KENNAMETAL INC
Form 10-K
August 13, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED June 30, 2014
Commission File Number 1-5318
KENNAMETAL INC.
(Exact name of registrant as specified in its charter)

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

World Headquarters
1600 Technology Way
P.O. Box 231

Latrobe, Pennsylvania	15650-0231
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (724) 539-5000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Capital Stock, par value $1.25 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]
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.

Large accelerated filer [X]	Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if smaller reporting company) Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of December 31, 2013, the aggregate market value of the registrant's Capital Stock held by non-affiliates of the registrant, estimated solely for the purposes of this Form 10-K, was approximately $3,126,500,000. For purposes of the foregoing calculation only, all directors and executive officers of the registrant and each person who may be deemed to own beneficially more than 5% of the registrant's Capital Stock have been deemed affiliates.

As of July 31, 2014, there were 78,681,423 of the Registrant's Capital Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2014 Annual Meeting of Shareowners are incorporated by reference into Part III.

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K 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. For example, statements about Kennametal's outlook for earnings, sales volumes, and cash flow for its fiscal year 2015, its expectations regarding future growth and any statements regarding future operating or financial performance or events are forward-looking. We have also included forward looking statements in this Form 10-K 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; availability and cost of the raw materials we use to manufacture our products; our foreign operations and international markets, such as foreign 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; our ability to protect and defend our intellectual property; competition; our ability to retain our management and employees; demands on management resources; potential claims relating to our products; integrating acquisitions and achieving the expected savings and synergies; business divestitures; global or regional catastrophic events; energy costs; commodity prices; labor relations; demand for and market acceptance of new and existing products; and implementation of environmental remediation matters. We provide additional information about many of the specific risks we face in the “Risk Factors” Section of this 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.

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PART I

ITEM 1 - BUSINESS
OVERVIEW From its founding in 1938, the McKenna family incorporated Kennametal Inc. (sometimes referred herein as “Kennametal” or “the Company”) in Pennsylvania in 1943. As a global industrial leader, Kennametal delivers productivity solutions to customers seeking peak performance in demanding environments. The Company provides innovative wear-resistant products, application engineering and services backed by advanced material science serving customers across diverse sectors of industrial production, transportation, earthworks, energy, infrastructure and aerospace. Kennametal solutions are built around industry-essential technology platforms, including precision-engineered metalworking tools and components, surface technologies and earth cutting tools that are mission-critical to customer operations battling extreme conditions associated with wear fatigue, corrosion and high temperatures. The Company’s reputation for material and industrial technology excellence, as well as expertise and innovation in development of custom solutions and services, contributes to its leading position in its primary industrial and infrastructure markets. End users of the company’s products include manufacturers, metalworking suppliers, machinery operators and processors engaged in a diverse array of industries, including the manufacture of transportation vehicles and systems; machine tool, light machinery and heavy machinery industries; airframe and aerospace components and systems, defense; as well as producers and suppliers in equipment-intensive operations such as coal mining, road construction, quarrying, oil and gas exploration, refining, production and supply.
Our product offering includes a wide selection of standard and customized technologies for metalworking, such as sophisticated metal cutting tools, tooling systems and services, as well as advanced, high-performance materials, such as cemented tungsten carbide products, super alloys, coatings and investment castings to address customer demands. We offer these products through a variety of channels to meet customer-specified needs. We are a leading global supplier of tooling, engineered components and advanced materials consumed in production processes. We believe we are one of the largest global providers of consumable metal cutting tools and tooling supplies.
We specialize in developing and manufacturing metalworking tools and wear-resistant engineered components and coatings using a specialized type of powder metallurgy. Our metalworking tools are made of cemented tungsten carbides, ceramics, cermets and super-hard materials. We also manufacture and market a complete line of tool holders, tool-holding systems and rotary-cutting tools by machining and fabricating steel bars and other metal alloys. In addition, we produce specialized compacts and metallurgical powders, as well as products made from tungsten carbide or other hard materials that are used for custom-engineered and challenging applications, including mining and highway construction, among others. Further, we develop, manufacture and market engineered components and surface technology solutions with proprietary metal cladding capabilities, as well as process technology and materials that focus on component deburring, polishing and effecting controlled radii.
Unless otherwise specified, any reference to a “year” refers to the fiscal year ending on June 30.
BUSINESS SEGMENT REVIEW Our operations are organized into two reportable operating segments; Industrial and Infrastructure. Segment determination is based upon internal organizational structure, the manner in which we organize segments for making operating decisions and assessing performance, the availability of separate financial results and materiality considerations. Sales and operating income by segment are presented in Management’s Discussion and Analysis of Financial Condition and Results of Operation set forth in Item 7 of this annual report on Form 10-K (MD&A). Additional segment data is provided in Note 19 of our consolidated financial statements set forth in Item 8 of this annual report on Form 10-K (Item 8) which is incorporated herein by reference.
INDUSTRIAL In the Industrial segment, we focus on customers in the transportation, general engineering, aerospace and defense market sectors, as well as the machine tool industry. Our customers in these end markets use our products and services in the manufacture of engines, airframes, automobiles, trucks, ships and other various types of industrial equipment. The technology and customization requirements we provide vary by customer, application and industry. The value we deliver to our Industrial segment customers centers on knowledge of our customers processes, application expertise and our diverse offering of products and services.

INFRASTRUCTURE In the Infrastructure segment, we focus on customers in the energy and earthworks market sectors who support primary industries such as oil and gas, power generation and chemicals; underground, surface and hard-rock mining; highway construction and road maintenance; process industries such as food and beverage. Our success is determined by our associates gaining an in-depth understanding of our customers' engineering and development needs, to be able to offer complete system solutions and high-performance capabilities to optimize and add value to their operations.

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INTERNATIONAL OPERATIONS During 2014, we generated 60 percent of our sales in markets outside of the United States of America (U.S.), with principal international operations in Western Europe, Asia, Latin America and Canada. In addition, we operate additional manufacturing and distribution facilities in Israel and South Africa, while serving customers through sales offices, agents and distributors in Eastern Europe and other parts of the world. While geographic diversification helps to minimize the sales and earnings impact of respective demand changes in any one particular region, our international operations are subject to normal risks of doing business globally, including fluctuations in currency exchange rates and changes in social, political and economic environments.
Our international assets and sales are presented in Note 19 of the Company’s consolidated financial statements, set forth in Item 8 and are incorporated herein by reference. Further information about the effects and risks of currency exchange rates is presented in the Quantitative and Qualitative Disclosures About Market Risk section, as set forth in Item 7A of this annual report on Form 10-K (Item 7A).
GENERAL DEVELOPMENT OF BUSINESS We continue to engage in balancing our geographic footprint between North America, Western Europe, and the rest of the world markets. This strategy, together with steps to enhance the balance of our sales among our served end markets and business units, has helped to create a more diverse business base and thereby provide additional sales opportunities, as well as limit reliance on and exposure to any specific region or market sector.
In fiscal 2014, we experienced sequential organic sales growth every quarter. Our sales for the year ended June 30, 2014 increased by 10 percent to $2.8 billion, with 8 percent attributable to the acquisition of the Tungsten Materials Business (TMB) and 2 percent from organic growth (which includes volume and price). Fiscal year 2014 sales were realized 45 percent in North America, which includes the U.S. as well as Canada, 31 percent in Western Europe and 24 percent in the rest of the world.
For fiscal 2014, the weighted average global industrial production specific to Kennametal's industry increased by 2.0 percent, demonstrating that a number of end markets continued to grow. While the global economy continues to improve, we remain confident in our ability to respond quickly to changes in global markets while continuing to serve our customers and preserve our competitive strengths. At the same time, we continue to focus on maximizing cash flow and our priority uses of cash. Further discussion and analysis of the developments in our business is set forth in MD&A.
ACQUISITIONS In November 2013, the Company completed the acquisition of TMB from Allegheny Technologies Incorporated (ATI) for a purchase price of $607.0 million, net of cash acquired. TMB, with approximately $340 million in annual sales in calendar 2012, is a leading producer of tungsten metallurgical powders, as well as tooling technologies and components. The acquired business had approximately 1,175 employees in 12 locations primarily in the U.S., and 6 other countries. The acquisition aligns with the Company's long-term growth strategies, expands presence in aerospace and energy end markets, further augments the Company's tooling portfolio and accelerates our metallurgical strategy including planned tungsten carbide recycling and production.
In August 2013, we acquired the operating assets of Comercializadora Emura S.R.L. and certain related entities (Emura), based in La Paz, Bolivia, and secured related material sourcing agreements for a purchase price of $40.1 million. Emura's operations are engaged in collection, testing, processing and exporting tungsten ore material, and is a long-standing supplier to Kennametal. The acquisition furthers the Company’s efforts to diversify and balance our tungsten sourcing capabilities.
We continue to evaluate new opportunities for the expansion of existing product lines into new market areas where appropriate. We also continue to evaluate opportunities for the introduction of new and/or complementary product offerings into new and/or existing market areas where appropriate. We expect to continue to evaluate potential acquisitions to continue to grow our business and further enhance our market position.
MARKETING AND DISTRIBUTION To market our products, we maintain two premium brands: Kennametal® and WIDIA®. We sell our products through the following, distinct sales channels: (i) a direct sales force; (ii) a network of independent distributors and sales agents in North America, Europe, Latin America, Asia and other regions around the world; (iii) integrated supply channels; and (iv) via the internet. Application engineers and technicians are critical to the sales process and directly assist our customers with specified product design, selection, application and support.

