

KENNAMETAL INC
Form 8-K
June 14, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of report (Date of earliest event reported): June 8, 2006
Kennametal Inc.
(Exact Name of Registrant as Specified in Its Charter)
Pennsylvania
(State or Other Jurisdiction of Incorporation)

1-5318
(Commission File Number)

25-0900168
(IRS Employer Identification No.)

World Headquarters
1600 Technology Way
P.O. Box 231

Latrobe, Pennsylvania 15650-0231

(Address of Principal Executive Offices) (Zip Code)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.01 Completion of Acquisition or Disposition of Assets

On June 8, 2006, Kennametal Inc. (Company) issued a press release announcing the completion of its previously announced divestiture of its J&L Industrial Supply (J&L) business unit to MSC Industrial Direct Co., Inc. (MSC). The transaction was consummated pursuant to the terms of the Stock Purchase Agreement dated March 15, 2006 (Stock Purchase Agreement), pursuant to which MSC Acquisition Corp. VI (a wholly owned subsidiary of MSC) paid \$349.5 million in cash, subject to post closing adjustment, for all of the outstanding stock of J&L America, Inc. (a wholly owned subsidiary of the Company).

No material relationship existed other than in respect of the transaction between the Company and MSC or any of their respective affiliates, directors, officers or associates of any directors or officers. A copy of the Company's press release is attached to this report as Exhibit 99.1 and is incorporated herein by reference.

The foregoing description of the transaction does not purport to be complete and is qualified in its entirety by the terms and conditions of the Stock Purchase Agreement attached as Exhibit 2.1 to the Company's Form 8-K filed on March 16, 2006 and incorporated by reference into this Item 2.01.

Item 9.01 Financial Statements and Exhibits

(b) Pro Forma Financial Statements

The following unaudited pro forma condensed consolidated financial statements give effect to the divestiture of J&L and are not necessarily indicative of future results.

The unaudited pro forma condensed consolidated balance sheet assumes divestiture of J&L on March 31, 2006. Such pro forma information is based upon the historical balance sheet data of the Company and J&L as of that date.

The unaudited pro forma condensed consolidated statements of income give effect to the divestiture of J&L for the year ended June 30, 2005 and for the nine months ended March 31, 2006 as if the divestiture occurred on July 1, 2004.

These unaudited pro forma financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and its Quarterly Report on Form 10-Q for the three and nine months ended March 31, 2006 as filed with the Securities and Exchange Commission.

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KENNAMETAL INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
March 31, 2006

| (in thousands) | Kennametal Inc. | J&L ^(a) | Adjustments | Pro Forma |
|--|--------------------|--------------------|---------------------------|--------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 41,908 | \$ | \$ 222,477 ^(b) | \$ 264,385 |
| Accounts receivables, net | 271,580 | | 25,423 ^(c) | 297,003 |
| Inventories | 366,845 | | | 366,845 |
| Current assets held for sale | 88,185 | (86,682) | | 1,503 |
| Deferred income taxes | 72,807 | | | 72,807 |
| Other current assets | 28,813 | | | 28,813 |
| Total current assets | 870,138 | | | 1,031,356 |
| Property, plant and equipment, net | 508,299 | | | 508,299 |
| Other assets: | | | | |
| Investments in affiliated companies | 16,564 | | | 16,564 |
| Goodwill | 504,872 | | | 504,872 |
| Intangible assets, net | 119,857 | | | 119,857 |
| Deferred income taxes | 46,399 | | | 46,399 |
| Long-term assets held for sale | 50,243 | (50,243) | | |
| Other | 40,246 | | | 40,246 |
| Total other assets | 778,181 | | | 727,938 |
| Total assets | \$ 2,156,618 | | | \$ 2,267,593 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Current maturities of long-term debt and capital leases | \$ 1,595 | \$ | \$ | \$ 1,595 |
| Notes payable to bank | 2,793 | | | 2,793 |
| Accounts payable | 111,826 | | | 111,826 |
| Accrued income taxes | 35,495 | | | 35,495 |
| Accrued expenses | 78,476 | | (1,691) ^(d) | 76,785 |
| Current liabilities of operations held for sale | 27,474 | (27,474) | | |
| Other current liabilities | 129,186 | | | 129,186 |
| Total current liabilities | 386,845 | | | 357,680 |
| Long-term debt and capital leases, less current maturities | 361,518 | | | 361,518 |
| Deferred income taxes | 52,927 | | | 52,927 |

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| | | | |
|--|--------------|------------------------|--------------|
| Accrued pension and postretirement benefits | 186,371 | | 186,371 |
| Other liabilities | 35,793 | | 35,793 |
| Total liabilities | 1,023,454 | | 994,289 |
| Minority interest in consolidated subsidiaries | 18,054 | | 18,054 |
| SHAREOWNERS EQUITY | | | |
| Preferred stock | | | |
| Capital stock | 49,905 | | 49,905 |
| Additional paid-in capital | 612,155 | | 612,155 |
| Retained earnings | 513,782 | 140,140 ^(e) | 653,922 |
| Treasury shares | (20,131) | | (20,131) |
| Accumulated other comprehensive loss | (40,601) | | (40,601) |
| Total shareowners equity | 1,115,110 | | 1,255,250 |
| Total liabilities and shareowners equity | \$ 2,156,618 | | \$ 2,267,593 |

