FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

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)	(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

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 28, 2000
Capital Stock, par value $1.25 per share	30,412,715

KENNAMETAL INC.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2000

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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,		Nine Months Ended March 31,	
	2000	1999	2000	1999
OPERATIONS				
Net sales	$483,019	$479,051	$1,379,890	$1,444,291
Cost of goods sold	294,567	305,654	859,242	910,816
Gross profit	188,452	173,397	520,648	533,475
Operating expenses	125,830	127,381	375,019	396,840
Restructuring and asset impairment charges	13,323	13,937	17,304	13,937
Amortization of intangibles	6,517	6,485	20,117	19,151
Operating income	42,782	25,594	108,208	103,547
Interest expense	13,668	17,992	41,948	53,248
Other expense, net	1,269	668	1,521	861
Income before provision for income taxes and minority interest	27,845	6,934	64,739	49,438
Provision for income taxes	12,067	2,900	28,485	21,000
Minority interest	1,681	1,854	3,733	4,828
Income before extraordinary item	14,097	2,180	32,521	23,610
Extraordinary loss on early extinguishment of debt, net of tax of $178	--	--	(267)	--
Net income	$ 14,097	$ 2,180	$ 32,254	$ 23,610
PER SHARE DATA				
Basic earnings per share before extraordinary item	$ 0.46	$ 0.07	$ 1.08	$ 0.79
Extraordinary item	--	--	(0.01)	--
Basic earnings per share	$ 0.46	$ 0.07	$ 1.07	$ 0.79
Diluted earnings per share before extraordinary item	$ 0.46	$ 0.07	$ 1.07	$ 0.79
Extraordinary item	--	--	(0.01)	--
Diluted earnings per share	$ 0.46	$ 0.07	$ 1.06	$ 0.79
Dividends per share	$ 0.17	$ 0.17	$ 0.51	$ 0.51
Basic weighted average shares outstanding	30,320	29,912	30,201	29,882
Diluted weighted average shares outstanding	30,418	29,923	30,307	29,921

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	March 31, 2000	June 30, 1999
ASSETS		
Current assets:		
Cash and equivalents	$ 21,552	$ 17,408
Marketable equity securities available-for-sale	9,173	13,436
Accounts receivable, less allowance for doubtful accounts of $13,322 and $15,269	245,002	231,287
Inventories	417,333	434,462
Deferred income taxes	44,103	44,182
Other current assets	13,254	9,673
Total current assets	750,417	750,448
Property, plant and equipment:		
Land and buildings	230,377	235,375
Machinery and equipment	718,568	756,917
Less accumulated depreciation	(444,521)	(452,492)
Net property, plant and equipment	504,424	539,800
Other assets:		
Investments in affiliated companies	1,248	844
Intangible assets, less accumulated amortization of $86,894 and $64,096	665,397	685,695
Deferred income taxes	34,096	33,996
Other	36,536	32,865
Total other assets	737,277	753,400
Total assets	$1,992,118	$2,043,648
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$ 4,387	$ 117,217
Notes payable to banks	64,984	26,222
Accounts payable	122,166	89,339
Accrued vacation pay	29,380	27,323
Accrued payroll	20,370	19,730
Other current liabilities	127,429	97,035
Total current liabilities	368,716	376,866
Long-term debt and capital leases, less current maturities	667,632	717,852
Deferred income taxes	53,478	53,108
Other liabilities	90,878	97,186
Total liabilities	1,180,704	1,245,012
Minority interest in consolidated subsidiaries	54,338	53,505
SHAREOWNERS' EQUITY		
Preferred stock, no par value; 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 33,083 and 32,903 shares issued	41,354	41,128
Additional paid-in capital	331,785	325,382
Retained earnings	494,449	477,593
Treasury shares, at cost; 2,711 and 2,836 shares held	(55,634)	(57,199)
Unearned compensation	(2,436)	(3,330)
Accumulated other comprehensive loss	(52,442)	(38,443)
Total shareowners' equity	757,076	745,131
Total liabilities and shareowners' equity	$1,992,118	$2,043,648

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended March 31,	
	2000	1999
OPERATING ACTIVITIES		
Net income	$ 32,254	$ 23,610
Adjustments for noncash items:		
Depreciation	56,333	52,746
Amortization	20,117	19,151
Restructuring and asset impairment charges	8,143	17,119
Loss on early extinguishment of debt, net of tax	267	--
Other	5,133	6,308
Changes in certain assets and liabilities, net of effects of acquisitions and divestiture:		
Accounts receivable	(23,161)	910
Proceeds from securitization of accounts receivable	2,700	--
Inventories	9,808	(23,002)
Accounts payable and accrued liabilities	55,847	(81)
Other	(2,186)	(6,816)
Net cash flow from operating activities	165,255	89,945
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(34,123)	(83,226)
Disposals of property, plant and equipment	6,788	8,947
Purchase of marketable equity securities	--	(12,162)
Other	277	(4,593)
Net cash flow used for investing activities	(27,058)	(91,034)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	38,809	(13,637)
Increase in long-term debt	117,806	131,330
Decrease in long-term debt	(281,950)	(104,860)
Dividend reinvestment and employee stock plans	7,925	2,769
Cash dividends paid to shareowners	(15,398)	(15,237)
Other	(1,017)	(1,014)
Net cash flow used for financing activities	(133,825)	(649)
Effect of exchange rate changes on cash	(228)	(732)
CASH AND EQUIVALENTS		
Net increase (decrease) in cash and equivalents	4,144	(2,470)
Cash and equivalents, beginning	17,408	18,366
Cash and equivalents, ending	$ 21,552	$ 15,896
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 40,757	$ 51,425
Income taxes paid	14,417	18,808

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The condensed consolidated financial statements should be read in conjunction with the Notes to the Consolidated Financial Statements included in the company's 1999 Annual Report. The condensed consolidated balance sheet as of June 30, 1999 has been derived from the audited balance sheet included in the company's 1999 Annual Report. These accompanying 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 three and nine months ended March 31, 2000 are not necessarily indicative of the results to be expected for the full fiscal year. Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with the current year presentation.