RAW MATERIALS AND SUPPLIES Major metallurgical raw materials consist of ore concentrates, compounds and secondary materials containing tungsten, tantalum, titanium, niobium and cobalt. Although an adequate supply of these raw materials currently exists, our major sources for raw materials are located abroad and prices fluctuate at times. We have entered into extended raw material supply agreements and will implement product price increases as deemed necessary to mitigate rising costs. For these reasons, we exercise great care in selecting, purchasing and managing availability of raw materials. We also purchase steel bars and forgings for making toolholders and other tool parts, as well as for producing rotary cutting tools and accessories. We obtain products purchased for use in manufacturing processes and for resale from thousands of suppliers located in the U.S. and abroad. Our recent acquisitions of Emura and TMB help mitigate our reliance on third parties for raw materials as they provide additional sources of raw materials and offer tungsten carbide recycling capabilities.

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RESEARCH AND DEVELOPMENT Our product development efforts focus on providing solutions to our customers' manufacturing challenges and productivity requirements. Our product development program provides discipline and focus for the product development process by establishing "gateways," or sequential tests, during the development process to remove inefficiencies and accelerate improvements. This program speeds and streamlines development into a series of actions and decision points, combining efforts and resources to produce new and enhanced products faster. This program is designed to assure a strong link between customer requirements and corporate strategy, and to enable us to gain full benefit from our investment in new product development.

We hold a number of patents and trademarks which, in the aggregate, are material to the operation of our businesses. Research and development expenses included in operating expense totaled $44.0 million, $39.7 million and $38.3 million in 2014, 2013 and 2012, respectively.

SEASONALITY Our business is affected by seasonal variations to varying degrees by traditional summer vacation shutdowns of customers' plants and holiday shutdowns that affect our sales levels during the first and second quarters of our fiscal year.

BACKLOG Our backlog of orders generally is not significant to our operations.

COMPETITION As one of the world's leading producers of engineered cemented carbide products and specialty wear-resistant components and coating solutions, we maintain a leading competitive position in major markets worldwide. We strengthen our competitive position by providing additional innovative surface and wear solutions, as well as super-alloy materials and investment casting capabilities. We actively compete in the sale of all our products with several large global competitors and with many smaller niche businesses offering various capabilities to customers around the world. While several of our competitors are divisions of larger corporations, our industry remains largely fragmented, with several hundred fabricators, toolmakers and niche specialty coating businesses. Many of our competitors operate relatively small facilities, producing a limited selection of tools while buying cemented tungsten carbide components from original producers of cemented tungsten carbide products, including Kennametal. We also supply coating solutions and other engineered wear-resistant products to both larger corporations and smaller niche businesses. Given the fragmentation, opportunities for consolidation exist from both U.S.-based and internationally-based firms, as well as among thousands of industrial supply distributors.

The principal competitive differentiators in our businesses include customer focused technical application and support, custom and standard product innovation, product performance, quality and availability, as well as service, pricing and productivity delivered ascribed to our brands. We derive competitive advantage from our premium brand positions, global presence, application expertise and ability to address unique customer needs with new and improved tools, innovative surface and wear solutions, highly engineered components, consistent quality, traditional and digital customer service and technical assistance capabilities, state-of-the-art manufacturing and multiple sales channels. With these strengths, we are able to sell products based on the value-added productivity we deliver to our customers, rather than competing on price.

REGULATION From time to time, we are a party to legal claims and proceedings that arise in the ordinary course of business, which may relate to our operations or assets, including real, tangible, or intellectual property. While we currently believe that the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations or liquidity, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur or if protracted litigation were to ensue, the impact could be material to us.

Compliance with government laws and regulations pertaining to the discharge of materials or pollutants into the environment or otherwise relating to the protection of the environment did not have a material effect on our capital expenditures or competitive position for the years covered by this report, nor is such compliance expected to have a material effect in the future.

We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites. For certain of these sites, we have evaluated the claims and potential liabilities and have determined that neither are material, individually or in the aggregate. For certain other sites, proceedings are in the very early stages and have not yet progressed to a point where it is possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities or the amount of our liability alone or in relation to that of any other PRPs.

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Reserves for other potential environmental issues at June 30, 2014 and 2013 were $11.0 million and $5.1 million, respectively. The reserves that we have established for environmental liabilities represent our best current estimate of the costs of addressing all identified environmental situations, based on our review of currently available evidence, and take into consideration our prior experience in remediation and that of other companies, as well as public information released by the USEPA, other governmental agencies, and by the PRP groups in which we are participating. Although the reserves currently appear to be sufficient to cover these environmental liabilities, there are uncertainties associated with environmental liabilities, and we can give no assurance that our estimate of any environmental liability will not increase or decrease in the future. The reserved and unreserved liabilities for all environmental concerns could change substantially 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, the identification of new PRPs and the involvement of and direction taken by the U.S. government on these matters.

We maintain a Corporate Environmental, Health and Safety (EHS) Department to monitor compliance with environmental regulations and to oversee remediation activities. In addition, we have designated EHS coordinators who are responsible for each of our manufacturing facilities. Our financial management team periodically meets with members of the Corporate EHS Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we review financial provisions and reserves for environmental contingencies and adjust these reserves when appropriate.

EMPLOYEES We employed approximately 13,500 persons at June 30, 2014, of which approximately 5,000 were located in the U.S. and 8,500 in other parts of the world, principally Europe, Asia Pacific and India. At June 30, 2014, approximately 3,600 of the above employees were represented by labor unions. We consider our labor relations to be generally good.

AVAILABLE INFORMATION Our Internet address is www.kennametal.com. On the SEC Filings page of our Web Site, which is accessible under the About Us tab, under Investor Relations, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC): our annual report on Form 10-K, our annual proxy statement, our annual Form SD, our annual reports on Form 11-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act). Our SEC Filings page of our Web Site also includes Forms 3, 4 and 5 filed pursuant to Section 16(a) of the Exchange Act. All filings posted on our SEC Filings page of our Web Site are available to be viewed on the Web page free of charge. On the Corporate Governance page of our Web Site, which is under the About Us tab, under Investor Relations, we post the following charters and guidelines: Audit Committee Charter, Compensation Committee Charter, Nominating/Corporate Governance Committee Charter, Kennametal Inc. Corporate Governance Guidelines and Kennametal Inc. Stock Ownership Guidelines. On the Ethics and Compliance page of our Web Site, which is under the About Us tab, under Company Profile, we post the Code of Business Ethics and Conduct. All charters and guidelines posted on our Web pages are available to be viewed on our Web page free of charge. Information contained on our Web site is not part of this annual report on Form 10-K or our other filings with the SEC. Copies of the annual report on Form 10-K and those items disclosed on the Corporate Governance and Ethics and Compliance pages of our Web Site are available without charge upon written request to: Investor Relations, Quynh McGuire, Kennametal Inc., 1600 Technology Way, P.O. Box 231 Latrobe, Pennsylvania 15650-0231.

ITEM 1A – RISK FACTORS

Kennametal’s business, financial condition or results of operations may be materially affected by a number of factors. Our management regularly monitors the risks inherent in our business, with input and assistance from our Enterprise Risk Management department. In addition to real time monitoring, we conduct a formal, annual, enterprise-wide risk assessment to identify factors and circumstances that might present significant risk to the Company. Many of these factors are discussed throughout this report. In addition, the following discussion details some of the important factors and uncertainties that we believe could cause Kennametal’s actual results to differ materially from those projected in any forward-looking statements:

Downturns in the business cycle could adversely affect our sales and profitability. Our business has historically been cyclical and subject to significant impact from economic downturns. Global economic downturn coupled with global financial and credit market disruptions have had a negative impact on our sales and profitability historically. These events could contribute to weak end markets, a sharp drop in demand and higher costs of borrowing and/or diminished credit availability. Although we believe that the long-term prospects for our business remain positive, we are unable to predict the future course of industry variables or the strength, pace or sustainability of economic recovery and the effects of government intervention. We are in the process of implementing restructuring and other actions to improve our manufacturing costs and operating expenses. However, there is no assurance that these actions, or any others that we have taken or may take, will be sufficient to counter any future economic or industry disruptions. We cannot assure you that we will not incur additional restructuring charges or impairment charges, or that we will achieve all of the anticipated benefits from restructuring actions we have taken.

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Our international operations pose certain risks that may adversely impact sales and earnings. We have manufacturing operations and assets located outside of the U.S., including but not limited to those in Western Europe, Brazil, Canada, China, India, Israel and South Africa. We also sell our products to customers and distributors located outside of the U.S. During the year ended June 30, 2014, 60 percent of our consolidated sales were derived from non-U.S. markets. A key part of our long-term strategy is to increase our manufacturing, distribution and sales presence in international markets. These international operations are subject to a number of special risks, in addition to the risks of our domestic business, including currency exchange rate fluctuations, differing protections of intellectual property, trade barriers, exchange controls, regional economic uncertainty, differing (and possibly more stringent) labor regulations, labor unrest, risk of governmental expropriation, domestic and foreign customs and tariffs, current and changing regulatory environments (including, but not limited to, the risks associated with the importation and exportation of products and raw materials), risk of failure of our foreign employees to comply with both U.S. and foreign laws, including antitrust laws, trade regulations and the Foreign Corrupt Practices Act, difficulty in obtaining distribution support, difficulty in staffing and managing widespread operations, differences in the availability and terms of financing, political instability and unrest and risks of increases in taxes. Also, in some foreign jurisdictions, we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. To the extent we are unable to effectively manage our international operations and these risks, our international sales may be adversely affected, we may be subject to additional and unanticipated costs, and we may be subject to litigation or regulatory action. As a consequence, our business, financial condition and results of operations could be seriously harmed.

Changes in the regulatory environment, including environmental, health and safety regulations, could subject us to increased compliance and manufacturing costs, which could have a material adverse effect on our business.

Health and Safety Regulations. Certain of our products contain hard metals, including tungsten and cobalt. Hard metal dust is being studied for potential adverse health effects by organizations in several regions throughout the world, including the U.S., Europe and Japan. Future studies on the health effects of hard metals may result in our products being classified as hazardous to human health, which could lead to new regulations in countries in which we operate that may restrict or prohibit the use of, and/or exposure to, hard metal dust. New regulation of hard metals could require us to change our operations, and these changes could affect the quality of our products and materially increase our costs.

