KENNAMETAL INC
Form 10-Q
May 06, 2016
Table of Contents

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, 2016
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.)

600 Grant Street Suite 5100 Pittsburgh, Pennsylvania	15219-2706
(Address of principal executive offices)	(Zip Code)

Website: www.kennametal.com
Registrant's telephone number, including area code: (412) 248-8200
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 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 [X] NO [ ]
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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]
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 29, 2016
Capital Stock, par value $1.25 per share	79,689,781

Table of Contents

KENNAMETAL INC.
FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2016
TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING INFORMATION

This Quarterly Report on 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,” “pl and other words of similar meaning and expression in connection with any discussion of future operating or financial performance or events. We have also included forward looking statements in this Quarterly Report on Form 10-Q concerning, among other things, our strategy, goals, plans and projections regarding our financial position, liquidity and capital resources, results of operations, market position and product development. These statements are based on current estimates that involve inherent risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, our actual results could vary materially from our current expectations. There are a number of factors that could cause our actual results to differ from those indicated in the forward-looking statements. They include: economic recession; our ability to achieve all anticipated benefits of restructuring initiatives; our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations; potential for future goodwill and other intangible asset impairment charges; our ability to protect and defend our intellectual property; continuity of information technology infrastructure; competition; our ability to retain our management and employees; demands on management resources; availability and cost of the raw materials we use to manufacture our products; product liability claims; integrating acquisitions and achieving the expected savings and synergies; global or regional catastrophic events; demand for and market acceptance of our products; business divestitures; energy costs; commodity prices; labor relations; and implementation of environmental remediation matters. We provide additional information about many of the specific risks we face in the “Risk Factors” Section of our Annual Report on Form 10-K. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands, except per share amounts)	2016	2015	2016	2015
Sales	$497,837	$638,970	$1,577,212	$2,009,543
Cost of goods sold	340,484	439,500	1,127,828	1,392,516
Gross profit	157,353	199,470	449,384	617,027
Operating expense	121,004	138,025	373,827	423,972
Restructuring and asset impairment charges (Notes 8 and 18)	7,142	175,435	128,498	565,837
Loss on divestiture (Note 5)	(2,557)	—	130,750	—
Amortization of intangibles	4,429	6,402	16,315	20,361
Operating income (loss)	27,335	(120,392)	(200,006)	(393,143)
Interest expense	7,113	7,760	20,895	23,929
Other (income) expense, net	(1,938)	(378)	(1,582)	32
Income (loss) before income taxes	22,160	(127,774)	(219,319)	(417,104)
Provision (benefit) for income taxes	5,465	(82,223)	(61,499)	(23,975)
Net income (loss)	16,695	(45,551)	(157,820)	(393,129)
Less: Net income attributable to noncontrolling interests	695	678	1,634	1,914
Net income (loss) attributable to Kennametal	$16,000	$(46,229)	$(159,454)	$(395,043)
PER SHARE DATA ATTRIBUTABLE TO KENNAMETAL SHAREHOLDERS				
Basic earnings (loss) per share	$0.20	$(0.58)	$(2.00)	$(4.98)
Diluted earnings (loss) per share	$0.20	$(0.58)	$(2.00)	$(4.98)
Dividends per share	$0.20	$0.18	$0.60	$0.54
Basic weighted average shares outstanding	79,871	79,389	79,814	79,282
Diluted weighted average shares outstanding	80,224	79,389	79,814	79,282

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

Table of Contents

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2016	2015	2016	2015
Net income (loss)	$16,695	$(45,551)	$(157,820)	$(393,129)
Other comprehensive income (loss), net of tax				
Unrealized (loss) gain on derivatives designated and qualified as cash flow hedges	(637)	3,025	165	5,738
Reclassification of unrealized loss (gain) on expired derivatives designated and qualified as cash flow hedges	238	(705)	(1,946)	(376)
Unrecognized net pension and other postretirement benefit (loss) gain	(888)	4,293	1,561	9,858
Reclassification of net pension and other postretirement benefit loss	1,219	685	3,641	2,174
Foreign currency translation adjustments	17,783	(79,496)	(24,705)	(161,218)
Reclassification of foreign currency translation adjustment (gain) loss realized upon sale	(1,940)	—	15,088	—
Total other comprehensive income (loss), net of tax	15,775	(72,198)	(6,196)	(143,824)
Total comprehensive income (loss)	32,470	(117,749)	(164,016)	(536,953)
Less: comprehensive income (loss) attributable to noncontrolling interests	1,222	(585)	1,094	(1,623)
Comprehensive income (loss) attributable to Kennametal Shareholders	$31,248	$(117,164)	$(165,110)	$(535,330)