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 45 percent of total inventories at March 31, 2000. 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 (in thousands):

	March 31, 2000	June 30, 1999
Finished goods	$316,916	$318,736
Work in process and powder blends	96,678	117,987
Raw materials and supplies	36,169	32,619
Inventory at current cost	449,763	469,342
Less LIFO valuation	(32,430)	(34,880)
Total inventories	$417,333	$434,462

4. The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company is currently named as a potentially responsible party (PRP) at several Superfund sites in the United States. In the December 1999 quarter, the company recorded a remediation reserve of $3.0 million with respect to its involvement in these matters, which is recorded as a component of operating expenses. This represents management's best estimate of its future obligation based on its evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. The company recorded this liability in the December quarter because certain events occurred, including sufficient progress made by the government and the PRPs in the identification of other PRPs and review of potential remediation solutions, that clarified the level of involvement in these matters by the company and its relationship to other PRPs. This led the company to conclude that it was probable that a liability had been incurred.

   In addition to the amount currently reserved, the company may be subject to loss contingencies related to these matters estimated to be up to an additional $3.3 million. The company believes that such unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. The reserved and unreserved liabilities may change substantially in the near term due to

factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs and the identification of new PRPs.

The company maintains a Corporate Environmental, Health and Safety (EH&S) Department, as well as an EH&S Policy Committee, to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, the company has established an EH&S administrator at 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. For purposes of determining the number of dilutive shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due to the dilutive effect of unexercised stock options by 98,394 and 11,723 for the three months ended March 31, 2000 and 1999, respectively, and 105,231 and 38,637 for the nine months ended March 31, 2000 and 1999, respectively.

6. Comprehensive income for the three and nine months ended March 31, 2000 and 1999 is as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
Net income	$14,097	$ 2,180	$ 32,254	$23,610
Unrealized loss on marketable equity securities available-for-sale, net of tax	(348)	(66)	(3,674)	(66)
Minimum pension liability adjustment	53	--	100	--
Foreign currency translation adjustments	(7,519)	(5,619)	(10,425)	(5,220)
Comprehensive income (loss)	$ 6,283	$(3,505)	$ 18,255	$18,324

The components of accumulated other comprehensive loss consist of the following (in thousands):

	March 31, 2000	June 30, 1999
Unrealized gain (loss) on marketable equity securities available-for-sale, net of tax	$ (2,514)	$ 1,160
Minimum pension liability adjustment	(1,165)	(1,265)
Foreign currency translation adjustments	(48,763)	(38,338)
Total accumulated other comprehensive loss	$(52,442)	$(38,443)

7. In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The company must adopt the standard by the beginning of the first quarter of fiscal 2001. SFAS No. 133 establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments imbedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting

criteria are met. Accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The company is currently evaluating the effects of SFAS No. 133 and is preparing a plan for implementation.

8. In March 1999, the company's management implemented restructuring plans, including several programs to reduce costs, improve operations and enhance customer satisfaction. The costs accrued for these plans were based on management estimates using the latest information available at the time that the accrual was established. The costs charged against the accrual as of March 31, 2000 were as follows (in thousands):

	June 30, 1999	Cash Expenditures	Adjustments	March 31, 2000
Plant closure	$2,200	$(1,546)	$--	$ 654
Voluntary early retirement program	1,367	(627)	--	740
Total	$3,567	$(2,173)	$--	$1,394

Additional period costs of $0.1 million and $2.1 million resulting from the relocation of employees, hiring and training new employees and other costs associated with the temporary duplication of certain operations and other inefficiencies related to the Solon, Ohio plant closure were included in cost of goods sold during the three and nine months ended March 31, 2000, respectively.

9. During the September 1999 quarter, the company entered into two interest rate swap agreements that effectively convert a notional amount of $50.0 million from floating to fixed interest rates. This increased the total notional amount of floating-to-fixed interest rate swaps to $100.0 million. These new agreements mature in July 2002.

At March 31, 2000, the company would have received $2.6 million to settle all interest rate swap agreements, representing the excess of fair value over the carrying cost of these agreements. The effect of all interest rate swaps on the company's composite interest rate on long-term debt was not material at March 31, 2000.

At March 31, 2000, the company had outstanding foreign exchange forward contracts to sell foreign currency with notional amounts translated into U.S. dollars of $29.9 million. These contracts mature before June 30, 2000. The net unrealized loss on these contracts was $1.1 million at March 31, 2000.

In February 2000, the company completed a short-term foreign exchange hedging program to protect a portion of the company's currency exposure from unfavorable exchange rate movements. This exposure arises from anticipated cash collections from foreign subsidiaries on transactions between domestic and foreign subsidiaries during the remainder of fiscal 2000. This program involves the purchase of a series of options that permit the company to sell the foreign currency at specific rates contained in the contracts. The cost of this program, $0.6 million, is being amortized to Other Expense over the life of the options. At March 31, 2000, the unamortized cost of $0.5 million is recorded in Other Current Assets and approximates the fair value of the options then outstanding. The notional amounts of the option contracts translated into U.S. dollars at March 31, 2000 rates is $27.2 million.

In April and May 2000, the company began to implement a foreign exchange hedging program to protect a portion of the company's currency exposure from unfavorable exchange rate movements. This exposure arises from anticipated cash collections from foreign subsidiaries on transactions between domestic and foreign subsidiaries during fiscal 2001. This program utilizes purchased options, written options and forward exchange contracts. The cost of this program, $1.9 million, will be amortized to Other Expense based on the life of the contracts, until SFAS 133 is adopted on July 1, 2000; thereafter, the contracts will be accounted for and reported under this new Statement. The notional amounts of the hedging instruments translated into U.S. dollars at March 31, 2000 rates is $117.6 million.