Environmental Regulations. We are subject to various environmental laws, and any violation of, or our liabilities under, these laws could adversely affect us. Our operations necessitate the use and handling of hazardous materials and, as a result, we are subject to various federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment, including those governing discharges to air and water, handling and disposal practices for solid and hazardous wastes, the cleanup of contaminated sites and the maintenance of a safe workplace. These laws impose penalties, fines and other sanctions for noncompliance and liability for response costs, property damages and personal injury resulting from past and current spills, disposals or other releases of, or exposure to, hazardous materials. We could incur substantial costs as a result of noncompliance with or liability for cleanup or other costs or damages under these laws. We may be subject to more stringent environmental laws in the future. If more stringent environmental laws are enacted in the future, these laws could have a material adverse effect on our business, financial condition and results of operations.

Regulations affecting the mining and drilling industries or utilities industry. Some of our principal customers are mining and drilling and utility companies. Many of these customers supply coal, oil, gas or other fuels as a source for the production of utilities in the U.S. and other industrialized regions. The operations of these mining and drilling companies are geographically diverse and are subject to or affected by a wide array of regulations in the jurisdictions where they operate, such as applicable environmental laws and regulations governing the operations of utilities. As a result of changes in regulations and laws relating to such industries, our customers' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with mining, drilling and environmental regulations may also induce customers to discontinue or limit their operations, and may discourage companies from developing new opportunities. As a result of these factors, demand for our mining- and drilling-related products could be substantially affected by regulations adversely impacting the mining and drilling industries or altering the consumption patterns of utilities.

Our continued success depends on our ability to protect and defend our intellectual property. Our future success depends in part upon our ability to protect and defend our intellectual property. We rely principally on nondisclosure agreements and other contractual arrangements and trade secret law and, to a lesser extent, trademark and patent law, to protect our intellectual property. However, these measures may be inadequate to protect our intellectual property from infringement by others or prevent misappropriation of our proprietary rights. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do U.S. laws. If one of our patents is infringed upon by a third party, we may need to devote significant time and financial resources to attempt to halt the infringement. We may not be successful in defending the patents involved in such a dispute. Similarly, while we do not knowingly infringe on patents, copyrights or other intellectual property rights owned by other parties, we may be required to spend a significant amount of time and financial resources to resolve any infringement claims against us. We may not be successful in defending our position or negotiating an alternative remedy. Our inability to protect our proprietary information and enforce or defend our intellectual property rights in proceedings initiated by or against us could have a material adverse effect on our business, financial condition and results of operations.

Failure of our information technology infrastructure to operate could adversely affect our business. We rely on information technology infrastructure to achieve our business objectives. Any disruption of this infrastructure could negatively impact our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on business in the normal course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to remediate.

A security breach of our information technology could also interrupt or damage our operations or harm our reputation. In addition, we could be subject to liability if confidential information relating to customers, suppliers, employees or other parties is misappropriated from our computer system. Despite the implementation of security measures, these systems may be vulnerable to physical break-ins, computer viruses, programming errors or similar disruptive problems.

We operate in a highly competitive environment. Our domestic and foreign operations are subject to significant competitive pressures. We compete directly and indirectly with other manufacturers and suppliers of metalworking tools, engineered components and advanced materials. Some of our competitors are larger than we are and may have greater access to financial resources or be less leveraged than us. In addition, the industry in which our products are used is a large, fragmented industry that is highly competitive.

If we are unable to retain our qualified management and employees, our business may be negatively affected. Our ability to provide high quality products and services depends in part on our ability to retain our skilled personnel in the areas of management, product engineering, servicing and sales. Competition for such personnel is intense, and our competitors can be expected to attempt to hire our management and skilled employees from time to time. In addition, our restructuring activities and strategies for growth have placed, and are expected to continue to place, increased demands on our management's skills and resources. If we are unable to retain our management team and professional personnel, our customer relationships and level of technical expertise could be negatively affected, which may materially and adversely affect our business.

Any interruption of our workforce, including interruptions due to unionization efforts, changes in labor relations or shortages of appropriately skilled individuals could impact our business.

Our future operating results may be affected by fluctuations in the prices and availability of raw materials. The raw materials we use for our products include ore concentrates, compounds and secondary materials containing tungsten, tantalum, titanium, niobium and cobalt. A significant portion of our raw materials is supplied by sources outside of the U.S. The raw materials industry as a whole is highly cyclical and at times pricing and supply can be volatile due to a number of factors beyond our control, including natural disasters, general economic and political conditions, labor costs, competition, import duties, tariffs and currency exchange rate fluctuations. This volatility can significantly affect our raw material costs. In an environment of increasing raw material prices, competitive conditions can affect how much of the price increases in raw materials that we can recover in the form of higher sales prices for our products. To the extent we are unable to pass on any raw material price increases to our customers, our profitability could be adversely affected. Furthermore, restrictions in the supply of tungsten, cobalt and other raw materials could adversely affect our operating results. If the prices for our raw materials increase or we are unable to secure adequate supplies of raw materials on favorable terms, our profitability could be impaired.

Product liability claims could have a material adverse effect on our business. The sale of metalworking, mining, highway construction and other tools and related products as well as engineered components and advanced materials entails an inherent risk of product liability claims. We cannot give assurance that the coverage limits of our insurance policies will be adequate or that our policies will cover any particular loss. Insurance can be expensive, and we may not always be able to purchase insurance on commercially acceptable terms, if at all. Claims brought against us that are not covered by insurance or that result in recoveries in excess of our insurance coverage could have a material adverse affect on our business, financial condition and results of operations.

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We may not be able to complete, manage or integrate acquisitions successfully. In the past, we have acquired companies and we continue to evaluate acquisition opportunities that have the potential to support and strengthen our business. We can give no assurances, however, that any acquisition opportunities will arise or if they do, that they will be consummated, or that additional financing, if needed, will be available on satisfactory terms. In addition, acquisitions involve inherent risks that the businesses acquired will not perform in accordance with our expectations. We may not be able to achieve the synergies and other benefits we expect from the integration of acquisitions as successfully or rapidly as projected, if at all. Our failure to consummate an acquisition or effectively integrate newly acquired operations could prevent us from realizing our expected strategic growth and rate of return on an acquired business and could have a material and adverse effect on our results of operations and financial condition.

Natural disasters or other global or regional catastrophic events could disrupt our operations and adversely affect results. Despite our concerted effort to minimize risk to our production capabilities and corporate information systems and to reduce the effect of unforeseen interruptions to us through business continuity planning, we still may be exposed to interruptions due to catastrophe, natural disaster, pandemic, terrorism or acts of war, which are beyond our control. Disruptions to our facilities or systems, or to those of our key suppliers, could also interrupt operational processes and adversely impact our ability to manufacture our products and provide services and support to our customers. As a result, our business, our results of operations, financial position, cash flows and stock price could be adversely affected.

ITEM 1B – UNRESOLVED STAFF COMMENTS

We have no unresolved comments from the SEC Staff.

ITEM 2 – PROPERTIES

Our principal executive offices are located at 1600 Technology Way, P.O. Box 231, Latrobe, Pennsylvania, 15650. A summary of our principal manufacturing facilities and other materially important properties is as follows:

Location	Owned/Leased	Principal Products	Segment
United States:			
Grant, Alabama	Owned	Carbide Blanks & Wear Parts	Infrastructure
Gurley, Alabama	Owned	Metallurgical Powders	Infrastructure
Huntsville, Alabama	Owned	Metallurgical Powders	Infrastructure
Irondale, Alabama	Owned	Custom Fabricated Wear Plate Solutions and Pins	Infrastructure
Madison, Alabama	Owned	Tungsten Heavy Alloy	Infrastructure
Rogers, Arkansas	Owned/Leased	Carbide Products and Pelletizing Die Plates	Infrastructure
University Park, Illinois	Owned	Custom Fabricated Wear Plate Solutions	Infrastructure
Rockford, Illinois	Owned	Indexable Tooling	Industrial
Goshen, Indiana	Leased	Powders; Welding Rods, Wires and Machines	Infrastructure
New Albany, Indiana	Leased	High Wear Coating for Steel Parts	Infrastructure
Greenfield, Massachusetts	Owned	High-Speed Steel Taps	Industrial
Shelby Township, Michigan	Leased	Thermal Deburring and High Energy Finishing	Industrial
Traverse City, Michigan	Owned	Wear Parts	Industrial
Elko, Nevada	Owned	Custom Fabricated Wear Plate Solutions	Infrastructure
Fallon, Nevada	Owned	Metallurgical Powders	Infrastructure
Asheboro, North Carolina	Owned	Carbide Round Tools	Industrial
Henderson, North Carolina	Owned	Metallurgical Powders	Infrastructure
Roanoke Rapids, North Carolina	Owned	Metalworking Inserts	Industrial
Cleveland, Ohio	Leased	Distribution	Industrial
Orwell, Ohio	Owned	Metalworking Inserts	Industrial
Solon, Ohio	Owned	Metalworking Toolholders	Industrial
Whitehouse, Ohio	Owned	Metalworking Inserts and Round Tools	Industrial

Bedford, Pennsylvania	Owned/Leased	Mining and Construction Tools and Wear Parts and Distribution	Infrastructure
Irwin, Pennsylvania	Owned/Leased	Carbide Wear Parts and Abrasive Flow Machining	Industrial
Latrobe, Pennsylvania	Owned	Metallurgical Powders	Infrastructure
New Castle, Pennsylvania	Owned/Leased	Specialty Metals and Alloys	Industrial

