,386	2,370
Acquisitions of business assets, net of cash acquired	(64,519)	361
Proceeds from divestitures		3,000
Proceeds from sale of investments in affiliated companies		5,915
Other	(20)	3,222
Net cash flow used for investing activities	(154,865)	(115,719)
FINANCING ACTIVITIES		
Net (decrease) increase in notes payable	(16,053)	12,795
Net increase in short-term revolving and other lines of credit	55,526	
Term debt borrowings	779,319	253,646
Term debt repayments	(645,287)	(230,244)
Proceeds from interest rate swap agreement termination (Note 6)	12,566	
Purchase of capital stock	(127,648)	(64,642)
Dividend reinvestment and employee benefit and stock plans	3,985	12,566
Cash dividends paid to shareowners	(26,686)	(26,777)
Other	1,642	3,302
Net cash flow provided by (used for) financing activities	37,364	(39,354)
Effect of exchange rate changes on cash and cash equivalents	(34,526)	12,504
CASH AND CASH EQUIVALENTS		

Net increase in cash and cash equivalents	11,712	15,989
Cash and cash equivalents, beginning of period	86,478	50,433
Cash and cash equivalents, end of period	$ 98,190	$ 66,422

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

Kennametal Inc. was incorporated in Pennsylvania in 1943 and maintains its world headquarters in Latrobe, Pennsylvania. Kennametal Inc. and its subsidiaries (collectively, Kennametal or the Company) is a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool, light machinery and heavy machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries. Our end users products include items ranging from airframes to coal, medical implants to oil wells and turbochargers to motorcycle parts. We operate two global business units consisting of Metalworking Solutions & Services Group (MSSG) and Advanced Materials Solutions Group (AMSG).

2. BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our consolidated subsidiaries, should be read in conjunction with our 2008 Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2008 was derived from the audited balance sheet included in our 2008 Annual Report on Form 10-K. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair statement of the results of the interim periods were made and all adjustments are normal, recurring adjustments. The results for the nine months ended March 31, 2009 and 2008 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a year is to a fiscal year ended June 30. For example, a reference to 2009 is to the fiscal year ending June 30, 2009. When used in this Form 10-Q, unless the context requires otherwise, the terms we, our and us refer to Kennametal Inc. and its subsidiaries.

3. NEW ACCOUNTING STANDARDS

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4). FSP 157-4 provides guidance on factors to be considered while estimating fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), when there has been a significant decrease in market activity for an asset or liability. This guidance retains the existing exit price concept under SFAS 157 and therefore does not change the objective of fair value measurements, even when there has been a significant decrease in market activity. FSP 157-4 is effective for Kennametal as of June 30, 2009. We are in the process of evaluating the provisions of this FSP to determine the impact of adoption on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosure about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 expands the fair value disclosures to interim periods for all financial instruments that are within the scope of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. This FSP also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments as well as significant changes in such methods and assumptions from prior periods. FSP 107-1 is effective for Kennametal as of September 30, 2009. We are in the process of evaluating the provisions of this FSP to determine the impact of adoption on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP 141(R)-1). This FSP amends the guidance in SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)) and establishes a model to account for preacquisition contingencies. Under this FSP, an acquirer is required to recognize at fair value an asset or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value can be determined during the measurement period. If the acquisition date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, Accounting for Contingencies and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss an interpretation of FASB Statement No. 5, to determine whether the contingency should be recognized as of the acquisition date or after it. FSP 141(R)-1 is effective for Kennametal beginning July 1, 2009. We are in the process of evaluating the provisions of this FSP to determine the impact of adoption on our consolidated financial statements.

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KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On January 1, 2009, Kennametal adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161) as it relates to derivatives and hedging activities. SFAS 161 expands the current disclosure requirements in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and provides for an enhanced understanding of (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. See Note 6 for additional disclosures.

In December 2008, the FASB issued FSP No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). FSP 132(R)-1 expands the current disclosure requirements in SFAS No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits. FSP 132(R)-1 requires companies to disclose how investment allocation decisions are made by management, major categories of plan assets, significant concentrations of risk within plan assets and information about the valuation of plan assets. FSP 132(R)-1 is effective for Kennametal beginning July 1, 2009. We are in the process of evaluating the provisions of this FSP to determine the impact of adoption on our consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-7, Accounting for Defensive Intangible Assets (EITF 08-7). EITF 08-7 applies to all acquired intangible assets in situations in which the entity does not intend to actively use the asset but intends to hold the asset to prevent others from obtaining access to the asset with limited exceptions. EITF 08-7 requires that defensive intangible assets be accounted for as a separate unit of accounting and be assigned a useful life. EITF 08-7 is to be applied prospectively and is effective for Kennametal beginning July 1, 2009. We are in the process of evaluating the provisions of this EITF to determine the impact of adoption on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations (EITF 08-6). EITF 08-6 addresses a number of matters associated with the impact that SFAS 141(R) and SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160) might have on the accounting for equity method investments. EITF 08-6 provides guidance on how an equity method investment should initially be measured, how it should be tested for impairment and how changes in classification from equity method to cost method should be treated as well as other issues. EITF 08-6 is to be applied prospectively and is effective for Kennametal beginning July 1, 2009. We are in the process of evaluating the provisions of this EITF to determine the impact of adoption on our consolidated financial statements.