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

Table of Contents

KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share data)	March 31, 2016	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$136,564	$105,494
Accounts receivable, less allowance for doubtful accounts of $11,931 and $13,560, respectively	365,827	445,373
Inventories (Note 11)	485,390	575,531
Deferred income taxes	56,318	72,449
Other current assets	55,161	59,699
Total current assets	1,099,260	1,258,546
Property, plant and equipment:		
Land and buildings	356,056	401,207
Machinery and equipment	1,529,682	1,573,597
Less accumulated depreciation	(1,160,203)	(1,158,979)
Property, plant and equipment, net	725,535	815,825
Other assets:		
Investments in affiliated companies	2	361
Goodwill (Note 18)	302,109	417,389
Other intangible assets, less accumulated amortization of $110,664 and $153,370, respectively (Note 18)	212,709	286,669
Deferred income taxes	75,837	24,091
Other	76,487	46,648
Total other assets	667,144	775,158
Total assets	$2,491,939	$2,849,529
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$733	$8,129
Notes payable to banks	3,407	7,573
Accounts payable	169,332	187,381
Accrued income taxes	29,289	25,237
Accrued expenses	66,078	75,746
Other current liabilities	152,576	178,678
Total current liabilities	421,415	482,744
Long-term debt and capital leases, less current maturities (Note 12)	699,750	735,885
Deferred income taxes	15,572	59,744
Accrued pension and postretirement benefits	153,104	163,029
Accrued income taxes	2,247	3,002
Other liabilities	25,040	29,690
Total liabilities	1,317,128	1,474,094
Commitments and contingencies		
EQUITY (Note 16)		
Kennametal Shareholders' Equity:		
Preferred stock, no par value; 5,000 shares authorized; none issued	—	—
	99,599	99,219

Capital stock, $1.25 par value; 120,000 shares authorized; 79,679 and 79,375 shares issued, respectively		
Additional paid-in capital	430,692	419,829
Retained earnings	863,048	1,070,282
Accumulated other comprehensive loss	(249,179)	(243,523)
Total Kennametal Shareholders' Equity	1,144,160	1,345,807
Noncontrolling interests	30,651	29,628
Total equity	1,174,811	1,375,435
Total liabilities and equity	$2,491,939	$2,849,529

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

Table of Contents

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

	Nine Months Ended March 31,	
(in thousands)	2016	2015
OPERATING ACTIVITIES		
Net loss	$(157,820)	$(393,129)
Adjustments for non-cash items:		
Depreciation	73,297	79,281
Amortization	16,315	20,361
Stock-based compensation expense	14,705	14,252
Restructuring and asset impairment charges (Notes 8 and 18)	111,922	543,942
Deferred income tax provision	(85,426)	(51,766)
Loss on divestiture (Note 5)	130,750	—
Other	239	2,632
Changes in certain assets and liabilities:		
Accounts receivable	44,125	34,287
Inventories	47,778	6,582
Accounts payable and accrued liabilities	(16,244)	(21,690)
Accrued income taxes	(12,989)	(9,874)
Accrued pension and postretirement benefits	(22,901)	(12,369)
Other	1,663	7,067
Net cash flow provided by operating activities	145,414	219,576
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(83,285)	(77,620)
Disposals of property, plant and equipment	5,102	1,300
Proceeds from divestiture (Note 5)	61,100	—
Other	835	43
Net cash flow used for investing activities	(16,248)	(76,277)
FINANCING ACTIVITIES		
Net (decrease) increase in notes payable	(4,088)	17,090
Net increase in short-term revolving and other lines of credit	—	3,600
Term debt borrowings	50,070	62,950
Term debt repayments	(94,337)	(212,638)
Purchase of capital stock	(231)	(244)
Dividend reinvestment and the effect of employee benefit and stock plans	1,713	10,977
Cash dividends paid to Shareholders	(47,780)	(42,699)
Other	(55)	(3,824)
Net cash flow used for financing activities	(94,708)	(164,788)
Effect of exchange rate changes on cash and cash equivalents	(3,388)	(10,265)
CASH AND CASH EQUIVALENTS		
Net increase (decrease) in cash and cash equivalents	31,070	(31,754)
Cash and cash equivalents, beginning of period	105,494	177,929
Cash and cash equivalents, end of period	$136,564	$146,175