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Location	Owned/Leased	Principal Products	Segment
Waynesboro, Pennsylvania	Owned	Thread Rolling Tooling	Industrial
Johnson City, Tennessee	Owned	Metalworking Inserts	Industrial
La Vergne, Tennessee	Owned	Metalworking Inserts	Industrial
Houston, Texas	Owned	Downhole Drilling Carbide Components	Infrastructure
Chilhowie, Virginia	Owned	Mining and Construction Tools and Wear Parts	Infrastructure
New Market, Virginia	Owned	Metalworking Toolholders	Industrial
International:			
Yatala, Australia	Leased	Custom Fabricated Wear Plate Solutions	Infrastructure
La Paz, Bolivia	Owned	Tungsten Concentrate	Infrastructure
Indaiatuba, Brazil	Leased	Metalworking Carbide Drills and Toolholders	Industrial
Belleville, Canada	Owned	Casting Components, Coatings and Powder Metallurgy Components	Infrastructure
Victoria, Canada	Owned	Wear Parts	Industrial
Baotou, China	Leased	Mining Tools	Infrastructure
Fengpu, China	Owned	Intermetallic Composite Ceramic Powders and Parts	Infrastructure
Shanghai, China	Owned	Powders, Welding Rods and Wires and Casting Components	Infrastructure
Shanghai, China	Owned	Distribution	Industrial
Tianjin, China	Owned	Metalworking Inserts and Carbide Round Tools	Industrial
Xuzhou, China	Leased	Mining Tools	Infrastructure
Ebermannstadt, Germany	Owned	Metalworking Inserts	Industrial
Essen, Germany	Owned	Metallurgical Powders and Wear Parts	Industrial
Koblenz, Germany	Owned	Casting Components and Coatings	Infrastructure
Koenigsee, Germany	Leased	Metalworking Carbide Drills	Industrial
Lichtenau, Germany	Owned	Metalworking Toolholders	Industrial
Mistelgau, Germany	Owned	Metallurgical Powders, Metalworking Inserts and Wear Parts	Infrastructure
Nabburg, Germany	Owned	Metalworking Toolholders and Metalworking Round Tools, Drills and Mills	Industrial
Neunkirchen, Germany	Owned	Distribution	Industrial
Schongau, Germany	Owned	Ceramic Vaporizer Boats	Infrastructure
Vohenstrauss, Germany	Owned	Metalworking Carbide Drills	Industrial
Bangalore, India	Owned	Metalworking Inserts and Toolholders and Wear Parts	Industrial
Gurgaon, India	Leased	Coatings	Infrastructure
Shlomi, Israel	Owned	High-Speed Steel and Carbide Round Tools	Industrial
San Giuliano Milanese, Italy	Leased	Investment Castings Components and Metalworking Cutting Tools	Infrastructure/ Industrial
Pieve Emanuele, Italy	Owned	Metallurgical Powders and Coatings	Industrial
Zory, Poland	Leased	Mining and Construction Conicals	Infrastructure
Boksburg, South Africa	Leased	Mining and Construction Conicals	Infrastructure
Barcelona, Spain	Leased	Metalworking Cutting Tools	Industrial
Kingswinford, United Kingdom	Leased	Distribution	Industrial
Melksham, United Kingdom	Leased	Indexable Inserts Cutter Bodies	Industrial
Newport, United Kingdom	Owned	Intermetallic Composite Powders	Infrastructure

We also have a network of warehouses and customer service centers located throughout North America, Europe, India, Asia Pacific and Latin America, a significant portion of which are leased. The majority of our research and development efforts are conducted in a corporate technology center located adjacent to our world headquarters in Latrobe, Pennsylvania, U.S., as well as in our facilities in Rogers, Arkansas, U.S.; Fuerth, Germany and Essen, Germany.

We use all of our significant properties in the businesses of powder metallurgy, tools, tooling systems, engineered components and advanced materials. Our production capacity is adequate for our present needs. We believe that our properties have been adequately maintained, are generally in good condition and are suitable for our business as presently conducted.

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ITEM 3 - LEGAL PROCEEDINGS

The information set forth in Part I, Item 1, of this annual report on Form 10-K under the caption “Regulation” is incorporated into this Item 3. From time to time, we are party to legal claims and proceedings that arise in the ordinary course of business, which may relate to our operations or assets, including real, tangible, or intellectual property. Although certain of these actions are currently pending, we do not believe that any individual proceeding is material or that our pending legal proceedings in the aggregate are material to Kennametal.

ITEM 4 - MINE SAFETY DISCLOSURES
Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT
Incorporated by reference into this Part I is the information set forth in Part III, Item 10 under the caption “Executive Officers of the Registrant” of this annual report on Form 10-K.

PART II
ITEM 5 - MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
Our capital stock is traded on the New York Stock Exchange (symbol KMT). The number of Shareowners of record as of July 31, 2014 were 1,900. Stock price ranges and dividends declared and paid were as follows:

Quarter ended	September 30	December 31	March 31	June 30
Fiscal 2014				
High	$47.95	$52.37	$52.18	$49.24
Low	37.98	43.10	38.85	42.66
Dividends	0.18	0.18	0.18	0.18
Fiscal 2013				
High	$40.95	$41.51	$44.59	$43.86
Low	31.62	33.95	37.87	35.49
Dividends	0.16	0.16	0.16	0.16

The information incorporated by reference in Part III, Item 12 of this annual report on Form 10-K from our 2014 Proxy Statement under the heading “Equity Compensation Plans – Equity Compensation Plan Information” is hereby incorporated by reference into this Item 5.

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PERFORMANCE GRAPH

The following graph compares cumulative total Shareowner return on our capital stock with the cumulative total shareowner return on the common stock of the companies in the Standard & Poor’s Mid-Cap 400 Market Index (S&P Midcap 400), the Standard & Poor’s Composite 1500 Market Index (S&P 1500 Composite), the Russell 3000 Index (Russell 3000) and two peer groups of companies determined by us (New Peer Group and Old Peer Group) for the period from July 1, 2009 to June 30, 2014.

On July 1, 2013, we established the New Peer Group which we believe is more representative of Kennametal's peers. We have included both this New Peer Group as well as the Old Peer Group in the comparisons below. The peer groups were created to benchmark our sales and earnings growth, return on invested capital, profitability and asset management.

The New Peer Group consists of the following companies: Actuant Corporation; Allegheny Technologies Incorporated; Ametek, Inc.; Carpenter Technology Corporation; Crane Co.; Donaldson Company, Inc.; Dresser-Rand Group Inc.; Flowserve Corporation; Greif; Harsco Corporation; IDEX Corporation; Joy Global Inc.; Lincoln Electric Holdings, Inc.; Pall Corporation; Parker Hannifin Corporation; Sandvik AB, Corp.; Teleflex Incorporated; The Timken Company; and Woodward, Inc.

The Old Peer Group consists of the following companies: Allegheny Technologies Incorporated; Ametek, Inc.; Barnes Group Inc.; Carpenter Technology Corporation; Crane Co.; Donaldson Company, Inc.; Dresser-Rand Group Inc.; Flowserve Corporation; Greif; Harsco Corporation; Joy Global Inc.; Lincoln Electric Holdings, Inc.; Pall Corporation; Parker-Hannifin Corporation; Pentair, Inc.; Sauer-Danfoss Inc.; Teleflex Incorporated; and The Timken Company.

Assumes $100 Invested on July 1, 2009 and All Dividends Reinvested

	2009	2010	2011	2012	2013	2014
Kennametal	$100.00	$135.21	$227.56	$181.16	$215.74	$261.24
Old Peer Group Index	100.00	128.60	202.06	177.05	218.57	282.10
New Peer Group Index	100.00	134.42	209.82	179.67	211.20	270.56
S&P Midcap 400	100.00	124.93	174.13	170.07	212.90	266.63
S&P 1500 Composite	100.00	115.57	152.14	159.18	192.81	240.44
Russell 3000	100.00	115.72	153.18	159.06	193.20	241.92

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ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [(2)]
April 1 through April 30, 2014	1,031	$ 44.69	—	10,100,100
May 1 through May 31, 2014	6,623	46.78	—	10,100,100
June 1 through June 30, 2014	5,841	47.17	—	10,100,100
Total	13,495	$ 46.79	—	

(1) During the fourth quarter of 2014, 2,194 shares were purchased on the open market on behalf of Kennametal to fund the Company’s dividend reinvestment program. Also, during the current period employees delivered 4,301 shares of restricted stock to Kennametal, upon vesting, to satisfy tax withholding requirements and 7,000 shares of Kennametal stock as payment for the exercise price of stock options.

(2) On July 25, 2013, the Company publicly announced an amended repurchase program for up to 17 million shares of its outstanding capital stock.

