MISONIX INC
Form DEF 14A
November 08, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

MISONIX, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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MISONIX, INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
Tuesday, December 7, 2010

To the Shareholders of
MISONIX, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the Annual Meeting) of MISONIX, INC., a New York corporation (the Company), will be held at the Company s Corporate Office, 1938 New Highway, Farmingdale, NY 11735 on Tuesday, December 7, 2010 at 10:00 a.m., or at any adjournment thereof, for the following purposes:

1. To elect six Directors to the Board of Directors;

2. To ratify the selection of Grant Thornton LLP as the Company s independent registered public accounting firm; and

3. To consider and act upon such other business as may properly come before the Annual Meeting or any adjournment thereof.

The above matters are set forth in the Proxy Statement attached to this Notice to which your attention is directed.

Only shareholders of record on the books of the Company at the close of business on November 2, 2010 will be entitled to vote at the Annual Meeting or at any adjournment thereof. You are requested to sign, date and return the enclosed Proxy at your earliest convenience in order that your shares may be voted for you as specified.

By Order of the Board of Directors,
RICHARD ZAREMBA
Secretary

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held December 7, 2010. The Proxy Statement and our 2010 Annual Report to Shareholders are available at http://cstproxy.com/misonix/2010.

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MISONIX, INC.
1938 New Highway
Farmingdale, New York 11735

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
Tuesday, December 7, 2010

The Annual Meeting of Shareholders (the Annual Meeting) of MISONIX, INC. (the Company) will be held on Tuesday, December 7, 2010 will be held at the Company s 1938 New Highway, Farmingdale, NY 11735, at 10:00 a.m. for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. **The enclosed Proxy is solicited by and on behalf of the Board of Directors of the Company (Board of Directors or Board) for use at the Annual Meeting to be held on Tuesday, December 7, 2010, and at any adjournments of such Meeting.** The approximate date on which this Proxy Statement and the enclosed Proxy are being first mailed to shareholders is November 8, 2010.

If a Proxy in the accompanying form is duly executed and returned, the shares represented by such Proxy will be voted as specified. In the absence of such directions, the Proxy will be voted in accordance with the recommendations of management. The attendance of a shareholder at the Annual Meeting will not automatically revoke such shareholder s proxy. However, a shareholder may revoke a proxy at any time prior to its exercise by (1) delivering to our Corporate Secretary a written notice of revocation prior to the Annual Meeting, (2) delivering to our Corporate Secretary before the Annual Meeting a duly executed proxy bearing a later date, or (3) attending the Annual Meeting, filing a written notice of revocation with the secretary of the meeting and voting in person.

Voting Rights

On November 2, 2010 (the Record Date), the Company had outstanding 7,001,369 shares of its only class of voting securities, namely common stock, $.01 par value per share (the Common Stock). Shareholders are entitled to one vote for each share registered in their names at the close of business on the Record Date. The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of Directors. The affirmative vote of a majority of the shares cast at the Annual Meeting is required for the ratification of the selection of Grant Thornton LLP (Grant Thornton) as the Company s independent registered public accountant firm. On all other matters which may come before the Annual Meeting, the affirmative vote of a majority of the votes cast at the Annual Meeting is required. For purposes of determining whether proposals have received a majority vote, abstentions will not be included in the vote totals and, in instances where brokers are prohibited from exercising discretionary authority for beneficial owners who have not returned a Proxy (broker non-votes), those votes will not be included in the vote totals. Therefore, abstentions and broker non-votes will be counted in the determination of a quorum and will have no effect on the vote for the election of Directors or the ratification of the selection of Grant Thornton as the Company s independent registered public accounting firm. Unless contrary instructions are given, all Proxies received pursuant to this solicitation will be voted in favor of the (i) election of the nominees named in Proposal One and (ii) ratification of the selection of Grant Thornton.

Under the New York Business Corporation Law, shareholders are not entitled to dissenters rights with respect to the proposals set forth in this Proxy Statement.

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SECURITY OWNERSHIP

The following table sets forth as of November 2, 2010, certain information with regard to the ownership of the Company s Common Stock by (i) each beneficial owner of more than 5% of the Company s Common Stock; (ii) each Director and nominee for Director; (iii) each executive officer named in the Summary Compensation Table below; and (iv) all executive officers and Directors of the Company as a group. Unless otherwise stated, the persons named in the table have sole voting and investment power with respect to all Common Stock shown as beneficially owned by them.

Name and Address (1)	Common Stock Beneficially Owned	Percent of Class
Michael A. McManus, Jr.	836,751(2)	11.0
Dimensional Fund Advisors LP	511,508	6.8
Howard Alliger	251,508(3)	3.5
Richard Zaremba	148,000(4)	2.1
T. Guy Minetti	102,000(5)	1.4
Thomas F. O Neill	77,000(6)	1.1
John W. Gildea	40,000(7)	*
Charles Miner	40,000(8)	*
Michael Ryan	33,750(9)	*
All executive officers and Directors as a group (eleven people)	1,693,111(10)	20.7(11)

* Less than 1%

(1) Except as otherwise noted, the business address of each of the named individuals in this table is c/o MISONIX, INC., 1938 New Highway, Farmingdale, New York 11735. Dimensional Fund Advisors LP has a principal business office at 1299 Ocean Avenue, Santa Monica, CA 90401.