10. In November 1999, the company announced plans to close, consolidate or downsize several plants, warehouses and offices, and associated workforce reductions as part of its overall plan to increase asset utilization and financial performance, and to reposition the company to become the premier tooling solutions supplier. The company expects to record total one-time charges of $25 to $30 million related to these programs by its fiscal 2000 year-end. Additional period costs are estimated to be $5 to $6 million and are expected to be incurred through fiscal 2000 and 2001.

Management implemented several of these programs through the March 2000 quarter. The costs accrued for the implemented programs were based upon management estimates using the latest information available at the time that the accrual was established. The components of the charges are as follows (in thousands):

	Total Charge	Asset Write-Downs	Incremental Pension Obligation	Initial Restructuring Liability
Asset impairment charges	$ 4,958	$(4,958)	$ --	$ --
Employee severance	5,765	--	(467)	5,298
Product rationalization	100	(100)	--	--
Facility rationalizations	6,581	(3,085)	--	3,496
Total	$17,404	$(8,143)	$(467)	$8,794

In conjunction with the company's ongoing review of underperforming businesses, certain assets are reviewed for impairment pursuant to the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." An asset impairment charge of $1.7 million was recorded, related to a metalworking manufacturing operation in Shanghai, China. This operation became fully operational in fiscal 1998 and to date, has not generated the performance that was expected at the time the company entered into this market. Management performed an in-depth review of the operations, capacity utilization and the local management team, and engaged a consultant to perform an independent review of the same. These reviews enabled management to determine that the market served by this operation is not expected to develop to the extent originally anticipated, but that the operations were in good working order and utilized modern technology, and that the management team in place was competent. Management also determined that this facility had excess capacity given the level of market demand.

Accordingly, management updated its operating forecast to reflect the current market demand. In comparing the projected cash flows of the updated forecast to the net book value of the assets of this operation, management determined that the full value of these assets would not be recoverable. Accordingly, a charge was recorded to adjust the carrying value of the long-lived assets of this operation to fair value. The estimated fair value of these assets was based on various methodologies, including a discounted value of estimated future cash flows.

The product rationalization charge of $0.1 million represents the write-down of certain discontinued product lines manufactured in these operations. The company manufactured these products specifically for the market served by these operations and management has determined that these products are no longer salable. This charge has been recorded as a component of cost of goods sold.

The company recorded an asset impairment charge of $3.0 million related to the write-down of equipment in its North American metalworking operations and $0.3 million in its Engineered Products operations. In connection with the repositioning of the company, management completed an assessment of the assets currently being used in these operations and determined that these assets were not going to be further utilized in conducting these operations. This amount represents the write-down of the book value of the assets, net of salvage value.

The charge for facility rationalization relates to employee severance for 131 employees and other exit costs associated with the closure or downsizing of a metalworking manufacturing operation in Kingswinford, United Kingdom, a circuit board drill plant in Janesville, Wisconsin, a German warehouse facility, and several offices in the Asia Pacific region and South America. The charge also includes $3.4 million for employee severance for 41 employees and other exit costs associated with the closure of a mining and construction manufacturing operation in China and the exit of the related joint venture.

The company accrued $5.8 million related to severance packages provided to 122 hourly and salaried employees terminated in connection with a global workforce reduction. Included in this charge is incremental pension obligation of $0.5 million, incurred by the company as a result the severance packages provided. This amount is included in the pension obligation and presented as a component of other liabilities.

The costs related to the asset impairment charges, employee severance and facility rationalizations of $17.3 million have been recorded as a component of restructuring and asset impairment charges. The costs charged against the restructuring cost accrual as of March 31, 2000 were as follows (in thousands):

	Initial Liability	Cash Expenditures	Adjustments	March 31, 2000
Employee severance	$5,298	$(1,839)	$--	$3,459
Facility rationalizations	3,496	(150)	--	3,346
Total	$8,794	$(1,989)	$--	$6,805

Through March 31, 2000, the company has incurred period costs of $1.7 million related to these initiatives. The company continues to review its business strategies and pursue other cost-reduction activities, some of which could result in future charges.

11. In November 1999, the company repaid its term loan under the Bank Credit Agreement. This resulted in an acceleration of the amortization of deferred financing fees of $0.4 million, which was recorded as an extraordinary item of $0.3 million, net of tax.

12. In the December 1999 quarter, the company engaged an investment bank to explore strategic alternatives regarding its 83 percent-owned subsidiary, JLK Direct Distribution Inc. (JLK), including a possible divestiture. At that time, management believed a divestiture might enhance growth prospects for both the company and JLK by allowing each company to focus on its core competencies. The company completed a thorough and disciplined process of evaluating strategic

alternatives and on May 2, 2000, decided to terminate consideration of a possible divestiture at this time, although management continues to believe there may be better owners for JLK.

13. On December 16, 1999, the company determined that certain performance measurements in the accounts receivable securitization program agreement were not met due to an increase in the aging of the accounts receivable of one of the participating subsidiaries as a result of a system implementation at that subsidiary. The program sponsor waived this condition and the agreement was amended to temporarily revise the performance measurements until May 2000, at which time these performance measurements revert to the original terms of the agreement.

14. In November 1999, management reorganized the financial reporting of its operations to focus on global business units consisting of Metalworking, Engineered Products, Mining & Construction and JLK/Industrial Supply, and corporate functional shared services. The results for all periods presented have been restated to conform to the new reporting structure. The company's external sales, intersegment sales and operating income by business unit for the three and nine months ended March 31, 2000 and 1999 are as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
External sales:				
Metalworking	$265,878	$259,354	$ 761,492	$ 788,081
Engineered Products	46,258	43,240	129,367	133,577
Mining & Construction	39,556	42,285	124,183	129,179
JLK/Industrial Supply	131,327	134,172	364,848	393,454
Total external sales	$483,019	$479,051	$1,379,890	$1,444,291
Intersegment sales:				
Metalworking	$ 32,330	$ 25,106	$ 102,800	$ 76,056
Engineered Products	5,029	6,638	14,792	17,585
Mining & Construction	1,382	1,284	5,117	3,754
JLK/Industrial Supply	2,197	4,134	6,720	10,349
Total intersegment sales	$ 40,938	$ 37,162	$ 129,429	$ 107,744
Total sales:				
Metalworking	$298,208	$284,460	$ 864,292	$ 864,137
Engineered Products	51,287	49,878	144,159	151,162
Mining & Construction	40,938	43,569	129,300	132,933
JLK/Industrial Supply	133,524	138,306	371,568	403,803
Total sales	$523,957	$516,213	$1,509,319	$1,552,035
Operating income (loss):				
Metalworking	$ 34,658	$ 24,045	$ 89,964	$ 88,353
Engineered Products	5,965	6,655	15,223	18,550
Mining & Construction	2,036	(995)	11,342	8,227
JLK/Industrial Supply	10,363	10,684	24,431	26,035
Corporate & Eliminations	(10,240)	(14,795)	(32,752)	(37,618)
Total operating income	$ 42,782	$ 25,594	$ 108,208	$ 103,547