On July 1, 2008, Kennametal adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option) with changes in fair value recognized in earnings at each subsequent reporting date. Kennametal records derivative contracts and hedging activities at fair value in accordance with SFAS 133. The adoption of SFAS 159 therefore had no impact on our consolidated financial statements as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

On July 1, 2008, Kennametal adopted SFAS No. 157, Fair Value Measurements (SFAS 157) as it relates to financial assets and financial liabilities. In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until July 1, 2009 for Kennametal. See Note 5 for additional disclosures.

In December 2007, the FASB issued SFAS 141(R) which establishes principles and requirements for how an acquirer accounts for business combinations and includes guidance for the recognition, measurement and disclosure of the identifiable assets acquired, the liabilities assumed and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration and the accounting for pre-acquisition gain and loss contingencies, as well as acquisition-related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is to be applied prospectively and is effective for Kennametal beginning July 1, 2009. We are in the process of evaluating the provisions of SFAS 141(R) to determine the impact of adoption on our consolidated financial statements.

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In December 2007, the FASB issued SFAS 160 which amends Accounting Research Bulletin No. 51, Consolidated Financial Statements to establish accounting and reporting standards for any noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure on the face of the consolidated statement of income of the amounts of consolidated net income attributable to the parent and to the noncontrolled interest. SFAS 160 is to be applied prospectively and is effective for Kennametal as of July 1, 2009, except for the presentation and disclosure requirements, which, upon adoption, will be applied retrospectively for all periods presented. We are in the process of evaluating the provisions of SFAS 160 to determine the impact of adoption on our consolidated financial statements.

In June 2007, the FASB ratified EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified share-based compensation awards be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 was effective for Kennametal on July 1, 2008 and is to be applied on a prospective basis. The adoption of this EITF did not have a material impact on our consolidated financial statements.

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

Nine months ended March 31 (in thousands)	2009	2008
Cash paid during the period for:		
Interest	$ 15,474	$ 17,860
Income taxes	12,361	41,863
Supplemental disclosure of non-cash information:		
Contribution of stock to employees defined contribution benefit plans	225	
Change in fair value of interest rate swaps	730	(18,626)
Changes in accounts payable related to purchases of property, plant and equipment	(12,800)	(14,500)

5. FAIR VALUE MEASUREMENTS

SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosures related to fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions. We are in the process of evaluating the potential impact of SFAS 157, as it relates to pension plan assets, nonfinancial assets and nonfinancial liabilities, on our consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard is now the single source in GAAP for the definition of fair value, except for the fair value of leased property as defined in SFAS No. 13, Accounting for Leases. SFAS 157 established a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Fair value measurements are assigned a level within the hierarchy based on the lowest significant input level. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are unobservable.

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of March 31, 2009 the fair values of the Company s financial assets and financial liabilities measured at fair value on a recurring basis are categorized as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Current assets:				
Derivative contracts [a]	$	$4,788	$	$4,788
Total assets	$	$4,788	$	$4,788
Current liabilities:				
Derivative contracts [a]	$	$ 7	$	$ 7

[a] Foreign currency derivative contracts are valued based on observable market spot and forward rates and are classified within Level 2 of the fair value hierarchy.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As part of our financial risk management program, we use certain derivative financial instruments. We do not enter into derivative transactions for speculative purposes and therefore hold no derivative instruments for trading purposes. We use derivative financial instruments to provide predictability to the effects of changes in foreign exchange rates on our consolidated results and to achieve our targeted mix of fixed and floating interest rates on outstanding debt. We account for derivative instruments as a hedge of the related asset, liability, firm commitment or anticipated transaction when the derivative is specifically designated as a hedge of such items. Our objective in managing foreign exchange exposures with derivative instruments is to reduce volatility in cash flow, allowing us to focus more of our attention on business operations. With respect to interest rate management, these derivative instruments allow us to achieve our targeted fixed-to-floating interest rate mix as a separate decision from funding arrangements in the bank and public debt markets. We measure hedge effectiveness by assessing the changes in the fair value or expected future cash flows of the hedged item. The ineffective portions are recorded in other income or expense.