(2) Includes 612,500 shares which Mr. McManus has the right to acquire upon exercise of stock options which are currently exercisable.

(3) Includes 65,000 shares which Mr. Alliger has the right to acquire upon exercise of stock options which are currently exercisable.

(4) Includes 121,500 shares which Mr. Zaremba has the right to acquire upon exercise of stock options which are currently exercisable.

(5) Includes 70,000 shares which Mr. Minetti has the right to acquire upon exercise of stock options which are currently exercisable.

(6) Includes 70,000 shares which Mr. O Neill has the right to

acquire upon exercise of stock options which are currently exercisable.

(7) Includes 40,000 shares which Mr. Gildea has the right to acquire upon exercise of stock options which are currently exercisable.

(8) Includes 40,000 shares which Dr. Miner has the right to acquire upon exercise of stock options which are currently exercisable.

(9) Includes 28,750 shares which Mr. Ryan has the right to acquire upon exercise of stock options which are currently exercisable.

(10) Includes the shares indicated in notes (2), (3), (4), (5), (6), (7), (8) and (9). Does not include 4,400 shares owned by the sister of an executive officer, as to

which shares beneficial ownership is disclaimed by such executive officer.

(11) Calculation includes exercisable options to acquire 1,164,410 shares of Common Stock held by the persons noted.

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PROPOSAL ONE
ELECTION OF DIRECTORS

Six Directors are to be elected at the Annual Meeting. The term of each Director expires at the Annual Meeting, with Messrs. Alliger, Gildea, McManus, Miner, Minetti, and O Neill standing for reelection for a term of one year. The following table contains information regarding all Directors and executive officers of the Company:

Name	Age	Position with Company	Director Since
Howard Alliger	83	Director	1971
T. Guy Minetti	59	Director	2003
Thomas F. O Neill	64	Director	2003
John W. Gildea	67	Director	2005
Dr. Charles Miner III	59	Director	2005
Michael A. McManus, Jr.	67	Chairman, President and Chief Executive Officer	1998
Richard Zaremba	55	Senior Vice President, Chief Financial Officer, Secretary and Treasurer	
Dan Voic	48	Vice President of R&D and Engineering	
Michael C. Ryan	64	Senior Vice President Medical Division	
Ronald Manna	56	Vice President of New Product Development and Regulatory Affairs	
Frank Napoli	53	Vice President Operations	

Principal Occupations and Business Experience of Directors and Executive Officers

The following is a brief account of the business experience of the Company s Directors:

Howard Alliger founded the Company s predecessor in 1955 and the Company was a sole proprietorship until 1960. The Company name then was Heat Systems-Ultrasonics. Mr. Alliger was President of the Company until 1982 and Chairman of the Board until 1996. He has been awarded 25 patents and has published various papers on ultrasonic technology. In 1959, Mr. Alliger sold the first sonicator in the United States. For three years, ending in 1991, Mr. Alliger was the President of the Ultrasonic Industry Association. Mr. Alliger holds a BA degree in economics from Allegheny College and attended Cornell University School of Engineering for four years. He has also established, and is President of, two privately-held entities which are engaged in pharmaceutical research and development.

Mr. Alliger has extensive experience as an investor and is the Founder of the Company. The Board believes this experience qualifies him to serve as a director.

T. Guy Minetti is Chief Executive Officer of Twig Tek, LLC, which is engaged in the recirculation and recycling of used electronics. Prior to joining Twig Tek in November 2009, he founded and was Managing Director of Senior Resource Advisors LLC, a management consulting firm, from 2005 to 2008. Prior to founding Senior Resource Advisors LLC, Mr. Minetti served as the Vice Chairman of the Board of Directors of 1-800-Flowers.Com, Inc., a publicly-held specialty gift retailer based in Westbury, New York. Before joining 1-800-Flowers.Com, Inc. in September 2000, Mr. Minetti was the Managing Director of Bayberry Advisors, an investment banking firm he founded in 1989 to provide corporate finance advisory services to small-to-medium-sized businesses. From 1981 through 1989, Mr. Minetti was a Managing Director of the investment banking firm, Kidder, Peabody & Company. While at Kidder, Peabody, Mr. Minetti worked in the investment banking and high yield bond departments.

Mr. Minetti has extensive experience as an investment banker and as a director and Vice Chairman of a public company. The Board believes this experience qualifies him to serve as a director.