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ITEM 6 - SELECTED FINANCIAL DATA

		2014	2013	2012	2011	2010
OPERATING RESULTS (in thousands)						
Sales		$2,837,190	$2,589,373	$2,736,246	$2,403,493	$1,884,067
Cost of goods sold		1,940,187	1,744,369	1,741,996	1,519,102	1,256,339
Operating expense		589,768	527,850	561,490	538,530	477,487
Restructuring charges		17,608	—	—	12,586	43,923
Interest expense		32,451	27,472	27,215	22,760	25,203
Provision for income taxes		66,611	59,693	79,136	63,856	26,977
Income from continuing operations attributable to Kennametal		158,366	203,265	307,230	229,727	47,842
Net income attributable to Kennametal	(1)	158,366	203,265	307,230	229,727	46,419
FINANCIAL POSITION (in thousands)						
Working capital		$962,440	$1,031,880	$704,340	$446,064	$522,926
Total assets		3,868,086	3,301,039	3,034,188	2,754,469	2,267,823
Long-term debt, including capital leases, excluding current maturities		981,666	703,626	490,608	1,919	314,675
Total debt, including capital leases and notes payable		1,061,783	747,945	565,745	312,882	337,668
Total Kennametal shareowners' equity		1,929,256	1,781,826	1,643,850	1,638,072	1,315,500
PER SHARE DATA ATTRIBUTABLE TO KENNAMETAL SHAREOWNERS						
Basic earnings from continuing operations		$2.01	$2.56	$3.83	$2.80	$0.59
Basic earnings	(2)	2.01	2.56	3.83	2.80	0.57
Diluted earnings from continuing operations		1.99	2.52	3.77	2.76	0.59
Diluted earnings	(3)	1.99	2.52	3.77	2.76	0.57
Dividends		0.72	0.64	0.54	0.48	0.48
Book value (at June 30)		24.52	22.89	20.53	20.19	16.06
Market Price (at June 30)		46.28	38.83	33.15	42.21	25.43
OTHER DATA (in thousands, except number of employees)						
Capital expenditures		$117,376	$82,835	$103,036	$83,442	$56,679
Number of employees (at June 30)		13,521	12,648	12,932	11,612	11,047
Basic weighted average shares outstanding		78,678	79,463	80,216	82,063	80,966
Diluted weighted average shares outstanding		79,667	80,612	81,439	83,173	81,690
KEY RATIOS						
Sales growth		9.6 %	(5.4)%	13.8 %	27.6 %	(5.8)%
Gross profit margin		31.6	32.6	36.3	36.8	33.3
Operating profit margin		9.3	11.4	15.2	13.4	4.9

(1) Net income attributable to Kennametal includes loss from discontinued operations of $(1.4) million for 2010.
(2) Basic earnings per share includes basic loss from discontinued operations per share of $(0.02) for 2010.
(3) Diluted earnings per share includes diluted loss from discontinued operations per share of $(0.02) for 2010.

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ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in connection with the consolidated financial statements of Kennametal Inc. and the related financial statement notes. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. Additionally, when used in this annual report on Form 10-K, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its subsidiaries.

OVERVIEW As a global industrial leader, Kennametal Inc. delivers productivity solutions to customers seeking peak performance in demanding environments. We provide innovative wear-resistant products, application engineering and services backed by advanced material science serving customers across diverse sectors of industrial production, transportation, earthworks, energy, infrastructure and aerospace. Our solutions are built around industry-essential technology platforms, including precision-engineered metalworking tools and components, surface technologies and earth cutting tools that are mission-critical to customer operations battling extreme conditions associated with wear fatigue, corrosion and high temperatures. The Company's reputation for material and industrial technology excellence, as well as expertise and innovation in development of custom solutions and services, contributes to our leading position in our primary industrial and infrastructure markets. End users of our products include manufacturers, metalworking suppliers, machinery operators and processors engaged in a diverse array of industries, including the manufacture of transportation vehicles and systems; machine tool, light machinery and heavy machinery industries; airframe and aerospace components and systems, defense; as well as producers and suppliers in equipment-intensive operations such as coal mining, road construction, quarrying, oil and gas exploration, refining, production and supply. We believe we are one of the largest global providers of consumable metal cutting tools and tooling supplies.

For 2014, sales were $2,837.2 million, an increase of 9.6 percent compared to prior year sales of $2,589.4 million, driven by the TMB acquisition as well as 2 percent organic growth. Operating income was $263.4 million, a decrease of $33.0 million compared to operating income of $296.4 million in 2013. The decrease in operating income was driven by higher employment costs, restructuring and related charges, acquisition-related charges, as well as unfavorable currency exchange rates. The decrease was partially offset by organic sales growth. Raw material costs stabilized in the current year and had a favorable impact on profitability of the business. The Company reported earnings per diluted share of $1.99 in 2014.

On November 4, 2013, the Company completed its transaction to acquire TMB from ATI which included all of the assets of TDY Industries, LLC, a wholly owned subsidiary of ATI, used or held for use by TDY in connection with the business and all of the shares of TDY Limited and ATI Holdings SAS, both wholly-owned subsidiaries of ATI, for a purchase price of $607.0 million, net of cash acquired. We funded the acquisition primarily through a combination of cash from operations and borrowings from our existing credit facility.

TMB, with approximately $340 million in annual sales in calendar 2012, is a leading producer of tungsten metallurgical powders, as well as tooling technologies and components. The business had approximately 1,175 employees in 12 locations primarily in the U.S., and 6 other countries. The acquisition aligns with the Company's long-term growth strategies, expands presence in aerospace and energy end markets, further augments the Company's tooling portfolio and accelerates our metallurgical strategy including planned tungsten carbide recycling and production.

In August 2013, we acquired the operating assets of Emura, based in La Paz, Bolivia, and secured related material sourcing agreements for a purchase price of $40.1 million. Emura's operations are engaged in collection, testing, processing and exporting tungsten ore material, and is a long-standing supplier to Kennametal. The acquisition furthers the Company's efforts to diversify and balance our tungsten sourcing capabilities.

We generated cash flow from operating activities of $271.9 million in the current year. We have actively managed our business portfolio by returning over $70.6 million to Shareowners through share repurchases and dividends. In addition, we made capital expenditures of $117.4 million during the year.

We invested further in technology and innovation to continue delivering a high level of new products to our customers. Research and development expenses included in operating expense totaled $44.0 million for 2014. In addition, we generated approximately 47 percent of our sales from new products in fiscal year 2014.

ENHANCED OPERATING STRUCTURE IMPLEMENTED AS OF JULY 1, 2013 At the start of fiscal 2014, the Company enhanced its organizational structure to align a broader base management team with customer-facing products and technology platforms, as well as to further increase cross-selling opportunities. This operating structure supports the Company's stated growth objectives across diverse market sectors, preserves the focus on customers and increases product innovation.
The Company will continue to report results in each of the Industrial and Infrastructure segments, as well as by served end markets, while also providing expanded disclosures discussing technology-based sales for each segment. Consistent with previous allocation methodologies, corporate expenses related to each segment will be classified accordingly.
Previously disclosed Industrial and Infrastructure segment results will be restated for certain sales reclassifications based on products and technologies and disclosed in future filings as appropriate.

RESTRUCTURING ACTIONS In December 2013, we announced our intent to implement restructuring actions to achieve synergies across Kennametal and TMB by consolidating operations among both organizations, reducing administrative overhead and leveraging the supply chain. Consistent with this announcement, we initiated actions related to employment reduction and consolidating operations and recognized restructuring and related charges of $19.1 million during the year ended June 30, 2014. This included $17.8 million of restructuring charges of which $0.2 million were related to inventory disposals and recorded in cost of goods sold. Restructuring-related charges of $1.2 million were recorded in cost of goods sold and a $0.1 million in operating expense during 2014. See Note 14 in our consolidated financial statements set forth in Item 8.

These and other restructuring actions are expected to be completed over the next two years. Total restructuring costs are expected to be in the range of $40 million to $50 million, most of which are expected to be cash expenditures. Annual ongoing benefits from these actions are expected to be in the range of $35 million to $45 million, once these initiatives are fully implemented. We realized pre-tax benefits from these restructuring programs of approximately $3 million during fiscal 2014.

RESULTS OF CONTINUING OPERATIONS
SALES Sales of $2,837.2 million in 2014 increased 9.6 percent from $2,589.4 million in 2013 reflecting an 8 percent increase from the TMB acquisition and a 2 percent organic increase. Sales increased by 4 percent in the Industrial segment and decreased by 1 percent in the Infrastructure segment. Drivers of the sales increase, excluding TMB, were general engineering of 7 percent, transportation of 5 percent, energy markets of 4 percent, partially offset by sales declines in earthworks of 5 percent and aerospace and defense of 4 percent.
Sales of $2,589.2 million in 2013 decreased 5.4 percent from $2,736.2 million in 2012 as a result of an organic decline of 8 percent, 2 percent unfavorable effect from currency exchange and 1 percent fewer business days in 2013, partially offset by a 6 percent increase from Stellite. Sales decreased in both segments and across most regions. Drivers of the sales decline were general engineering of 12 percent, energy markets of 11 percent, earthworks of 6 percent and transportation of 5 percent, offset by an organic sales increase in aerospace and defense of 6 percent.
GROSS PROFIT Gross profit increased $52.0 million to $897.0 million in 2014 from $845.0 million in 2013. This increase was primarily due to owning TMB for eight months, organic sales growth of $44.6 million and favorable raw material pricing, partially offset by higher employment costs and a nonrecurring inventory charge of $6.4 million. The gross profit margin for 2014 was 31.6 percent compared to 32.6 percent in 2013.
Gross profit decreased $149.3 million to $845.0 million in 2013 from $994.3 million in 2012. This decrease was primarily due to an organic sales decline of $217.5 million and lower related absorption of manufacturing costs from both lower sales as well as the impact of our inventory reduction efforts, partially offset by the gross profit benefit of owning Stellite for a full year and cost containment efforts. The gross profit margin for 2013 was 32.6 percent compared to 36.3 percent in 2012
OPERATING EXPENSE Operating expense in 2014 was $589.8 million, an increase of $61.9 million, or 11.7 percent, compared to $527.9 million in 2013. The increase is primarily due to operating expense of $28.8 million

related to eight months of owning TMB, $22.2 million increase in employment costs, mostly related to annual merit increase and sales compensation, acquisition-related charges of $7.5 million and unfavorable currency exchange rates of $2.0 million.

Operating expense in 2013 was $527.9 million, a decrease of $33.6 million, or 6.0 percent, compared to $561.5 million in 2012. The decrease is primarily due to a $19.8 million decrease in employment costs, which was driven by performance-based compensation, $11.9 million impact of favorable currency exchange rates, a decrease in Deloro Stellite Holdings 1 Limited (Stellite) acquisition-related costs of $8.9 million and containment of discretionary spending, partially offset by additional operating expenditures of $21.1 million related to a full year of Stellite in our operations.