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

Table of Contents

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.ORGANIZATION
Kennametal Inc. was incorporated in Pennsylvania in 1943. Kennametal Inc. and its subsidiaries (collectively, Kennametal or the Company) are a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. We believe that our reputation for manufacturing excellence, as well as our technological expertise and innovation we deliver in our products and services, helps us to achieve a leading position in our primary markets. End users of our products include metalworking and machinery manufacturers and suppliers across a diverse array of industries, including the aerospace, defense, transportation, machine tool, light machinery and heavy machinery, as well as producers and suppliers in a number of equipment-intensive industries such as coal mining, road construction and quarrying, as well as oil and gas exploration, refining, production and supply. Our end users' applications range from airframes to mining operations, engines to oil wells and turbochargers to processing. We operate two global business segments consisting of Industrial and Infrastructure.

2.BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our majority-owned subsidiaries, should be read in conjunction with our 2015 Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2015 was derived from the audited balance sheet included in our 2015 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, 2016 and 2015 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 2016 is to the fiscal year ending June 30, 2016. 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
Adopted
In April 2014, the Financial Accounting Standards Board (FASB) issued guidance on reporting discontinued operations and disclosures of disposals of components of an entity. Under the guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Additionally, the guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. The guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This guidance was effective for Kennametal beginning July 1, 2015. The transaction outlined in Note 5 was evaluated under this guidance.
Issued
In April 2016, the FASB issued guidance on identifying performance obligations and licensing as part of Topic 606: Revenue from Contracts with Customers. The amendments in this update clarify identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. This standard is effective for Kennametal beginning July 1, 2018, in conjunction with the adoption of Accounting Standards Update 2014-09, “Revenue from Contracts with Customers: Topic 606.” We are in the process of assessing the impact the adoption of this guidance will have on our condensed consolidated financial statements.

8

Table of Contents

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

In March 2016, the FASB issued guidance intended to simplify equity-based award accounting and presentation. The guidance impacts income tax accounting related to equity-based awards, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This standard is effective for Kennametal beginning July 1, 2017. We are in the process of assessing the impact the adoption of this guidance will have on our condensed consolidated financial statements.

In March 2016, the FASB issued guidance on principal versus agent considerations in reporting revenue gross versus net. This guidance is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. As this update serves to clarify existing guidance, it is not expected to have a material impact on our condensed consolidated financial statements.

In February 2016, the FASB issued guidance on lease accounting, which replaces the existing guidance in ASC 840, Leases. The standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This standard is effective for Kennametal beginning July 1, 2019. We are in the process of assessing the impact the adoption of this guidance will have on our condensed consolidated financial statements.

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

	Nine Months Ended March 31,	
(in thousands)	2016	2015
Cash paid during the period for:		
Interest	$20,056	$23,981
Income taxes	38,429	35,700
Supplemental disclosure of non-cash information:		
Changes in accounts payable related to purchases of property, plant and equipment	16,400	6,470

5. DIVESTITURE

During the nine months ended March 31, 2016, Kennametal completed the transaction to sell all of the outstanding capital stock of: Kennametal Extrude Hone LLC and its wholly owned subsidiaries, Kennametal Stellite S.r.l. (Bellusco, Italy), Kennametal Stellite S.p.A. (Milan, Italy), Kennametal Stellite GmbH (Koblenz, Germany); and all of the assets of the businesses of: Tricon (manufacturing operations in Birmingham, Alabama; Chicago, Illinois; and Elko, Nevada), Landis (manufacturing operation in Waynesboro, Pennsylvania); and all of the assets located at the Biel, Switzerland manufacturing facility ("non-core businesses") to Madison Industries for an aggregate price of $61.1 million cash, net of cash. A portion of the transaction proceeds were used to pay down revolver debt and the remaining balance is being held as cash on hand.

The net book value of these non-core businesses was $191.9 million, which includes the impact of cumulative translation adjustments and a refinement to our estimated working capital adjustment. We recognized a pre-tax loss on the sale of $133.3 million during the three months ended December 31, 2015 which included the impact of estimated working capital adjustments, deal costs and transaction costs. We recorded a pre-tax net gain on divestiture during the three months ended March 31, 2016 of approximately $2.6 million, which consists primarily of the write-off of the currency translation adjustments of a legal entity liquidated in the March quarter, partially offset by a refinement to our estimated working capital adjustment. The pre-tax net loss on divestiture during the nine months ended March 31, 2016 is $130.8 million, of which $127.2 million and $3.6 million were recorded in the Infrastructure and Industrial segments, respectively. The pre-tax income attributable to the non-core businesses was assessed and determined to be immaterial for disclosure for the periods presented.