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

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KENNAMETAL INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
For the year ended June 30, 2005

| (in thousands) | Kennametal Inc. (f) | J&L (g) | Adjustments | Pro Forma |
|---|------------------------|--------------|--------------------------|--------------|
| Operations | | | | |
| Sales | \$ 2,304,167 | \$ (255,840) | \$ 39,639 ^(h) | \$ 2,087,966 |
| Cost of goods sold | 1,513,634 | (179,934) | 25,578 ^(h) | 1,359,278 |
| Gross profit | 790,533 | (75,906) | 14,061 | 728,688 |
| Operating expense | 574,495 | (49,060) | (1,595) ⁽ⁱ⁾ | 523,840 |
| Goodwill impairment charge | 4,707 | | | 4,707 |
| Amortization of intangibles | 3,460 | | | 3,460 |
| Operating income | 207,871 | (26,846) | 15,656 | 196,681 |
| Interest expense | 27,277 | | | 27,277 |
| Other income, net | (3,683) | (1,406) | (626) ^(j) | (5,715) |
| Income before provision for income taxes and minority interest | 184,277 | (25,440) | 16,282 | 175,119 |
| Provision for income taxes | 61,394 | (8,355) | 6,187 ^(k) | 59,226 |
| Minority interest | 3,592 | | | 3,592 |
| Net income | \$ 119,291 | \$ (17,085) | \$ 10,095 | \$ 112,301 |

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

KENNAMETAL INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
For the nine months ended March 31, 2006

| (in thousands) | Kennametal Inc. (l) | J&L (g) | Adjustments | Pro Forma |
|------------------------------|------------------------|--------------|--------------------------|--------------|
| Operations | | | | |
| Sales | \$ 1,785,590 | \$ (204,725) | \$ 31,729 ^(h) | \$ 1,612,594 |
| Cost of goods sold | 1,168,681 | (143,501) | 20,970 ^(h) | 1,046,150 |
| Gross profit | 616,909 | (61,224) | 10,759 | 566,444 |
| Operating expense | 441,442 | (38,746) | (348) ⁽ⁱ⁾ | 402,348 |
| Goodwill impairment charge | 5,030 | | | 5,030 |
| Loss on assets held for sale | 692 | | | 692 |
| Amortization of intangibles | 4,198 | | | 4,198 |
| Operating income | 165,547 | (22,478) | 11,107 | 154,176 |
| Interest expense | 23,541 | | | 23,541 |

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| | | | | |
|---|-----------|-------------|----------------------|-----------|
| Other income, net | (1,855) | (294) | (758) ⁽ⁱ⁾ | (2,907) |
| Income before provision for income taxes and minority interest | 143,861 | (22,184) | 11,865 | 133,542 |
| Provision for income taxes | 49,733 | (7,116) | 4,509 ^(k) | 47,126 |
| Minority interest | 2,041 | | | 2,041 |
| Net income | \$ 92,087 | \$ (15,068) | \$ 7,356 | \$ 84,375 |

The accompany notes are an integral part of these pro forma condensed consolidated financial statements.

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KENNAMETAL INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in thousands)

BALANCE SHEET

- (a) Represents assets and liabilities of J&L as of March 31, 2006, held for sale pursuant to the Stock Purchase Agreement.
- (b) Represents cash proceeds of \$349.5 million and estimated post closing adjustments of \$8.0 million less (i) estimated non-recurring transaction-related costs assumed to be paid as of March 31, 2006, including (a) \$98.0 million income taxes, (b) \$5.8 million employee-related payments, (c) \$3.5 million advisor and professional fees and (c) \$2.3 million other costs, and (ii) \$25.4 million actual repayment related to J&L's portion of the Company's accounts receivable securitization program assumed to be paid as of March 31, 2006.
- (c) Represents J&L's portion of the Company's accounts receivable securitization program assumed to be repaid as of March 31, 2006 (see note b).
- (d) Represents the reversal of accrued employee-related costs assumed to have been paid as of March 31, 2006 (see note b).
- (e) Represents non-recurring gain (net of \$98.0 million income taxes) less transaction-related costs (see notes b and d).

STATEMENTS OF INCOME

- (f) Derived from the Company's audited Consolidated Statement of Income for the year ended June 30, 2005.
 - (g) Represents operating results of J&L for the period presented.
 - (h) Represents results of recurring sales to J&L and associated cost of sales previously eliminated in the consolidation of the Company for the period presented.
 - (i) Represents J&L employee-related charges incurred by the Company during the period presented not previously allocated to J&L.
 - (j) Represents fees related to J&L's portion of the Company's accounts receivable securitization program incurred by the Company during the period presented.
 - (k) Provision for income taxes calculated utilizing the Company's statutory tax rate of 38.0%.
 - (l) Derived from the Company's unaudited Condensed Consolidated Statement of Income for the nine months ended March 31, 2006.
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(d) Exhibits

Exhibit 99.1 Press Release dated June 8, 2006

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Signatures

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

KENNAMETAL INC.

Date: June 14, 2006

By: /s/ Frank P. Simpkins

Frank P. Simpkins
Vice President of Finance and Corporate
Controller