RESTRUCTURING CHARGES During 2014, we initiated certain restructuring actions and recognized $17.8 million of restructuring charges of which $0.2 million were related to inventory disposals and recorded in cost of goods sold. See the discussion under the heading "Restructuring Actions" within this MD&A for additional information.
During 2013 and 2012, there were no restructuring charges.
AMORTIZATION OF INTANGIBLES Amortization expense was $26.2 million, $20.8 million and $16.4 million in 2014, 2013 and 2012, respectively. The increase of amortization expense in 2014 of $5.4 million or 26.2 percent was due to eight months of amortization of intangibles related to the TMB acquisition. The increase of amortization expense in 2013 of $4.4 million or 27.0 percent was due to a full year of amortization of intangibles related to the Stellite acquisition.
INTEREST EXPENSE Interest expense increased $5.0 million to $32.5 million in 2014, compared with $27.5 million in 2013 due to increased borrowings to fund the TMB acquisition. The portion of our debt subject to variable rates of interest was approximately 34 percent and 6 percent at June 30, 2014 and 2013, respectively. The increase in the portion of our debt subject to variable rates was due to the increase in the balance outstanding on our revolving credit facility.
Interest expense increased $0.3 million to $27.5 million in 2013, compared with $27.2 million in 2012 due to increased borrowings to fund the Stellite acquisition, and the issuance of $400 million of 2.65 percent Senior Unsecured Notes due in 2019, partially offset by lower interest rates on our borrowings resulting from the favorable effect of refinancing our 7.2 percent Senior Unsecured Notes that matured in June 2012 with lower interest 3.875% ten year Senior Unsecured Notes maturing in 2022.
OTHER EXPENSE (INCOME), NET In 2014, other expense, net was $2.2 million compared to other expense, net of $2.3 million in 2013.
In 2013, other expense, net was $2.3 million compared to other income, net of $0.8 million in 2012. The change was primarily due to unfavorable currency exchange rate losses of $1.8 million and lower interest income of $0.8 million.
INCOME TAXES The effective tax rate for 2014 was 29.1 percent compared to 22.4 percent for 2013. The change in the effective rate from 2013 to 2014 was primarily driven by a $7.2 million tax charge related to a change in assertion of a foreign subsidiary’s certain undistributed earnings, which are no longer considered permanently reinvested. This change in assertion is related to the repatriation of $57.0 million. All earnings of other non U.S. subsidiaries are indefinitely reinvested and no deferred taxes have been provided on those earnings. In addition to this tax charge, the 2014 rate increased due to non-deductible restructuring and divestiture costs, and expiration of the credit for increasing research activities.
The effective tax rate for 2013 was 22.4 percent compared to 20.3 percent for 2012. The change in the effective rate from 2012 to 2013 was primarily driven by a prior year valuation allowance release and higher relative earnings in the U.S. where the tax rates are higher than the rest of the world.
INCOME ATTRIBUTABLE TO KENNAMETAL SHAREOWNERS Income attributable to Kennametal Shareowners was $158.4 million, or $1.99 per diluted share, in 2014, compared to $203.3 million, or $2.52 per diluted share, in 2013. The decrease in income from continuing operations was a result of the factors previously discussed.
Income from continuing operations attributable to Kennametal Shareowners was $203.3 million or $2.52 per diluted share in 2013, compared to $307.2 million, or $3.77 per diluted share, in 2012. The decrease in income from continuing operations was a result of the factors previously discussed.

BUSINESS SEGMENT REVIEW We operate two reportable operating segments consisting of Industrial and Infrastructure. Corporate expenses that are not allocated are reported in Corporate. Segment determination is based upon internal organizational structure, the manner in which we organize segments for making operating decisions and assessing performance, the availability of separate financial results and materiality considerations.

Amounts for the years ended June 30, 2013 and 2012, respectively, have been restated to reflect the enhanced operating structure as of July 1, 2013.
INDUSTRIAL

(in thousands)	2014	2013	2012
External sales	$1,524,075	$1,386,690	$1,560,157
Operating income	177,040	192,828	278,105

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External sales of $1,524.1 million in 2014 increased by $137.4 million, or 10 percent, from 2013. The increase in sales was attributed to acquisition growth of 5 percent, organic sales increase of 4 percent and the impact of more business days of 1 percent. Sales increased in all served market sectors and geographies. Excluding TMB, sales increased in both general engineering and transportation by 7 percent while the aerospace and defense served markets increased only slightly. General engineering increased due to improvements in production and overall demand for machinery and demand in distribution channels. The transportation market benefited from increased demand in the light vehicle markets world-wide. On a regional basis, excluding TMB, sales increased by approximately 9 percent in Asia, 6 percent in Europe and 2 percent in the Americas. The Americas sales were dampened by the weather impacts in North America. The sales increase in Asia was driven by general engineering followed by transportation and to a lesser extent aerospace and defense. The sales increase in Europe was driven by both transportation and general engineering and the Americas was driven by general engineering and to a lesser extent transportation.

In 2014, Industrial operating income was $177.0 million and decreased by $15.8 million from 2013. The primary drivers of the decrease in operating income were restructuring and related charges of $13.2 million; the dilutive effects of eight months of TMB base operations of $9.8 million, which included purchase accounting impacts of $13.4 million; higher employment costs and acquisition-related charges of $2.9 million, partially offset by the margin impact of higher organic sales. Industrial operating margin was 11.6 percent compared with 13.9 percent in the prior year.

External sales of $1,386.7 million in 2013 decreased by $173.5 million, or 11 percent, from 2012. The decrease in sales was attributed to an organic sales decrease of 8 percent, the impact of fewer business days of 2 percent and unfavorable currency exchange rate effects of 1 percent. On an organic basis, sales decreased in all served market sectors except aerospace and defense where we had organic growth of 6 percent. Organic sales declined in general engineering by 12 percent and transportation by 5 percent. The aerospace and defense end markets' sales growth is due to a significant increase in commercial aircraft production. General engineering was unfavorably impacted by lower sales to the indirect channels due to further inventory destocking earlier in the year and overall lower customer inventory levels throughout the year. Transportation experienced lower vehicle production rates in most geographic regions and extended plant shut-downs, particularly in Europe and Asia. On a regional basis, sales decreased by approximately 11 percent in the Americas, 8 percent in Europe and 8 percent in Asia due to strong comparisons to the prior year. The sales decrease in the Americas and Asia was driven by general engineering, while Europe was driven by both the general engineering and transportation end markets.

In 2013, Industrial operating income was $192.8 million and decreased by $85.3 million from 2012. The primary drivers of the decrease in operating income were lower organic sales and lower related absorption of manufacturing costs from both lower sales as well as the impact of our inventory reduction efforts, partially offset by operating expense discipline. Industrial operating margin was 13.9 percent compared with 17.8 percent in the prior year.

INFRASTRUCTURE

(in thousands)	2014	2013	2012
External sales	$1,313,115	$1,202,683	$1,176,089
Operating income	94,940	111,453	146,768

External sales of $1,313.1 million in 2014 increased by $110.4 million, or 9 percent, from 2013. The increase in sales was attributed to acquisition growth of 10 percent, partially offset by an organic sales decrease of 1 percent. Excluding TMB, the energy market had sales growth of 4 percent, which was offset by the decrease of 6 percent in the earthworks markets. Energy sales improved year over year reflecting improved demand in oil and gas drilling activity, coupled with continued gains in the production, completion and process applications. Earthworks sales declined from persistently weak underground coal and surface mining markets globally, as well as weaker road construction activity. On a regional basis, excluding TMB, sales grew 2 percent in Europe, offset by decreased sales of approximately 5 percent in Asia and 3 percent in the Americas. The sales increase in Europe was driven by the energy markets and a slightly favorable earthworks market. The sales decrease in Asia was driven by the earthworks market, which overshadowed the positive growth in the energy markets, while the Americas sales decline was due to the earthworks market and to a slightly lesser extent the energy markets.

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In 2014, Infrastructure operating income decreased $16.5 million from 2013. The primary drivers of the decrease in operating income were lower organic sales, a nonrecurring physical inventory adjustment of $6.4 million, lower absorption of fixed manufacturing costs, restructuring and related charges of $5.9 million, acquisition-related charges of $4.7 million and higher employment costs, partially offset by TMB's operating income contribution of $2.6 million and continued cost discipline. Infrastructure operating margin decreased to 7.2 percent from 9.3 percent in the prior year.

The Company is currently exploring strategic alternatives for a portion of its Infrastructure business, which has an estimated net book value of approximately $39 million as of June 30, 2014. As the strategic direction has not yet been determined, the Company cannot determine if an impairment loss is either probable or estimable.

External sales of $1,202.7 million in 2013 increased by $26.6 million, or 2 percent, from 2012. The increase in sales was attributed to acquisition growth of 15 percent, offset by an organic sales decrease of 10 percent, the impact of less business days of 1 percent and by unfavorable currency exchange rate effects of 2 percent. The organic decrease was driven by lower sales in the energy and earthworks markets of 11 percent and 6 percent, respectively. Energy sales decreased due to delayed orders and lower drilling activity in oil and gas, primarily in North America. Earthworks sales declined from persistently weak underground coal mining activity globally, as well as a delayed start to the North America road construction season due to the colder weather in the spring. On a regional basis, sales decreased by approximately 13 percent in the Americas, 5 percent in Europe and remained relatively flat in Asia due to strong comparisons to the prior year. The sales decrease in the Americas was driven by the energy markets and to a slightly lesser extent the earthworks markets, while the sales decrease in Europe was driven by the energy markets.

In 2013, Infrastructure operating income decreased $35.3 million from 2012. The primary drivers of the decrease in operating income were lower organic sales and lower related absorption of manufacturing costs from both lower sales as well as the impact of our inventory reduction efforts, partially offset by a decrease in Stellite acquisition-related costs of $8.9 million and containment of discretionary spending. Infrastructure operating margin decreased to 9.3 percent from 12.5 percent in the prior year.