Thomas F. O Neill has been a principal of Sandler O Neill & Partners, L.P., an investment banking firm, since founding such firm in 1988. From 1985 through 1988, Mr. O Neill was a Managing Director of Bear Stearns & Co., Inc. From 1972 through 1985, Mr. O Neill was employed by L.F. Rothschild. Mr. O Neill serves on the Board of Directors of Archer-Daniels-Midland Company and The Nasdaq Stock Market, Inc. Mr. O Neill is a graduate of New York University and a veteran of the United States Air Force.

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Mr. O Neill has extensive experience as an investment banker and as a director of public companies. The Board believes this experience qualifies him to serve as a director.

John W. Gildea is the founding principal of Gildea Management Co. (Gildea Management), a management company of special situations with middle market companies in the United States and Central Europe. From 2000 to 2005 Gildea Management formed a joint venture with J.O. Hambro Capital Management Co. to manage accounts targeting high yield debt and small capitalization equities. From 1996 to 2000 Gildea Management formed and founded Latona Europe, a joint venture between Latona U.S., Lazard Co., and Gildea Management to restructure several Czech Republic companies. Before forming Gildea Management in 1990, Mr. Gildea managed the Corporate Series Group at Donaldson, Lufkin and Jenrette, an investment banking firm. Mr. Gildea is a graduate of the University of Pittsburgh.

Mr. Gildea has extensive experience as an investment banker and as a director of public and private companies. The Board believes this experience qualifies him to serve as a director.

Dr. Charles Miner III currently practices internal medicine in Darien, Connecticut. Dr. Miner is on staff at Stamford and Norwalk Hospitals and is an instructor in clinical medicine at Columbia University College of Physicians and Surgeons. Dr. Miner received his M.D. from the University Of Cincinnati College Of Medicine in 1979 and received a Bachelor of Science from Lehigh University in 1974.

Dr. Miner is an experienced physician. The Board believes this experience qualifies him to serve as a director.

Michael A. McManus, Jr. became President and Chief Executive Officer of the Company on October 30, 1998. Prior to joining the Company, he served as President and Chief Executive Officer of New York Bancorp Inc. from 1991 through March 1998 and as a director of such company from 1990 through March 1998. He also served as President and Chief Executive Officer of Home Federal Savings Bank, the principal subsidiary of New York Bancorp Inc., from February 1995 through March 1998. From 1990 through November 1991, Mr. McManus was President and Chief Executive Officer of Jamcor Pharmaceuticals Inc. Mr. McManus served as an Assistant to the President of the United States from 1982 to 1985 and held positions with Pfizer Inc. and Revlon Group. Mr. McManus received a BA in economics from the University of Notre Dame and a JD from the Georgetown University Law Center. He serves as a member of the Board of Directors of A. Schulman Inc. and Novavax, Inc.

Mr. McManus extensive first hand knowledge of the business and historical development of the Company, as well as his executive, management, and leadership experience and achievement give him highly valued insights into our Company s challenges, opportunities and business. Mr. McManus also possesses broad knowledge related to equity and capital markets that the Board believes are invaluable to the Board s discussions of the Company s capital and liquidity needs and qualify him to serve on the Board.

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The Board of Directors recommends a vote FOR the election of these nominees as Directors.

The following is a brief account of the business experience of the Company s executive officers:

Michael A. McManus, Jr. became President and Chief Executive Officer of the Company on October 30, 1998. Prior to joining the Company, he served as President and Chief Executive Officer of New York Bancorp Inc. from 1991 through March 1998 and as a director of such company from 1990 through March 1998. He also served as President and Chief Executive Officer of Home Federal Savings Bank, the principal subsidiary of New York Bancorp Inc., from February 1995 through March 1998. From 1990 through November 1991, Mr. McManus was President and Chief Executive Officer of Jamcor Pharmaceuticals Inc. Mr. McManus served as an Assistant to the President of the United States from 1982 to 1985 and held positions with Pfizer Inc. and Revlon Group. Mr. McManus received a BA in economics from the University of Notre Dame and a JD from the Georgetown University Law Center. He serves as a member of the Board of Directors of A. Schulman Inc. and Novavax, Inc.

Richard Zaremba became Senior Vice President in September 2004. He became Vice President and Chief Financial Officer in February 1999. Mr. Zaremba became Secretary and Treasurer in March 1999. From March 1995 to February 1999, he was Vice President and Chief Financial Officer of Comverse Information Systems, Inc., a manufacturer of digital voice recording systems. Previously, Mr. Zaremba was Vice President and Chief Financial Officer of Miltope Group, Inc., a manufacturer of electronic equipment. Mr. Zaremba is a licensed certified public accountant in the State of New York and holds BBA and MBA degrees in Accounting from Hofstra University.

Dan Voic became Vice President of R&D and Engineering in January 2002. Prior thereto, he served as Engineering Manager and Director of Engineering of the Company. Mr. Voic has approximately 14 years experience in both medical and industrial product development. Mr. Voic holds a M.S. degree in mechanical engineering from Polytech University Traian Vuia of Timisoara, Romania and a MS degree in applied mechanics from Polytechnic University of New York.