Table of Contents

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

6.FAIR VALUE MEASUREMENTS

Fair value is defined 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. The fair value hierarchy consists of three levels to prioritize the inputs used in valuations, as defined 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.

As of March 31, 2016, 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:				
Derivatives [1]	$ —	$ 155	$—	$155
Total assets at fair value	$ —	$ 155	$—	$155
Liabilities:				
Derivatives [1]	$ —	$ 311	$—	$311
Contingent consideration	—	—	8,600	8,600
Total liabilities at fair value	$ —	$ 311	$8,600	$8,911

As of June 30, 2015, the fair value 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:				
Derivatives [1]	$ —	$2,678	$—	$2,678
Total assets at fair value	$ —	$2,678	$—	$2,678
Liabilities:				
Derivatives [1]	$ —	$44	$—	$44
Contingent consideration	—	—	10,000	10,000
Total liabilities at fair value	$ —	$44	$10,000	$10,044

[1] Currency derivatives are valued based on observable market spot and forward rates and are classified within Level 2 of the fair value hierarchy.

There have been no changes in classification and transfers between levels in the fair value hierarchy in the current period. The fair value of contingent consideration payable that was classified as Level 3 relates to our probability assessments of expected future milestone targets, primarily associated with product delivery, related to a previous acquisition. The contingent consideration is to be paid over the next 9 months and is recorded in other current liabilities in our condensed consolidated balance sheet. The Company reassessed this contingent consideration and determined that an adjustment of $1.4 million to reduce the fair value of the remaining contingent consideration was necessary during the nine months ended March 31, 2016 due to a return of inventory to the seller during the period. No other changes in the expected outcome have occurred during the nine months ended March 31, 2016.

Table of Contents

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

7. 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 account for derivative instruments as a hedge of the related asset, liability, firm commitment or anticipated transaction, when the derivative is specifically designated and qualifies as a hedge of such items. Our objective in managing foreign exchange exposures with derivative instruments is to reduce volatility in cash flow. 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) expense, net.

The fair value of derivatives designated and not designated as hedging instruments in the condensed consolidated balance sheet are as follows:

(in thousands)	March 31, 2016	June 30, 2015
Derivatives designated as hedging instruments		
Other current assets - range forward contracts	$ 12	$2,626
Other current liabilities - range forward contracts	(285)	—
Other liabilities - range forward contracts	(7)	—
Total derivatives designated as hedging instruments	(280)	2,626
Derivatives not designated as hedging instruments		
Other current assets - currency forward contracts	143	52
Other current liabilities - currency forward contracts	(19)	(44)
Total derivatives not designated as hedging instruments	124	8
Total derivatives	$ (156)	$2,634

Certain currency forward contracts that hedge 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 condensed consolidated balance sheet, with the offset to other (income) expense, net. Gains related to derivatives not designated as hedging instruments have been recognized as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2016	2015	2016	2015
Other (income) expense, net - currency forward contracts	$(182)	$3,386	$(116)	$(3,783)

CASH FLOW HEDGES

Range forward contracts (a transaction where both a put option is purchased and a call option is sold) are designated as cash flow hedges and 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 loss and are recognized as a component of other (income) expense, net when the underlying sale of products or services is recognized into earnings. The notional amount of the contracts translated into U.S. dollars at March 31, 2016 and June 30, 2015, was $63.8 million and $53.8 million, respectively. The time value component of the fair value of range forward contracts is excluded from the assessment of hedge effectiveness. Assuming the market rates remain constant with the rates at March 31, 2016, we expect to recognize into earnings in the next 12 months $0.4 million of income on outstanding derivatives.

The following represents gains and losses related to cash flow hedges:

(in thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2016	Nine Months Ended March 31, 2015
(Losses) gains recognized in other comprehensive loss, net	$(914)	$3,025	$(637)	$5,738
Losses (gains) reclassified from accumulated other comprehensive loss into other (income) expense, net	$629	$(48)	$293	$453

11

Table of Contents

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

No portion of the gains or losses recognized in earnings was due to ineffectiveness and no amounts were excluded from our effectiveness testing for the nine months ended March 31, 2016 and 2015.

8. RESTRUCTURING AND RELATED CHARGES

Phase 1

We are implementing restructuring actions in conjunction with our Phase 1 restructuring program to achieve synergies across Kennametal as a result of the Tungsten Materials Business (TMB) acquisition by consolidating operations among both organizations, reducing administrative overhead and leveraging the supply chain. These restructuring actions are expected to be completed by the end of fiscal 2016 and are anticipated to be mostly cash expenditures.