CORPORATE

(in thousands)	2014	2013	2012
Corporate unallocated expense	$(8,548)	$(7,887)	$(8,464)

In 2014, Corporate unallocated expense increased $0.6 million, or 8.4 percent from 2013. In 2013, Corporate unallocated expense decreased $0.6 million, or 6.8 percent from 2012.

LIQUIDITY AND CAPITAL RESOURCES Cash flow from operations and borrowings against our amended five-year, multi-currency, revolving credit facility (2011 Credit Agreement) are the primary sources of funding for capital expenditures and internal growth. During the year ended June 30, 2014, cash flow provided by operating activities was $271.9 million, driven by our operating performance. We had outstanding borrowings on our 2011 Credit Agreement of $287.1 million which were used primarily to fund the acquisition of TMB.

Our 2011 Credit Agreement is used to augment cash from operations and as an additional source of funds. The 2011 Credit Agreement permits revolving credit loans of up to $600.0 million for working capital, capital expenditures and general corporate purposes. The 2011 Credit Agreement allows for borrowings in U.S. dollars, euro, Canadian dollars, pound sterling and Japanese yen. Interest payable under the 2011 Credit Agreement is based upon the type of borrowing under the facility and may be (1) LIBOR plus an applicable margin, (2) the greater of the prime rate or the Federal Funds effective rate plus an applicable margin, or (3) fixed as negotiated by us. The 2011 Credit Agreement matures in April 2018.

The 2011 Credit Agreement requires us to comply with various restrictive and affirmative covenants, including two financial covenants: a maximum leverage ratio and a minimum consolidated interest coverage ratio (as those terms are defined in the agreement). We were in compliance with all covenants as of June 30, 2014. For the year ended June 30, 2014, average daily borrowings outstanding under the 2011 Credit Agreement were approximately $248.7 million. Borrowings under the 2011 Credit Agreement are guaranteed by our significant domestic subsidiaries.

Additionally, we obtain local financing through credit lines with commercial banks in the various countries in which we operate. At June 30, 2014, these borrowings amounted to $72.5 million of notes payable and $2.9 million of term debt, capital leases and other debt. We believe that cash flow from operations and the availability under our credit lines will be sufficient to meet our cash requirements over the next 12 months.

Based upon our debt structure at June 30, 2014 and 2013, approximately 34 percent and 6 percent of our debt, respectively, was exposed to variable rates of interest. The increase in the portion of our debt subject to variable rates was due to the increase in the balance outstanding on our 2011 Credit Agreement.

We consider the unremitted earnings of our non-U.S. subsidiaries that have not previously been taxed in the U.S., to be permanently reinvested. As of June 30, 2014, cash and cash equivalents of $126.2 million and short term intercompany advances made by our foreign subsidiaries to our U.S. parent of $22.1 million would not be available for use in the U.S. on a long-term basis, without incurring U.S. federal and state income tax consequences. These short term intercompany advances are in the form of intercompany loans made over each quarter end to repay borrowings under our revolving credit agreement and have a duration of not more than fourteen days. We have not, nor do we anticipate the need to, repatriate funds to the U.S. to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

At June 30, 2014, we had cash and cash equivalents of $177.9 million. Total Kennametal Shareowners' equity was $1,929.3 million and total debt was $1,061.8 million. Our current senior credit ratings are at investment grade levels. We believe that our current financial position, liquidity and credit ratings provide us access to the capital markets. We continue to closely monitor our liquidity position and the condition of the capital markets, as well as the counterparty risk of our credit providers.

The following is a summary of our contractual obligations and other commercial commitments as of June 30, 2014 (in thousands):

Contractual Obligations		Total	2015	2016-2017	2018-2019	Thereafter
Long-term debt	(1)	$1,126,572	$33,048	$50,839	$326,445	$716,240
Notes payable	(2)	73,509	73,509	—	—	—
Pension benefit payments		(3)	48,958	99,271	107,754	(3)
Postretirement benefit payments		(3)	2,307	4,407	4,080	(3)
Capital leases	(4)	3,127	247	2,682	198	—
Operating leases		74,432	21,569	22,889	6,004	23,970
Purchase obligations	(5)	927,759	365,993	497,812	34,077	29,877
Unrecognized tax benefits	(6)	22,048	663	—	—	21,385
Total			$546,294	$677,900	$478,558	$791,466

(1) Long-term debt includes interest obligations of $140.1 million. Interest obligations were determined assuming interest rates as of June 30, 2014 remain constant.

(2) Notes payable includes interest obligations of $1.0 million. Interest obligations were determined assuming interest rates as of June 30, 2014 remain constant.

(3) Annual payments are expected to continue into the foreseeable future at the amounts noted in the table.

(4) Capital leases include interest obligations of $0.2 million.

(5) Purchase obligations consist of purchase commitments for materials, supplies and machinery and equipment as part of the ordinary conduct of business. Purchase obligations with variable price provisions were determined assuming market prices as of June 30, 2014 remain constant.

(6) Unrecognized tax benefits are positions taken or expected to be taken on an income tax return that may result in additional payments to tax authorities. These amounts include interest of $1.3 million and penalty of $0.4 million accrued related to such positions as of June 30, 2014. The amount included for 2015 is expected to be settled within the next twelve months. The remaining amount of unrecognized tax benefits is included in the 'Thereafter' column as we are not able to reasonably estimate the timing of potential future payments of the total amount included in the 'Thereafter' column, $16.4 million of income tax credits would be available in the U.S. to offset the

payment if made to the relevant tax authority. If a tax authority agrees with the tax position taken or expected to be taken or the applicable statute of limitations expires, then additional payments will not be necessary.

Other Commercial Commitments	Total	2015	2016-2017	2018-2019	Thereafter
Standby letters of credit	$4,564	$4,564	$—	$—	$—
Guarantees	26,919	18,908	183	275	7,553
Total	$31,483	$23,472	$183	$275	$7,553

The standby letters of credit relate to insurance and other activities. The guarantees are non-debt guarantees with financial institutions, which are required primarily for security deposits, product performance guarantees and advances.

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Cash Flow Provided by Operating Activities

During 2014, cash flow provided by operating activities was $271.9 million, compared to $284.2 million in 2013. Cash flow provided by operating activities for the current year consisted of net income and non-cash items amounting to $338.7 million, offset by changes in certain assets and liabilities netting to $66.8 million. These changes were primarily driven by an increase in accounts receivable of $45.0 million due to higher sales volumes and a decrease in accrued income taxes of $12.5 million.

During 2013, cash flow provided by operating activities was $284.2 million, compared to $289.6 million in 2012. During 2013 cash flow provided by operating activities consisted of net income and non-cash items amounting to $344.7 million, offset by changes in certain assets and liabilities netting to $60.6 million. These changes were primarily driven by, a decrease in accounts payable and accrued liabilities of $90.4 million, primarily driven by lower accounts payable and a decrease in accrued bonus, a decrease in accounts receivable of $33.8 million due to lower sales volumes and a decrease in other of $10.7 million.

During 2012, cash flow provided by operating activities was $289.6 million and consisted of net income and non-cash items amounting to $452.3 million, offset by changes in certain assets and liabilities netting to $162.7 million. These changes were primarily driven by an increase in inventory of $63.8 million, due to increased demand and higher raw material costs, a decrease in accounts payable and accrued liabilities of $57.0 million, primarily driven by lower accounts payable and a decrease in accrued bonus, an increase in other of $16.8 million, a decrease in accrued income taxes of $14.2 million and an increase in accounts receivable of $10.9 million, driven by higher sales volumes.

Cash Flow Used for Investing Activities

Cash flow used for investing activities was $740.2 million for 2014, an increase of $659.5 million, compared to $80.7 million in 2013. During 2014, cash flow used for investing activities included the TMB acquisition for $607.0 million, net of cash acquired, the Emura acquisition for $25.6 million cash paid in 2014 and $2.0 million related to a small acquisition in the Infrastructure segment. Capital expenditures, net were $116.1 million, which consisted primarily of equipment upgrades. These cash outflows were partially offset by $10.2 million of proceeds from sale of a small non-core business acquired as part of the TMB acquisition.

Cash flow used for investing activities was $80.7 million for 2013, an increase of $406.6 million, compared to $487.3 million in 2012. During 2013, cash flow used for investing activities included capital expenditures, net of $79.8 million, which consisted primarily of equipment upgrades.

Cash flow used for investing activities was $487.3 million for 2012 and included the Stellite acquisition for $382.6 million and capital expenditures, net of $96.2 million, which consisted primarily of equipment upgrades, and $10.0 million for the purchase of a technology license in our Infrastructure segment.

Cash Flow Provided by Financing Activities

Cash flow provided by financing activities was $270.4 million for 2014, compared to $52.1 million in 2013. During the current year, cash flow provided by financing activities included a $313.1 million net increase in borrowings, which included $287.1 million of borrowings outstanding under our 2011 Credit Agreement, $26.7 million of dividend reinvestment and the effect of employee benefit and stock plans, partially offset by $56.4 million of cash dividends paid to Shareowners and $14.2 million used for the purchase of capital stock.

Cash flow provided by financing activities was $52.1 million for 2013, compared to $131.3 million in 2012. During 2013, cash flow provided by financing activities included a $183.2 million net increase in borrowings which included the issuance of $400 million of 2.65 percent Senior Unsecured Notes due in 2019 and $3.6 million of borrowings outstanding under our 2011 Credit Agreement, $26.7 million from the sale of capital stock in a subsidiary in India and $17.4 million of dividend reinvestment and the effect of employee benefit and stock plans. These cash flows were partially offset by $121.4 million used for the purchase of capital stock and $51.0 million of cash dividends paid to Shareowners.