Michael C. Ryan became Senior Vice President, Medical Division in October 2007. Prior thereto, he served as Senior Vice President and General Manager for Nomos Radiation Oncology, a manufacturer of radiological products, from 2006 to October 2007. From 1992 to 2005, Mr. Ryan was Executive Vice President, Business Development for Inter V. Mr. Ryan holds a Bachelor of Arts from John F. Kennedy College.

Ronald Manna became Vice President Regulatory Affairs of the Company in September 2005. From July 2002 through September 2005, he served as Vice President New Product Development and Regulatory Affairs. For more than five years prior thereto, Mr. Manna served as Vice President Operations of the Company. Mr. Manna holds a BS degree in mechanical engineering from Hofstra University.

Frank Napoli became Vice President of Operations in September 2004. From March 2004 to September 2004, Mr. Napoli was Vice President of Manufacturing for Spellman High Voltage Electronics Corp., a manufacturer of power supplies. Previously, Mr. Napoli was Director of Manufacturing for Telephonics Corporation, a defense contractor. Mr. Napoli holds a B.S. degree in Mechanical Engineering from the New York Institute of Technology.

Each of the Company s executive officers is to serve until the next annual meeting of shareholders or until his earlier resignation or removal.

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Meetings of the Board of Directors

During the fiscal year ended June 30, 2010, the Board of Directors held four meetings and the Stock Option Committee held one meeting. The Audit Committee met four times and the Compensation Committee met once during the last fiscal year. No Director attended less than 75% of the aggregate of the total number of meetings of the Board of Directors and meetings of Committees of which he was a member that were held during the Company s last fiscal year.

In compliance with requirements of the Corporate Governance Requirements (the CGR) of The NASDAQ Stock Market LLC (Nasdaq), the non-management directors of the Board of Directors met four times in executive session during the fiscal year ending June 30, 2010.

Committees of the Board

Currently, the only standing committees of the Board of Directors of the Company are its Stock Option Committees, the Audit Committee and the Compensation Committee. The Stock Option Committee for the 1991 Employee Stock Option Plan, the 1996 Employee Stock Option Plan, the 1998 Employee Stock Option Plan, the 2001 Employee Stock Option Plan the 2005 Employee Equity Incentive Plan and the 2009 Employee Equity Incentive Plan consists of Messrs. Alliger, Miner, Minetti, O Neill and Gildea. The Stock Option Committee for the 1996 Non-Employee Director Stock Option Plan, the 2005 Non-Employee Director Stock Option Plan and the 2009 Non-Employee Director Stock Option Plan consists of Messrs. McManus, Alliger, Miner, Minetti, O Neill and Gildea. The Stock Option Committees are responsible for administering the Company s stock option plans.

The Company has a separately designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The members of the Audit Committee are Messrs. Gildea, Miner, Minetti and O Neill. The Board of Directors has determined that each member of the Audit Committee is independent not only under the CGR but also within the definition contained in a final rule of the Securities and Exchange Commission (the SEC). Furthermore, the Board of Directors has determined that Messrs. Minetti, O Neill and Gildea are audit committee financial experts within the definition contained in a final rule adopted by the SEC.

The Compensation Committee consists of Messrs. Alliger, Minetti, O Neill and Gildea. The Compensation Committee is responsible for considering and recommending remuneration arrangements for executive officers and directors to the Board of Directors. The Chief Executive Officer of the Company makes recommendations for compensation of executive officers other than himself to the Compensation Committee. The Compensation Committee did not employ a compensation consultant during fiscal 2010 to assist it in evaluating executive compensation. The Committee also did not set percentage compensation goals against a peer group of companies, or benchmark, our executives compensation, though the availability to our executives of alternative employment opportunities is an important consideration in the compensation design process. Rather, the Committee used its marketplace knowledge, background, experience and market information to make recommendations concerning executive compensation. The Board of Directors has not adopted a written charter for the Compensation Committee.

Nomination of Directors

The Company does not currently have a standing nominating committee or a formal nominating committee charter. Currently, the independent members of the Board, rather than a nominating committee, approve or recommend to the full Board those persons to be nominated. The Board believes that the current method of nominating directors is appropriate because it allows each independent board member input into the nomination process and does not unnecessarily restrict the input that might be provided from an independent director who could be excluded from a committee. Currently, five of the six directors are independent. Furthermore, the Board has adopted by resolution a director nomination policy. The purpose of the policy is to describe the process by which candidates for inclusion in the Company s recommended slate of director nominees are selected. The director nomination policy is administered by the Board. Many of the benefits that would otherwise come from a written committee charter are provided by this policy.