Metalworking operating income for the three and nine months ended March 31, 2000 was reduced by $7.7 million and $11.2 million, respectively, related to asset impairment charges, and costs associated with facility and product rationalizations and employee severance. Engineered Products operating income for the three and nine months ended March 31, 2000 was reduced by $1.3 million related to costs associated with facility rationalizations and employee severance, and asset impairment charges. Mining & Construction operating income for the three and nine months ended March 31, 2000 was reduced by $3.1 million and $3.4 million, respectively, related to costs associated with a facility rationalization, including costs to exit the related joint venture, asset impairment charges and employee severance. Corporate operating income for the three and nine months ended March 31, 2000 was reduced by $1.2 million and $4.5 million, respectively, related to environmental remediation costs and costs associated with employee severance.

Metalworking operating income for the three and nine months ended March 31, 1999 was reduced by $11.1 million related to the product rationalization program and to close a drill manufacturing plant in Solon, Ohio. Mining & Construction operating income for the three and nine months ended March 31, 1999 was reduced by $5.8 million related to a write-down of an investment in, and net receivables from, certain international operations in emerging markets. Corporate operating income for the three and nine months ended March 31, 1999 was reduced by $7.7 million related to a voluntary early retirement benefit program and a one-time charge incurred in the acquisition of 4.9 percent of Toshiba Tungaloy.

The company's assets by business unit at March 31, 2000 and June 30, 1999 are as follows (in thousands):

	March 31, 2000	June 30, 1999
Assets:		
Metalworking	$ 979,246	$1,039,854
Engineered Products	335,411	363,739
Mining & Construction	135,346	146,295
JLK/Industrial Supply	305,171	274,989
Corporate	236,944	218,771
Total assets	$1,992,118	$2,043,648

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

RESULTS OF OPERATIONS

OVERVIEW

Sales for the March 2000 quarter were $483.0 million, an increase of one percent from $479.1 million in the year-ago quarter. Sales were up four percent excluding unfavorable foreign exchange effects of two percent and the effect of the divestiture of the Strong Tool Co. steel mill supply business of one percent. This increase is attributed to increased demand in the company's end markets.

Net income for the quarter ended March 31, 2000 was $14.1 million, or $0.46 per share, compared to net income of $2.2 million, or $0.07 per share, in the same quarter last year. The March 2000 results were reduced by $13.3 million, or $0.25 per share, related to restructuring and asset impairment charges. The performance for the quarter reflects the company's growing success in implementing operational improvement programs and strong cost controls. The results for the March 1999 quarter were reduced by approximately $24.6 million, or $0.51 per share, including $20.8 million, or $0.44 per share, related to special charges for operational improvement programs, and $3.8 million, or $0.07 per share, related to a one-time charge incurred in the acquisition of 4.9 percent of Toshiba Tungaloy stock.

Sales for the nine months ended March 31, 2000 were $1,379.9 million compared to $1,444.3 million in the same period a year ago, a decline of four percent. Unfavorable foreign currency effects and the divestiture accounted for two and one percent, respectively, of the sales decline from last year. Net income for the nine months ended March 31, 2000 was $32.3 million, or $1.06 per share, compared to $23.6 million, or $0.79 per share, in the same period last year. Earnings were affected by the factors mentioned above.

BUSINESS SEGMENT REVIEW

In November 1999, management reorganized the financial reporting of its operations to focus on global business units consisting of Metalworking, Engineered Products, Mining & Construction and JLK/Industrial Supply, and corporate functional shared services. The results for all periods presented have been restated to conform to the new reporting structure.

METALWORKING

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
External sales	$265,878	$259,354	$761,492	$788,081
Intersegment sales	32,330	25,106	102,800	76,056
Operating income	34,658	24,045	89,964	88,353

External sales in the Metalworking segment increased six percent during the March 2000 quarter, compared to the same quarter a year ago, excluding unfavorable foreign currency effects of three percent. Sales in North America were up eight percent compared to last year due predominately to strong demand in the automotive and truck markets and, to a lesser extent, increased demand in the oil field services and machine tool end markets.

Sales in the European Metalworking market increased two percent over the same quarter last year, excluding unfavorable foreign currency translation effects of 11 percent. The increase in sales also was due predominately to strong demand in the German automotive market. Sales in Asia continued to grow and were up 12 percent, in local currency, compared to the prior year.

Operating income of $34.7 million was affected by restructuring and asset impairment charges of $7.7 million in the March 2000 quarter. The March 1999 quarter included restructuring costs associated with the Solon, Ohio drill plant closure and product rationalization charges of $11.1 million. Excluding these charges in each period, operating income increased $7.3 million, or 21 percent largely due to the increase in overall sales levels. Continued strong cost controls resulted in a reduction in operating expenses that contributed to the remainder of the operating income improvement. Period costs associated with the Solon, Ohio plant closure were $0.1 million for the quarter ended March 31, 2000.

For the nine months ended March 31, 2000, external sales declined one percent compared to last year excluding unfavorable foreign currency effects of two percent. Operating income increased to $90.0 million and was affected by the same factors mentioned above. Period costs associated with the Solon, Ohio plant closure were $2.1 million for the nine months ended March 31, 2000.