The total pre-tax charges for Phase 1 programs are expected to be up to $60 million, which is expected to be approximately 50 percent Industrial, 45 percent Infrastructure and 5 percent Corporate. Total restructuring and related charges since inception of $58.3 million have been recorded for these Phase 1 programs through March 31, 2016: $30.4 million in Industrial, $25.5 million in Infrastructure and $2.4 million in Corporate.

Phase 2

We are implementing restructuring actions in conjunction with Phase 2 to streamline the Company's cost structure. These initiatives are expected to enhance operational efficiencies through the rationalization of certain manufacturing facilities as well as other employment and cost reduction programs. These restructuring actions are expected to be completed by December of fiscal 2019 and are anticipated to be mostly cash expenditures.

The total pre-tax charges for Phase 2 programs are expected to be in the range of $90 million to $100 million, which is expected to be approximately 85 percent Industrial, 10 percent Infrastructure and 5 percent Corporate. Total restructuring and related charges since inception of $42.3 million have been recorded for these Phase 2 programs through March 31, 2016: $25.3 million in Industrial, $11.8 million in Infrastructure and $5.2 million in Corporate.

Phase 3

We are implementing restructuring actions in conjunction with Phase 3. These initiatives are expected to enhance operational efficiencies through an enterprise-wide cost reduction program as well as the consolidation of certain manufacturing facilities. These restructuring actions are expected to be completed by March of fiscal 2017 and are anticipated to be mostly cash expenditures.

The total pre-tax charges for Phase 3 programs are expected to be in the range of $40 million to $45 million, which is expected to be approximately 55 percent Industrial, 40 percent Infrastructure and 5 percent Corporate. Total restructuring and related charges since inception of $14.5 million have been recorded for these Phase 3 programs through March 31, 2016: $8.4 million in Industrial, $4.5 million in Infrastructure and $1.6 million in Corporate.

Combined

We have recorded restructuring and related charges of $14.0 million and $16.7 million for the three months ended March 31, 2016 and 2015, respectively. Of these amounts, restructuring charges totaled $7.5 million and $15.7 million, respectively. Restructuring charges of $0.4 million during the three months ended March 31, 2016 were charges related to inventory and were recorded in cost of goods sold. Restructuring-related charges of $1.1 million and $0.3 million were recorded in cost of goods sold and $5.4 million and $0.7 million in operating expense for the three months ended March 31, 2016 and 2015, respectively.

We have recorded restructuring and related charges of $38.0 million and $37.1 million for the nine months ended March 31, 2016 and 2015, respectively. Of these amounts, restructuring charges totaled $20.1 million and $24.4 million, of which $0.1 million and $0.3 million were charges related to inventory and were recorded in cost of goods sold, respectively. Restructuring-related charges of $4.7 million and $6.5 million were recorded in cost of goods sold and $13.2 million and $6.2 million in operating expense for the nine months ended March 31, 2016 and 2015, respectively.

Table of Contents

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

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, 2015	Expense	Asset Write-Down	Translation	Cash Expenditures	March 31, 2016
Industrial						
Severance	$ 13,456	$ 12,158	$ —	$ 58	$ (17,659)	$ 8,013
Facilities	—	930	(780)	—	(146)	4
Other	28	156	—	(1)	(12)	171
Total Industrial	$ 13,484	$ 13,244	$ (780)	$ 57	$ (17,817)	$ 8,188
Infrastructure						
Severance	$ 7,173	$ 4,053	$ —	$ 19	$ (5,886)	$ 5,359
Facilities	131	2,775	(2,775)	—	(101)	30
Other	—	52	—	—	3	55
Total Infrastructure	$ 7,304	$ 6,880	$ (2,775)	$ 19	$ (5,984)	$ 5,444
Total	$ 20,788	$ 20,124	$ (3,555)	$ 76	$ (23,801)	$ 13,632

(in thousands)	June 30, 2014	Expense	Asset Write-Down	Other (2)	Translation	Cash Expenditures	March 31, 2015
Industrial							
Severance	$ 5,815	$ 11,565	$ —	$ —	$ (364)	$ (7,312)	$ 9,704
Facilities	444	1,307	(1,261)	—	(31)	(459)	—
Other	67	37	—	—	(2)	(102)	—
Total Industrial	$ 6,326	$ 12,909					