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In the ordinary course, absent special circumstances or a change in the criteria for Board membership, the incumbent directors who continue to be qualified for Board service and are willing to continue as directors are re-nominated. If the Board thinks it is in the best interest of the Company to nominate a new individual for director in connection with an annual meeting of shareholders, or if a vacancy occurs between annual shareholder meetings, the Board will seek potential candidates for Board appointments who meet the criteria for selection as a nominee and have the specific qualities or skills being sought. Director candidates will be selected based on input from members of the Board, senior management of the Company and, if deemed appropriate, a third-party search firm.

Candidates for Board membership must possess the background, skills and expertise to make significant contributions to the Board, to the Company and its shareholders. Desired qualities to be considered include substantial experience in business or administrative activities; breadth of knowledge about issues affecting the Company; and ability and willingness to contribute special competencies to Board activities. The independent members of the Board also consider whether members and potential members are independent under the CGR. In addition, candidates should possess the following attributes: personal integrity; absence of conflicts of interest that might impede the proper performance of the responsibilities of a director; ability to apply sound and independent business judgment; sufficient time to devote to Board and Company matters; ability to fairly and equally represent all shareholders; reputation and achievement in other areas; independence under rules promulgated by the SEC and the CGR; and diversity of viewpoints, background and experiences.

The Board of Directors intends to review the director nomination policy from time to time to consider whether modifications to the policy may be advisable as the Company s needs and circumstances evolve, and as applicable legal or listing standards change. The Board may amend the director nomination policy at any time.

The Board will consider director candidates recommended by shareholders and will evaluate such director candidates in the same manner in which it evaluates candidates recommended by other sources, as described above. Recommendations must be in writing and mailed to MISONIX, INC., 1938 New Highway, Farmingdale, NY 11735, Attention: Corporate Secretary, and include all information regarding the candidate as would be required to be included in a proxy statement filed pursuant to the proxy rules promulgated by the SEC if the candidate were nominated by the Board of Directors (including such candidate s written consent to being named in the proxy statement as a nominee and to serving as a director if elected). The shareholder giving notice must provide (i) his or her name and address, as they appear on the Company s books, and (ii) the number of shares of the Company which are beneficially owned by such shareholder. The Company may require any proposed nominee to furnish such other information it may require to be set forth in a shareholder s notice of nomination which pertains to the nominee.

Director Compensation For The 2010 Fiscal Year

Name	**Fees Earned or Paid in Cash ($)**	**Option Awards ($)**	**Total ($)**
Michael A. McManus, Jr.			
John Gildea	18,500		18,500
Howard Alliger	13,500		13,500
Dr. Charles Miner III	18,500		18,500
T. Guy Minetti	23,500		23,500
Thomas F. O Neill	18,500		18,500

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Outstanding options at fiscal year end for each of Messrs. O Neill and Minetti are 75,000 shares; Mr. Alliger is 70,000 shares and each of Messrs. Gildea and Miner are 45,000 shares. Each non-employee director receives an annual fee of $15,000. The Chairman of the Audit Committee receives an additional $10,000 per year cash compensation and other members of the Audit Committee receive an additional $5,000 per year cash compensation. Each non-employee director is also reimbursed for reasonable expenses incurred while traveling to attend meetings of the Board of Directors or while traveling in furtherance of the business of the Company.

Section 16 (a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s executive officers, directors and persons who own more than 10% of a registered class of the Company s equity securities (Reporting Persons) to file reports of ownership and changes in ownership on Forms 3, 4, and 5 with the SEC. These Reporting Persons are required by SEC regulation to furnish the Company with copies of all Forms 3, 4 and 5 they file with the SEC. Based solely on the Company s review of the copies of the forms it has received, the Company believes that all Reporting Persons complied on a timely basis with all filing requirements applicable to them with respect to transactions during fiscal year 2010.

Communications with Directors

Shareholders, associates of the Company and other interested parties may communicate directly with the Board of Directors, with the non-management Directors or with a specific Board member, by writing to the Board (or the non-management Directors or a specific Board member) and delivering the communication in person or mailing it to: Board of Directors, Privileged & Confidential, c/o Richard Zaremba, Secretary, MISONIX, INC., 1938 New Highway, Farmingdale, New York 11735. Correspondence will be discussed at the next scheduled meeting of the Board of Directors, or as indicated by the urgency of the matter. The non-management Directors are: Messrs. Alliger, Minetti, O Neill, Gildea and Miner. From time to time, the Board of Directors may change the process by which shareholders may communicate with the Board of Directors or its members. Any changes in this process will be posted on the Company s website or otherwise publicly disclosed.

Director Independence

The Company is required to have a Board of Directors a majority of whom are independent as defined by the CGR and to disclose in the proxy statement for each annual meeting those Directors that the Board of Directors has determined to be independent. Based on such definition, the Board of Directors has determined that all Directors other than Mr. McManus, who is an officer of the Company, are independent.