Cash flow provided by financing activities was $131.3 million for 2012 and included a $250.7 million net increase in borrowings, which included the issuance of $300 million of 3.875 percent Senior Unsecured Notes due in 2022 and $212.2 million of borrowings outstanding under our 2011 Credit Agreement, partially offset by the repayment of $300 million of 7.2 percent Senior Unsecured Notes in June 2012. Cash flow provided by financing activities also included

$24.6 million of dividend reinvestment and the effect of employee benefit and stock plans. These cash flows were partially offset by $66.9 million used for the purchase of capital stock, $43.6 million of cash dividends paid to Shareowners and payments of $22.4 million related to the settlement of forward starting interest rate swap contracts.

FINANCIAL CONDITION At June 30, 2014, total assets were $3,868.1 million, an increase of $567.0 million from $3,301.0 million at June 30, 2013. Total liabilities increased $417.7 million from $1,488.7 million at June 30, 2013 to $1,906.5 million at June 30, 2014.

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Working capital was $962.4 million at June 30, 2014, a decrease of $69.4 million, or 6.7 percent from $1,031.9 million at June 30, 2013. Cash and cash equivalents decreased $199.4 million and current maturities of long-term debt, capital leases and notes payable increased $35.8 million, mainly to fund the TMB acquisition. Other current liabilities increased $34.2 million primarily due to $9.0 million of restructuring accruals, $4.1 million increase in incentive compensation accrual and $4.0 million reclassification of contingent consideration accrual for the Emura acquisition from long-term to current. Accounts payable increased by $16.3 million, primarily driven by the impact of recent acquisitions, and accrued payroll increased $12.4 million due to timing and acquisitions. These items were partially offset by an increase in inventory of $125.0 million mainly due to the TMB and Emura acquisitions contributing $116.7 million, an increase in accounts receivable of $86.2 million mainly due to the impact of the TMB acquisition of $41.2 million and higher sales, partially offset by improved collections and an increase in other current assets of $15.8 million, primarily due to an increase in prepaid taxes. Currency exchange rate effects accounted for $9.0 million of the increase in working capital.

Property, plant and equipment, net increased $143.0 million from $741.5 million at June 30, 2013 to $884.5 million at June 30, 2014, primarily due to $133.9 million from acquisitions, capital additions of $115.2 million, excluding a net $2.1 million change which was reversed out of accounts payable at June 30, 2014 and by favorable currency exchange rate impact of $8.6 million. Partially offsetting these items was depreciation expense of $104.0 million, capital disposals and retirements of $6.0 million and divestitures of $4.7 million.

At June 30, 2014, other assets were $1,458.4 million, an increase of $398.3 million from $1,060.1 million at June 30, 2013. The primary drivers for the increase were an increase in goodwill of $253.8 million, an increase in other intangible assets of $120.4 million, and an increase in other assets of $22.9 million. The change in goodwill was due to the TMB acquisition impact of $243.6 million and favorable foreign currency effects of $10.2 million. The change in other intangible assets was due to a $143.7 million acquisition impact and favorable currency exchange effects of $3.0 million, offset by amortization expense of $26.2 million. The increase in other assets of $22.9 million was primarily driven by an increase in pension assets.

Long-term debt and capital leases increased $278.0 million to $981.7 million at June 30, 2014 from $703.6 million at June 30, 2013. The increase was driven by $287.1 million of net borrowings under the 2011 Credit Agreement for the acquisition of TMB.

Kennametal Shareowners' equity was $1,929.3 million at June 30, 2014, an increase of $147.4 million from $1,781.8 million in the prior year. The increase was primarily due to net income attributable to Kennametal of $158.4 million, capital stock issued under employee benefit and stock plans of $36.5 million and by currency translation adjustments of $31.4 million, partially offset by cash dividends paid to Shareowners of $56.4 million and the purchase of capital stock of $14.2 million.

ENVIRONMENTAL MATTERS The operation of our business has exposed us to certain liabilities and compliance costs related to environmental matters. We are involved in various environmental cleanup and remediation activities at certain of our locations.

Superfund Sites We are involved as a PRP at various sites designated by the USEPA as Superfund sites. For certain of these sites, we have evaluated the claims and potential liabilities and have determined that neither are material, individually or in the aggregate. For certain other sites that are being monitored, the matters have not yet progressed to a point where it is possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities or the amount of our liability alone or in relation to that of any other PRPs.

Other Environmental Issues We establish and maintain reserves for other potential environmental issues. At June 30, 2014 and 2013, the total of accruals for these reserves was $11.0 million and $5.1 million, respectively. These reserves represent anticipated costs associated with the remediation of these issues. The increase in the reserve in 2014 relates to acquisitions.

The reserves we have established for environmental liabilities represent our best current estimate of the costs of addressing all identified environmental situations, based on our review of currently available evidence, and taking into consideration our prior experience in remediation and that of other companies, as well as public information released by the USEPA, other governmental agencies, and by the PRP groups in which we are participating. Although the reserves currently appear to be sufficient to cover these environmental liabilities, there are uncertainties associated with environmental liabilities, and we can give no assurance that our estimate of any environmental liability will not increase or decrease in the future. The reserved and unreserved liabilities for all environmental concerns could change substantially 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, the identification of new PRPs and the involvement of and direction taken by the government on these matters.

We maintain a Corporate EHS Department to monitor compliance with environmental regulations and to oversee remediation activities. In addition, we have designated EHS coordinators who are responsible for each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EHS Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we review financial provisions and reserves for environmental contingencies and adjust these reserves when appropriate.

EFFECTS OF INFLATION Despite modest inflation in recent years, rising costs, including the cost of certain raw materials, continue to affect our operations throughout the world. We strive to minimize the effects of inflation through cost containment, productivity improvements and price increases.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES In preparing our financial statements in conformity with accounting principles generally accepted in the U.S., we make judgments and estimates about the amounts reflected in our financial statements. As part of our financial reporting process, our management collaborates to determine the necessary information on which to base our judgments and develops estimates used to prepare the financial statements. We use historical experience and available information to make these judgments and estimates. However, different amounts could be reported using different assumptions and in light of different facts and circumstances. Therefore, actual amounts could differ from the estimates reflected in our financial statements. Our significant accounting policies are described in Note 2 of our consolidated financial statements set forth in Item 8. We believe that the following discussion addresses our critical accounting policies.

Revenue Recognition We recognize revenue upon shipment of our products and assembled machines. Our general conditions of sale explicitly state that the delivery of our products and assembled machines is freight on board shipping point and that title and all risks of loss and damages pass to the buyer upon delivery of the sold products or assembled machines to the common carrier.

Our general conditions of sale explicitly state that acceptance of the conditions of shipment is considered to have occurred unless written notice of objection is received by Kennametal within 10 calendar days of the date specified on the invoice. We do not ship products or assembled machines unless we have documentation authorizing shipment to our customers. Our products are consumed by our customers in the manufacture of their products. Historically, we have experienced very low levels of returned products and assembled machines and do not consider the effect of returned products and assembled machines to be material. We have recorded an estimated returned goods allowance to provide for any potential returns.

We warrant that products and services sold are free from defects in material and workmanship under normal use and service when correctly installed, used and maintained. This warranty terminates 30 days after delivery of the product to the customer and does not apply to products that have been subjected to misuse, abuse, neglect or improper storage, handling or maintenance. Products may be returned to Kennametal only after inspection and approval by Kennametal and upon receipt by the customer of shipping instructions from Kennametal. We have included an estimated allowance for warranty returns in our returned goods allowance discussed above.

We recognize revenue related to the sale of specialized assembled machines upon customer acceptance and installation, as installation is deemed essential to the functionality of a specialized assembled machine. Sales of specialized assembled machines were immaterial for 2014, 2013 and 2012.

Stock-Based Compensation We recognize stock-based compensation expense for all stock options, restricted stock awards and restricted stock units over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional service (substantive vesting period). We utilize the Black-Scholes valuation method to establish the fair value of all stock option awards.

Accounting for Contingencies We accrue for contingencies when it is probable that a liability or loss has been incurred and the amount can be reasonably estimated. Contingencies by their nature relate to uncertainties that require the exercise of judgment in both assessing whether or not a liability or loss has been incurred and estimating the amount of probable loss. The significant contingencies affecting our financial statements include environmental, health and safety matters and litigation.

Long-Lived Assets We evaluate the recoverability of property, plant and equipment and intangible assets that are amortized whenever events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. Changes in circumstances include technological advances, changes in our business model, capital structure, economic conditions or operating performance. Our evaluation is based upon, among other things, our assumptions about the estimated future undiscounted cash flows these assets are expected to generate. When the sum of the undiscounted cash flows is less than the carrying value, we will recognize an impairment loss to the extent that carrying value exceeds fair value. We apply our best judgment when performing these evaluations to determine if a triggering event has occurred, the undiscounted cash flows used to assess recoverability and the fair value of the asset.

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Goodwill and Indefinite-Lived Intangible Assets We evaluate the recoverability of goodwill of each of our reporting units by comparing the fair value of each reporting unit with its carrying value. The fair values of our reporting units are determined using a combination of a discounted cash flow analysis and market multiples based upon historical and projected financial information. We apply our best judgment when assessing the reasonableness of the financial projections used to determine the fair value of each reporting unit. We evaluate the recoverability of indefinite-lived intangible assets using a discounted cash flow analysis based on projected financial information. We perform our annual impairment tests during the June quarter in connection with our annual planning process, unless there are impairment indicators that warrant a test prior to that.

Pension and Other Postretirement Benefits We sponsor these types of benefit plans for certain employees and retirees. Accounting for the cost of these plans requires the estimation of the cost of the benefits to be provided well into the future and attributing that cost over the expected work life of employees participating in these plans. This estimation requires our judgment about the discount rate used to determine these obligations, expected return on plan assets, rate of future