ENGINEERED PRODUCTS

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
External sales	$46,258	$43,240	$129,367	$133,577
Intersegment sales	5,029	6,638	14,792	17,585
Operating income	5,965	6,655	15,223	18,550

Compared to last year, external sales in the Engineered Products market increased 11 percent, excluding unfavorable foreign exchange effects of four percent, due to increased demand for electronic circuit board drills. Sales to the oil field services end market improved sequentially during the March 31, 2000 quarter, however, these sales did not significantly affect the year-over-year growth in sales. Operating income of $6.0 million for the March 31, 2000 quarter includes restructuring costs of $1.3 million related the rationalization of the Janesville, Wisconsin circuit board drill plant, employee severance, and asset impairment charges. Excluding these charges, operating income increased nine percent due primarily to lower manufacturing variances, higher sales levels, continued cost controls and lean manufacturing techniques.

Compared to a year ago, external sales for the nine months ended March 31, 2000 declined three percent due entirely to unfavorable foreign exchange effects. Operating income declined to $15.2 million due to the restructuring costs mentioned above and due to the decline in sales levels.

MINING & CONSTRUCTION

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
External sales	$39,556	$42,285	$124,183	$129,179
Intersegment sales	1,382	1,284	5,117	3,754
Operating income (loss)	2,036	(995)	11,342	8,227

External sales in this segment declined five percent from the March 1999 quarter, excluding one percent unfavorable foreign exchange effects. The decline in sales is due to continued weak demand for mining tools in North America and metallurgical powders as a result of weakness in the underground coal and oil and gas exploration end markets. Operating income for the March 2000 quarter includes $3.1 million of restructuring costs associated with the closure of a manufacturing operation in China and the exit of the related joint venture. In the March 1999 quarter, restructuring costs of $5.8 million were recorded related to

the write-down of an investment in, and net receivables from, other international operations in emerging markets as a result of changing market conditions in the regions these operations serve. Excluding these charges in each period, operating income increased to $5.1 million from $4.8 million due to continued strong cost controls, despite the decline in sales.

Sales for the nine months ended March 31, 2000 declined three percent, excluding unfavorable foreign exchange effects of one percent, compared to the year-ago period due to the factors mentioned above. Excluding restructuring costs of $3.4 million and $5.8 million for the nine months ended March 31, 2000 and 1999, respectively, operating income increased $0.7 million to $14.7 million due to continued cost controls, despite lower sales volumes.

JLK/INDUSTRIAL SUPPLY

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2000	1999	2000	1999
External sales	$131,327	$134,172	$364,848	$393,454
Intersegment sales	2,197	4,134	6,720	10,349
Operating income	10,363	10,684	24,431	26,035

In this segment, external sales increased one percent from the same quarter a year ago, excluding the effects of the divestiture of the Strong Tool Co. steel mill business unit. The addition of new Full Service Supply (FSS) programs in the current year contributed two percent to the overall sales growth. This growth was reduced by one percent due to continued weakness in the catalog business end markets, predominately oil field services. The company provided FSS programs to 162 customers covering 252 different facilities at March 31, 2000, compared to 139 customers covering 220 different facilities at March 31, 1999.

Operating income declined to $10.4 million due to lower sales, partially offset by continued operating cost controls. The gross margin was 32.2 percent compared to 31.9 percent due to the elimination of the lower-margin sales from the divested business unit. Operating expenses declined $0.8 million to $32.6 million due primarily to the implementation of several cost-reduction initiatives since March 1999.

For the nine months ended March 31, 2000, sales declined four percent compared to a year ago, excluding the affect of the divestiture of three percent. Of the overall decline, the catalog business contributed five percent, partially offset by incremental FSS sales, both due to the factors mentioned above. Operating income declined to $24.4 million due to the factors mentioned above.

GROSS PROFIT MARGIN

The consolidated gross profit margin for the March 2000 quarter was 39.0 percent, compared to 36.2 percent in same quarter in the prior year. The gross margin in 1999 was affected by a $6.9 million charge related to the implementation of a new program to streamline and optimize the global metalworking product offering. Excluding this charge, the gross margin would have been 37.6 percent. The majority of the increase in gross margin is due to improved manufacturing variances as a result of lean manufacturing techniques and strong cost controls, despite lower production levels.

Consolidated gross profit margin was 37.7 percent for the nine months ended March 31, 2000, compared with 37.4 percent in same period a year ago, excluding the $6.9 million product rationalization charge.

Included in fiscal 2000 results are period costs of $2.1 million related to the Solon, Ohio plant closure. Excluding these effects, the increase in the gross profit margin is due to the factors mentioned above.

OPERATING EXPENSES

Operating expenses for the March 2000 quarter were $125.8 million, a reduction of one percent from $127.4 million in the same quarter last year. Operating expenses for 1999 include a charge of $3.8 million recorded on the purchase of 4.9 percent of Toshiba Tungaloy stock due to the difference between the cost and the fair market value of the securities on the date the securities were purchased. Excluding this charge, operating expenses for the current quarter were two percent above the prior year quarter. This increase is due to higher research and development spending and the full reinstatement of salary reductions imposed in November 1998.

For the nine months ended March 31, 2000, operating expenses of $375.0 million were five percent below 1999 levels despite a $3.0 million charge for environmental remediation costs recorded in December 1999 and the charge on the purchase of Toshiba Tungaloy stock recorded last year. Operating expenses improved due to ongoing cost and productivity improvement programs in effect throughout fiscal 2000.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

In November 1999, the company announced plans to close, consolidate or downsize several plants, warehouses and offices, and associated workforce reductions as part of its overall plan to increase asset utilization and financial performance, and to reposition the company to become the premier tooling solutions supplier. The company expects to record total one-time charges of $25 to $30 million related to these programs by its fiscal 2000 year-end. Additional period costs are estimated to be $5 to $6 million and are expected to be incurred through fiscal 2000 and 2001.