The Company is required to have an audit committee of at least three members composed solely of independent Directors. The Board of Directors is required under the CGR to affirmatively determine the independence of each Director on the Audit Committee. The Board has determined that each member of the Audit Committee is independent not only under the CGR but also within the definition contained in a final rule of the SEC. Furthermore, the Board of Directors has determined that Messrs. Minetti, O Neill and Gildea are audit committee financial experts within the definition contained in a final rule adopted by the SEC.

Corporate Governance

The Company has an ongoing commitment to good governance and business practices. In furtherance of this commitment, we regularly monitor developments in the area of corporate governance and review our policies and procedures in light of such developments. We comply with the rules and regulations promulgated by the SEC and Nasdaq and implement other corporate governance practices we believe are in the best interests of the Company and the shareholders.

Board Leadership and Structure

Michael A. McManus, Jr., our Chief Executive Officer, also serves as Chairman of the Board of Directors. The Board believes that the Company and its shareholders are best served by having the Chief Executive Officer also serve as Chairman of the Board as Mr. McManus possesses extensive experience and in-depth knowledge of our Company and the opportunities and challenges we face. The Board also believes that this structure is appropriate in light of the size of our Company and corresponding size of our Board and the complexity of our business. We believe that Mr. McManus is best positioned to develop agendas that ensure that our Board s time and attention are focused on the matters that are most critical to us. The Board does not have a specifically designated lead independent director. However, Guy Minetti, an independent director and Chair of our Audit Committee, has typically led the executive session of the Board and acts as a liaison between the independent directors and management.

Risk Oversight

The Board oversees Company functions in an effort to assure that Company assets are properly safeguarded, that appropriate financial and other controls are maintained, and that the Company s business is conducted prudently and in compliance with applicable laws, regulations and ethical standards. While the Board is responsible for risk oversight, Company management is responsible for managing risk. The Company has robust internal processes and a strong internal control environment to identify and manage risks and to communicate with the Board. The Board monitors and evaluates the effectiveness of the internal controls and the risk management program at least annually. Management communicates routinely with the Board and individual Directors on the significant risks identified and how they are being managed. Directors are free to, and often do, communicate directly with senior management.

The Audit Committee is responsible for reviewing and overseeing the Company s financial statements, including the integrity of the Company s financial and disclosure controls, its legal compliance programs and procedures, and its procedures for identifying, evaluating and controlling material financial, legal and operational risk. The Audit Committee, whose members are all independent directors, receives regular reports about these matters from, and meets separately with, the Company s outside auditors, and receives regular reports from Company management.

Board Attendance at Annual Meetings of Shareholders

The Company does not currently have a formal policy regarding Director attendance at the Annual Meeting of Shareholders. It is, however, expected that Directors will be in attendance, absent compelling circumstances. Except for Mr. O Neill, all members of the Board of Directors attended the Company s Annual Meeting of Shareholders held on December 8, 2009.

Code of Ethics

The Company has adopted a code of ethics that applies to all of its Directors, officers (including its Chief Executive Officer, Chief Financial Officer, Controller and any person performing similar functions) and employees. The Company has filed a copy of this Code of Ethics as Exhibit 14 to its Annual Report on Form 10-K for the fiscal year ended June 30, 2004. The Company has also made the Code of Ethics available on its website at www.MISONIX.com.

In accordance with the Sarbanes-Oxley Act of 2002, the Audit Committee has established procedures for the receipt and handling of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and to allow for the confidential, anonymous submission by employees of concerns regarding auditing or accounting matters.

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The Audit Committee has furnished the following report. The information contained in the Audit Committee Report is not to be deemed to be soliciting material or to be filed with the SEC, nor is such information to be incorporated by reference into any future filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference in to such filings.

Audit Committee Report

Management is responsible for the Company s financial reporting process, including its system of internal control, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. The Company s independent auditors are responsible for auditing those financial statements. The Audit Committee s responsibility is to monitor and review these processes. It is not the Audit Committee s duty or responsibility to conduct audit or accounting reviews or procedures. The members of the Audit Committee are not employees of the Company and may not be, and may not represent themselves to be or to serve as, accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, the Audit Committee has relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States and on the representations of the independent registered public accounting firm included in its report on the Company s financial statements. The Audit Committee s oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s considerations and discussions with management and the independent registered public accounting firm do not assure that the Company s financial statements are presented in accordance with generally accepted accounting principles in the United States, that the audit of the Company s financial statements has been carried out in accordance with generally accepted auditing standards or that the Company s independent registered public accounting firm is in fact independent .

The Audit Committee of the Company s Board of Directors is currently composed of four Directors, none of who are officers or employees of the Company. The Board of Directors has determined that (1) all members of the Audit Committee are financially literate and independent under the CGR, and (2) Messrs. Gildea, Minetti and O Neill are audit committee financial experts , as defined under the rules and regulations promulgated by the SEC. The Board of Directors has adopted a written charter for the Audit Committee. The Audit Committee charter is attached to this Proxy Statement as Exhibit A.