As of March 31, 2009, derivatives designated and not designated as hedging instruments have been recorded in the condensed consolidated balance sheet at fair value as follows:

(in thousands)

Derivatives designated as hedging instruments	
Other current assets range forward contracts	$4,710
Total derivatives designated as hedging instruments	4,710
Derivatives not designated as hedging instruments	
Other current assets currency forward contracts	78
Other current liabilities currency forward contracts	(7)
Total derivatives not designated as hedging instruments	71
Total derivatives	$4,781

Certain currency forward contracts hedging significant cross-border intercompany loans are considered as other derivatives and therefore do not qualify for hedge accounting. These contracts are recorded at fair value in the balance sheet, with the offset to other (income) loss, net. Losses (gains) related to derivatives not designated as hedging instruments have been recognized as follows:

(in thousands)	Three Months Ended March 31, 2009	Nine Months Ended March 31, 2009
Other (income) expense, net currency forward contracts	$ 52	$ (10)

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FAIR VALUE HEDGES

Fixed-to-floating interest rate swap agreements, designated as fair value hedges, are entered into from time to time to hedge our exposure to fair value fluctuations on a portion of our fixed rate debt. These interest rate swap agreements convert a portion of our fixed rate debt to floating rate debt. These contracts require periodic settlement and the difference between amounts to be received and paid under the interest rate swap agreements is recognized in interest expense. We record the gain or loss on these contracts as an asset or a liability, as applicable, in the balance sheet, with the offset to the carrying value of the debt. Any gain or loss resulting from changes in the fair value of these contracts offset the corresponding gains or losses from changes in the fair values of the debt. As a result, changes in the fair value of these contracts have no net impact on current period earnings.

In February 2009, we terminated interest rate swap agreements to convert $200 million of our fixed rate debt to floating rate debt. These agreements were originally set to mature in June 2012. Upon termination, we received a cash payment of $13.2 million. Within the consolidated statement of cash flow, the $12.6 million forward portion of the payment has been disclosed under cash flow provided by financing activities and the $0.6 million current interest portion has been disclosed under cash flow provided by operating activities. This gain is being amortized as a component of interest expense over the remaining term of the related debt using the effective interest rate method. During the three months ended March 31, 2009, $0.5 million was recognized as a reduction in interest expense.

Gains related to fair value hedges have been recognized as follows:

(in thousands)	Three Months Ended March 31, 2009	Nine Months Ended March 31, 2009
Interest expense interest rate swap agreements	$ (908)	$ (1,804)

CASH FLOW HEDGES

Currency forward contracts and range forward contracts (a transaction where both a put option is purchased and a call option is sold), designated as cash flow hedges, hedge anticipated cash flows from cross-border intercompany sales of products and services. Gains and losses realized on these contracts at maturity are recorded in accumulated other comprehensive income (loss), net of tax, and are recognized as a component of other income, net when the underlying sale of products or services are recognized into earnings. The notional amount of the contracts translated into U.S. dollars at March 31, 2009, was $38.0 million. The time value component of the fair value of range forwards is excluded from the assessment of hedge effectiveness. Assuming the market rates remain constant with the rates at March 31, 2009, we expect to recognize into earnings in the next 12 months gains on outstanding derivatives of $4.7 million.

Floating-to-fixed interest rate swap agreements, designated as cash flow hedges, are entered into from time to time to hedge our exposure to interest rate changes on a portion of our floating rate debt. These interest rate swap agreements convert a portion of our floating rate debt to fixed rate debt. We record the fair value of these contracts as an asset or a liability, as applicable, in the balance sheet, with the offset to accumulated other comprehensive income (loss), net of tax (AOCI). We had no such agreements outstanding at March 31, 2009.

Gains related to cash flow hedges have been recognized as follows:

(in thousands)	Three Months Ended March 31, 2009	Nine Months Ended March 31, 2009
Gain recognized in other comprehensive (loss) income range forward contracts	$ (534)	$ (5,400)
Gain reclassified from accumulated other comprehensive (loss) income into other (income) expense, net range forward contracts	$ (3,950)	$ (4,816)

For the three and nine months ended March 31, 2009, no portion of the gains recognized in earnings were due to ineffectiveness and no amount was excluded from our effectiveness testing.

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KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Restructuring

As previously announced, the Company continued to implement restructuring plans to reduce costs and improve operating efficiencies. These actions relate to facility rationalizations and employment reductions and are expected to be completed over the next six to nine months. Restructuring and related charges recorded in the nine months ended March 31, 2009 amounted to $52.8 million, including $48.1 million of restructuring charges, of which $1.0 million were related to inventory disposals and recorded in cost of goods sold. Restructuring-related charges of $5.9 million were recorded in cost of goods sold and a restructuring-related benefit of $1.2 million was recorded in operating expense during the nine months ended March 31, 2009. Total restructuring and related charges recorded since the inception of the restructuring plans were $61.0 million. Including these charges, the company expects to recognize approximately $115 million of charges related to its restructuring plans. Annual ongoing benefits from these actions, once fully implemented, are expected to be approximately $125 million.

The restructuring accrual is recorded in other current liabilities in our condensed consolidated balance sheet and the amount attributable to each segment is as follows:

(in thousands)	June 30, 2008	Expense	Asset Write-down	Cash Expenditures	Translation	March 31, 2009
MSSG						
Severance	$ 3,070	$31,049	$	$(13,776)	$(608)	$19,735
Facilities		1,019	(973)	(9)	(3)	34
Other	131					