Management implemented several of these programs through the March 2000 quarter. The costs accrued for the implemented programs were based upon management estimates using the latest information available at the time that the accrual was established. The components of the charges are as follows (in thousands):

	Total Charge	Asset Write-Downs	Incremental Pension Obligation	Initial Restructuring Liability
Asset impairment charges	$ 4,958	$(4,958)	$ --	$ --
Employee severance	5,765	--	(467)	5,298
Product rationalization	100	(100)	--	--
Facility rationalizations	6,581	(3,085)	--	3,496
Total	$17,404	$(8,143)	$(467)	$8,794

In conjunction with the company's ongoing review of underperforming businesses, certain assets are reviewed for impairment pursuant to the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." An asset impairment charge of $1.7 million was recorded, related to a metalworking manufacturing operation in Shanghai, China. This operation became fully operational in fiscal 1998 and to date, has not generated the performance that was expected at the time the company entered into this market. Management performed an in-depth review of the operations, capacity utilization and the local management team, and engaged a consultant to perform an independent review of the same. These reviews enabled management to determine that the

market served by this operation is not expected to develop to the extent originally anticipated, but that the operations were in good working order and utilized modern technology, and that the management team in place was competent. Management also determined that this facility had excess capacity given the level of market demand.

Accordingly, management updated its operating forecast to reflect the current market demand. In comparing the projected cash flows of the updated forecast to the net book value of the assets of this operation, management determined that the full value of these assets would not be recoverable. Accordingly, a charge was recorded to adjust the carrying value of the long-lived assets of this operation to fair value. The estimated fair value of these assets was based on various methodologies, including a discounted value of estimated future cash flows.

The product rationalization charge of $0.1 million represents the write-down of certain discontinued product lines manufactured in these operations. The company manufactured these products specifically for the market served by these operations and management has determined that these products are no longer salable. This charge has been recorded as a component of cost of goods sold.

The company recorded an asset impairment charge of $3.0 million related to the write-down of equipment in its North American metalworking operations and $0.3 million in its Engineered Products operations. In connection with the repositioning of the company, management completed an assessment of the assets currently being used in these operations and determined that these assets were not going to be further utilized in conducting these operations. This amount represents the write-down of the book value of the assets, net of salvage value.

The charge for facility rationalization relates to employee severance for 131 employees and other exit costs associated with the closure or downsizing of a metalworking manufacturing operation in Kingswinford, United Kingdom, a circuit board drill plant in Janesville, Wisconsin, a German warehouse facility, and several offices in the Asia Pacific region and South America. The charge also includes $3.4 million for employee severance for 41 employees and other exit costs associated with the closure of a mining and construction manufacturing operation in China and the exit of the related joint venture.

The company accrued $5.8 million related to severance packages provided to 122 hourly and salaried employees terminated in connection with a global workforce reduction. Included in this charge is incremental pension obligation of $0.5 million, incurred by the company as a result the severance packages provided. This amount is included in the pension obligation and presented as a component of other liabilities.

The costs related to the asset impairment charges, employee severance and facility rationalizations of $17.3 million have been recorded as a component of restructuring and asset impairment charges. The costs charged against the restructuring cost accrual as of March 31, 2000 were as follows (in thousands):

	Initial Liability	Cash Expenditures	Adjustments	March 31, 2000
Employee severance	$5,298	$(1,839)	$--	$3,459
Facility rationalizations	3,496	(150)	--	3,346
Total	$8,794	$(1,989)	$--	$6,805

Through March 31, 2000, the company has incurred period costs of $1.7 million related to these initiatives. The company continues to review its business strategies and pursue other cost-reduction activities, some of which could result in future charges.

INTEREST EXPENSE

Interest expense for the March 2000 quarter declined to $13.7 million due to reduced debt levels, partially offset by higher borrowing rates. Average U.S. borrowing rates of 6.88 percent were 51 basis points higher compared to a year ago due to the rising interest rate environment, partially offset by improved pricing under the company's Bank Credit Agreement.

Interest expense for the nine months ended March 31, 2000 declined to $41.9 million due to reduced debt levels. The average U.S. borrowing rate increased to 6.62 percent from 6.45 percent in the same period a year ago, due to the factors mentioned above.

OTHER EXPENSE, NET

Other expense for the March 2000 quarter included fees of $1.3 million incurred in connection with the accounts receivable securitization program initiated in June 1999. For the nine months ended March 31, 2000, other expense included fees of $3.7 million related to the accounts receivable securitization program. This was partially offset by gains of $1.4 million from sales of underutilized assets.

INCOME TAXES

The effective tax rate for the March 2000 quarter was 43.3 percent compared to 41.8 percent in the prior year. The increase in the effective tax rate is attributable to non-recurring tax benefits from costs to repay senior debt in fiscal 1999. For the nine months ended March 31, 2000, the effective tax rate was 44.0 percent compared to 42.5 percent in the prior year. The increase in the effective tax rate is attributable to the factor mentioned above.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT

In November 1999, the company repaid its term loan under the Bank Credit Agreement. This resulted in an acceleration of the amortization of deferred financing fees of $0.4 million, which has been recorded as an extraordinary item of $0.3 million, net of tax.

LIQUIDITY AND CAPITAL RESOURCES

The company's cash flow from operations is the primary source of financing for capital expenditures and internal growth. During the nine months ended March 31, 2000, the company generated $165.3 million in cash flow from operations. Compared to the prior year, cash flow increased $75.3 million primarily due to improvement in working capital and higher net income. The working capital improvement reflects management's initiatives to reduce working capital and generate strong cash flow.

Net cash used for investing activities was $27.1 million for the nine months ended March 31, 2000. Compared to the prior year, net cash used for investing activities declined by $64.0 million due largely to a reduction in capital expenditures of $49.1 million and the purchase of the shares of Toshiba Tungaloy for $12.2 million in 1999. The reduction in capital expenditures reflects management's enhanced capital expenditure approval process.