In accordance with its written charter, the Audit Committee assists the Board of Directors in fulfilling its responsibility to monitor the integrity of the accounting, auditing and financial reporting practices of the Company. Typically, for each fiscal year, the Audit Committee selects the independent registered public accounting firm to audit the financial statements of the Company and its subsidiaries and such selection is subsequently presented to the Company s shareholders for ratification.

The Audit Committee has reviewed and discussed the audited financial statements contained in our Annual Report on Form 10-K for the year ended June 30, 2010 with our management; has discussed with the independent registered public accounting firm the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380) as adopted by the Public Company Accounting Oversight Board; has discussed with the independent registered public accounting firm the independent registered public accounting firm s independence; and has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).

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Based on the review and discussions of the above, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended June 30, 2010 for filing with the SEC.

Reported upon by the Audit Committee
T. Guy Minetti
Thomas F. O Neill
John W. Gildea
Dr. Charles Miner III

* * *

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program and Philosophy

Our compensation program is intended to:

- Attract, motivate, retain and reward employees of outstanding ability;
- Link changes in employee compensation to individual and corporate performance;
- Align employees interests with those of the shareholders.

The ultimate objective of our compensation program is to increase shareholder value. We seek to achieve these objectives with a total compensation approach which takes into account a competitive base salary, bonus pay based on the annual performance of the Company and individual goals and stock option awards.

Base Salaries

Base salaries paid to executives are intended to attract and retain highly talented individuals. In setting base salaries, individual experience, individual performance, the Company s performance and job responsibilities during the year are considered. Executive salaries are reconciled by Human Resources and evaluated against local companies of similar size and nature.

Annual Bonus Plan Compensation

The Compensation Committee of the Board of Directors approves annual performance based compensation. The purpose of the annual bonus based compensation is to motivate executive officers and key employees. Target bonuses, based upon recommendation from the Chief Executive Officer, are evaluated and approved by the Compensation Committee for all employees other than the Chief Executive Officer. The bonus recommendations are derived from individual and Company performance and are not based on a specific formula but are discretionary. The Chief Executive Officer s bonus compensation is derived from the Board of Directors recommendation to the Compensation Committee based upon the Chief Executive Officer s performance and Company performance and is not based on a specific formula but is discretionary.

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Stock Option Awards

Stock option awards are intended to attract and retain highly talented executives, to provide an opportunity for significant compensation when overall Company performance is reflected in the stock price, and to help align executives and shareholders interests. Stock options are typically granted at the time of hire to key new employees and annually to a broad group of existing key employees, including executive officers.

Annual option grants to executive officers are made in the form of incentive stock options (ISO s) to the fullest extent permitted under tax rules, with the balance granted in the form of nonqualified stock options. ISO s have potential income tax advantage for executives if the executive disposes of the acquired shares after satisfying certain holding periods. Tax laws provide that the aggregate grant, at date of grant for market value of ISO s that become exercisable for any employee in any year, may not exceed $100,000.

Our current standard vesting schedule for all employees is 25% on the first anniversary of the date of grant, 50% on the second anniversary of the date of grant, 75% on the third anniversary of the date of grant and 100% on the fourth anniversary of the date of grant.

401 (k) Plan

Our Individual Deferred Tax and Savings Plan (the 401 (k) plan) is a tax qualified retirement savings plan pursuant to which all of the Company s U.S. employees may defer compensation under Section 401 (k) of the Internal Revenue Code of 1986, as amended (the Code). The Company currently contributes an amount equal to 10% of salary contributed under the 401 (k) plan by an eligible employee, up to the maximum allowed under the Code. We do not provide any supplemental retirement benefits to executive officers.

Change in Control benefits

Change in control benefits are intended to diminish the distinction that executives would face by virtue of the personal uncertainties created by a pending or threatened change in control and to assure that the Company will continue to have the executive s full attention and services at all time. Our change in control benefits are designed to be competitive with similar benefits available at companies with which we compete for executives talent. These benefits, as one element of our total compensation program, help the Company attract, retain and motivate highly talented executives.

Mr. McManus has an agreement that provides, after a change in control of the Company, for a one-time additional compensation payment equal to two times his total compensation (annual salary plus bonus) at the highest rate paid during his employment payable within 60 days of termination. A change in control shall be deemed to have occurred in the event (i) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), or group of such persons , without the consent of the Board, is or becomes a beneficial owner (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company s then outstanding securities, or (ii) of a merger, consolidation or other combination the result of which is the ownership by shareholders of the Company of less than 60% of those voting securities of the resulting or acquiring entity having the power to elect a majority of the Board of Directors of such entity.