Net cash used for financing activities was $133.8 million for the nine months ended March 31, 2000, compared to $0.6 million last year. The increase in net cash used for financing activities was due to the reduction in debt of $125.3 million in 2000, compared to additional borrowings in 1999 of $12.8 million. The reduction in debt is attributable to the increase in operating cash flows.

Through the new management incentive program, management is reinforcing the focus on cash flow and working capital improvement. Management believes free operating cash flow (FOCF) is an appropriate measure of the company's cash flow. The company generated FOCF of $56.3 million and $30.3 million for the quarters ended March 31, 2000 and 1999, respectively. The company generated $158.2 million and $4.3 million for the nine months ended March 31, 2000 and 1999, respectively. The improvements in FOCF are due to improved working capital, lower capital expenditures, and higher net income.

FOCF is defined as funds from operations minus capital expenditures, plus the change in working capital (excluding changes in cash, marketable securities and short-term debt). Funds from operations is defined as net income from continuing operations plus depreciation, amortization, deferred income taxes and other non-cash items. Cash flows from operating activities, as defined by generally accepted accounting principles (GAAP), may be used as a measure of cash flow. While FOCF is not a GAAP alternative measure of cash flow and may not be comparable to other similarly titled measures of other companies, the company's management believes FOCF is a meaningful measure of the company's cash flow.

On December 16, 1999, the company determined that certain performance measurements in the accounts receivable securitization program agreement were not met due to an increase in the aging of the accounts receivable of one of the participating subsidiaries as a result of a system implementation at that subsidiary. The program sponsor waived this condition and the agreement was amended to temporarily revise the performance measurements until May 2000, at which time these performance measurements revert to the original terms of the agreement.

FINANCIAL CONDITION

Total assets were $2.0 billion at March 31, 2000, a three percent decline from June 30, 1999. Net working capital was $381.7 million, up two percent from $373.6 million at June 30, 1999. The ratio of current assets to current liabilities at March 31, 2000 remained at 2.0 compared to June 30, 1999. The increase in net working capital since June 30, 1999 is due to the repayment of short-term debt. The total debt-to-total capital ratio declined to 47.6 percent at March 31, 2000 from 51.9 percent at June 30, 1999 and 55.3 percent at March 31, 1999 due to the FOCF generated by the company.

One of the features of the new management incentive program is the focus on the more efficient use of working capital to generate sales. Management believes the ratio of primary working capital as a percentage of sales (PWC%) is appropriate for measuring the company's efficiency in utilizing working capital to generate sales. The company's PWC% at March 31, 2000 was 30.0 percent, compared to 34.9 percent at June 30, 1999 and 35.6 percent at March 31, 1999. The improvement in PWC% is due to lower primary working capital, partially offset by lower sales levels.

Primary working capital (PWC) is defined as inventory plus accounts receivable, less accounts payable. PWC% is calculated by averaging beginning of the year and quarter-end balances for PWC, divided by annualized sales. While PWC% is not a GAAP alternative measure of asset utilization efficiency and

may not be comparable to other similarly titled measures of other companies, the company's management believes PWC% is a meaningful measure of the company's efficiency in utilizing working capital to generate sales.

STRATEGIC ALTERNATIVES

In the December 1999 quarter, the company engaged an investment bank to explore strategic alternatives regarding its 83 percent-owned subsidiary, JLK Direct Distribution Inc. (JLK), including a possible divestiture. At that time, management believed a divestiture might enhance growth prospects for both the company and JLK by allowing each company to focus on its core competencies. The company completed a thorough and disciplined process of evaluating strategic alternatives and on May 2, 2000, decided to terminate consideration of a possible divestiture at this time, although management continues to believe there may be better owners for JLK.

ENVIRONMENTAL

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company is currently named as a potentially responsible party (PRP) at several Superfund sites in the United States. In the December 1999 quarter, the company recorded a remediation reserve of $3.0 million with respect to its involvement in these matters, which is recorded as a component of operating expenses. This represents management's best estimate of its future obligation based on its evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. The company recorded this liability in the December quarter because certain events occurred, including sufficient progress made by the government and the PRPs in the identification of other PRPs and review of potential remediation solutions, that clarified the level of involvement in these matters by the company and its relationship to other PRPs. This led the company to conclude that it was probable that a liability had been incurred.

In addition to the amount currently reserved, the company may be subject to loss contingencies related to these matters estimated to be up to an additional $3.3 million. The company believes that such unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. The reserved and unreserved liabilities may change substantially in the near term due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs and the identification of new PRPs.

The company maintains a Corporate Environmental, Health and Safety (EH&S) Department, as well as an EH&S Policy Committee, to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, the company has established an EH&S administrator at 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."

YEAR 2000

Management believes that the company substantially mitigated its exposure relative to year 2000 issues for both information and non-information technology systems. The transition into the year 2000 resulted in no significant impact to the financial position or operations of the company.

The company initiated a program beginning in 1996 to assess the exposure to the year 2000 issue, and to prepare its computer systems, computer applications and other systems for the year 2000. A management committee actively monitored the status of the readiness program of each of the company's business units. The company completed the tasks identified to remediate its mission critical systems and processes.

Year 2000 exposure related to information systems was mitigated throughout key metalworking and mining and construction operations through the implementation of SAP R3 for most business processes. The company completed the process of modifying existing non-compliant business systems in its industrial product and engineered product operations to ensure these operations are supported by a year 2000 compliant information system. These modifications were completed and tested by September 1999.

At JLK, HK Systems' Enterprise Information System was implemented and tested by August 1999 in the FSS business to address the year 2000 issue. The company modified the existing non-compliant systems in the catalog business to ensure that J&L is supported by a year 2000 compliant information system. Testing of these modifications was performed in September 1999.

The company also completed an assessment of the impact of this issue on its non-information technology systems, including the company's personal computers, embedded technology in manufacturing and processing equipment, and other non-information technology items. All non-year 2000 compliant systems were identified and remediated through replacement of or modification to the existing systems. Such remedies were tested for year 2000 compliance in September 1999. Contingency plans included shifting production processes to year 2000 compliant manufacturing operations. The company was not required to employ this contingency plan.

The company estimates the total year 2000 expenditures were approximately $53.0 million, approximately half of which were for computer hardware to replace non-compliant computer systems and the other half to replace non-compliant computer software, including software implementation and employee training. These costs included both internal and external personnel costs related to the assessment and remediation processes, as well as the cost of purchasing certain hardware and software.

The majority of these costs were incurred in 1997 and 1996. Expenditures incurred to date in fiscal 2000 approximate $3.5 million. The company does not anticipate incurring additional expenditures related to year 2000 issues. Cash flows from operations provided funding for these expenditures.

Management believed the most significant impact of the year 2000 issue would have been an interrupted supply of goods and services from the company's vendors. The company had an ongoing effort to gain assurances and certifications of suppliers' readiness programs. To date, the company's suppliers continue to provide the company with sufficient goods and services in the year 2000. There were no failures by major third-party businesses and public and private providers of infrastructure services, such as utilities, communications services and transportation that affected the company during the transition to the year 2000. Contingency plans included purchasing raw materials and supplies from alternate

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certified vendors and a further increase of safety stock of critical materials and supplies. The company was not required to employ these contingency plans.

There can be no guarantee that the efforts of the company or of third parties, whose systems the company relies upon, will completely mitigate any year 2000 problem that could have a material adverse affect on the company's operations or financial results. While such problems could affect important operations of the company and its subsidiaries, either directly or indirectly, in a significant manner, the company cannot at present estimate either the likelihood or the potential cost of such failures. However, the company will continue to aggressively pursue remediation of any newly discovered year 2000 problem.

OUTLOOK

In looking to the fourth quarter of fiscal 2000, management expects to see year-over-year growth driven by growth initiatives and the gradual recovery in our markets. The automotive end market continues to be strong and the oil and gas market is improving. Management will continue to focus on operational improvement programs and cost discipline.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results may differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the extent that the economic conditions in the United States and Europe, and to a lesser extent, Asia Pacific are not sustained, risks associated with integrating businesses, demands on management resources, risks associated with international markets such as currency exchange rates, competition, risks associated with the implementation of restructuring actions and environmental remediation, the effect of third party or company failures to achieve timely remediation of year 2000 issues, and the effect of the conversion to the Euro on the company's operations. The company undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the September 1999 quarter, the company entered into two interest rate swap agreements that effectively convert a notional amount of $50.0 million from floating to fixed interest rates. This increased the total notional amount of floating-to-fixed interest rate swaps to $100.0 million. These new agreements mature in July 2002.

At March 31, 2000, the company would have received $2.6 million to settle all interest rate swap agreements, representing the excess of fair value over the carrying cost of these agreements. The effect of all interest rate swaps on the company's composite interest rate on long-term debt was not material at March 31, 2000.

At March 31, 2000, the company had outstanding foreign exchange forward contracts to sell foreign currency with notional amounts translated into U.S. dollars of $29.9 million. These contracts mature before June 30, 2000. The net unrealized loss on these contracts was $1.1 million at March 31, 2000. A hypothetical 10 percent change in the applicable March 31, 2000 quarter-end forward rates would result in an increase or decrease in pretax income of approximately $3.1 million related to these positions.

In February 2000, the company completed a short-term foreign exchange hedging program to protect a portion of the company's currency exposure from unfavorable exchange rate movements. The exposure arises from anticipated cash collections from foreign subsidiaries on sales between domestic and foreign subsidiaries during the remainder of fiscal 2000. This program involves the purchase of a series of options that permit the company to sell the foreign currency at specific rates contained in the contracts. The cost of this program, $0.6 million, is being amortized to Other Expense over the life of the options. At March 31, 2000, the unamortized cost of $0.5 million is recorded in Other Current Assets and approximates the fair value of the options then outstanding. The notional amounts of the option contracts translated into U.S. dollars at March 31, 2000 rates is $27.2 million.

In April and May 2000, the company began to implement a foreign exchange hedging program to protect a portion of the company's currency exposure from unfavorable exchange rate movements. This exposure arises from anticipated cash collections from foreign subsidiaries on transactions between domestic and foreign subsidiaries during fiscal 2001. This program utilizes purchased options, written options and forward exchange contracts. The cost of this program, $1.9 million, will be amortized to Other Expense based on the life of the contracts, until SFAS 133 is adopted on July 1, 2000; thereafter, the contracts will be accounted for and reported under this new Statement. The notional amounts of the hedging instruments translated into U.S. dollars at March 31, 2000 rates is $117.6 million.

There were no other material changes in the company's exposure to market risk from June 30, 1999.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(10) Material Contracts

10.1 Amendment to Executive Employment Agreement between Kennametal Inc. and Markos I. Tambakeras dated March 3, 2000. Filed herewith.

(27) Financial Data Schedule for the nine months ended March 31, 2000, submitted to the Securities and Exchange Commission in electronic format. Filed herewith.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 2000.

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, 2000

By: /s/ FRANK P. SIMPKINS

Frank P. Simpkins
Corporate Controller and
Chief Accounting Officer

EXHIBIT 10.1

March 3, 2000

Mr. Markos I. Tambakeras
77 North Woodland Road
Pittsburgh, PA 15232

Re: Pension Benefits

Dear Mr. Tambakeras:

Reference is hereby made to your Executive Employment Agreement dated as of May 4, 1999 with Kennametal Inc.

Each of the amounts set forth in Column B on Schedule I, the Supplemental Benefit Table, of your Executive Employment Agreement is hereby increased by $96,896. Your Executive Employment Agreement remains in full force and effect in all other respects.

Please indicate your acceptance to this change in your Executive Employment Agreement by signing below.

Very truly yours,

KENNAMETAL INC.

By: /s/ William R. Newlin

Authorized Officer

/s/ Markos I. Tambakeras

Markos I. Tambakeras

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MARCH 31, 2000 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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JUN-30-2000
JUL-01-1999
MAR-31-2000
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9,173
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