Notwithstanding the foregoing, no change in control shall be deemed to have occurred requiring payment to Mr. McManus by virtue of (i) any transaction which results in Mr. McManus or a group of persons which includes Mr. McManus, acquiring, directly or indirectly, 50% or more of any class of voting securities of the Company, or (ii) if Mr. McManus continues in the employ of the Company more than 9 months following the occurrence of an event which would otherwise constitute a change in control.

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Mr. Zaremba has an agreement for the payment of six months of annual base salary upon a change in control of the Company.

The Company provides, in each of its option agreements with named executive officers, for accelerated vesting upon a change in control of the Company. The Company believes that, in the context of a potential change in control, executives should be entitled to participate with other shareholders in realizing the value contributed to the Company. Accordingly, the accelerated vesting of stock options is intended to compensate executives for their contributions up to and including the date of a change in control, and to provide additional incentive to remain employed by the Company in order to assist in effectuating such potential change in control. For fiscal year 2010 the named executive officers held 310,750 unvested stock options. Accordingly, the named executive officers, as of the end of fiscal year 2010 would have been entitled to accelerated vesting upon a change in control of the Company occurring on such date.

Tax deductibility of Executive Compensation

Section 162 (m) of the Internal Revenue Code limits to $1,000,000 per person the amount that we may deduct for compensation paid to any of our most highly compensated officers in any year. In fiscal 2010, there was no executive officer s compensation that exceeded $1,000,000.

* * *

The following table sets forth information for the Company s last two fiscal years ended concerning the compensation awarded to, earned by or paid to our named executive officers during such fiscal years for services rendered to the Company.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year Ended June 30,	Salary ($)	Bonus ($)	Options Awards ($)[a]	Total ($)
Michael A. McManus, Jr.	2010	286,458	200,000	101,075	587,533
Chairman, President and Chief Executive Officer	2009	275,000	11,458	107,000	393,458
Richard Zaremba	2010	196,154	34,000	48,516	278,670
Senior Vice President, Chief Financial Officer, Secretary and Treasurer	2009	192,100	8,000	23,032	223,132
Michael Ryan	2010	236,001	12,000	48,546	296,517
Senior Vice President-Medical Division	2009	225,000	8,000	23,032	256,022

(a) The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

risk-free interest rate of 3.1%; no dividend yield; volatility factor of the expected market price of the Common Stock of 81.94%, and a weighted-average expected life of the options of six and one half years.

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Employment Agreements

Effective July 1, 2008, the Company entered into an amended and restated employment agreement with its President and Chief Executive Officer. The agreement was amended effective January 1, 2010. The agreement expires on June 30, 2011 and is automatically renewable for one-year periods unless notice is given by the Company or Mr. McManus that it or he declines to renew the agreement. The agreement provides for an annual base compensation of $283,250 and a Company-provided automobile. The agreement also provides for a discretionary bonus based upon achievement of his annual goals and objectives as determined by the Compensation Committee of the Board of Directors.

In conformity with the Company s policy, all of its directors, officers and employees execute confidentiality and nondisclosure agreements upon the commencement of employment with the Company. The agreements generally provide that all inventions or discoveries by the employee related to the Company s business and all confidential information developed or made known to the employee during the term of employment shall be the exclusive property of the Company and shall not be disclosed to third parties without the prior approval of the Company. Mr. Zaremba has an agreement for the payment of six months annual base salary upon a change in control of the Company. Mr. McManus is entitled in the event of a change of control to payment of two times his total compensation (annual base salary plus bonus) at the highest rate paid during the period of employment, payable in a lump sum within 60 days of termination of employment. The Company s employment agreement with Mr. McManus also contains non-competition provisions that preclude him from competing with the Company for a period of 18 months from the date of his termination of employment.

POTENTIAL PAYMENTS UPON CHANGE IN CONTROL

In addition, and as discussed in the Compensation Discussion and Analysis section above, the Company periodically grants options to purchase Common Stock of the Company to named executive officers. Pursuant to the terms of the Company s Stock Option Plans, such options generally vest and become fully exercisable upon a change in control, defined generally as: (1) an acquisition by an person or entity of 20% or more of the outstanding shares of the Company or the combined voting power of the Company s voting shares; (2) replacement of a majority of the members of the Board of Directors of the Company with new members (other than members approved by the incumbent Board); (3) consummation of a merger, consolidation, reorganization or sale or disposition of all or substantially all of the Company s assets (a Business Combination) unless the existing shareholders retain more than 50% of the combined voting power of the Company s voting securities, at least a majority of the incumbent Board members remain on the Board and no person or entity other than the Company, an employee benefit plan or an entity resulting from such Business Combination acquires more than 20% of the combined voting power of the Company s then outstanding securities entitled to vote generally in the election of directors; or (4) the Company s shareholders approval of a complete liquidation or a disposition of the Company.

OUTSTANDING EQUITY AWARDS AS OF NOVEMBER 2, 2010

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Michael A. McManus, Jr.	150,000		6.07	10/17/11
	150,000		5.10	09/30/12
	125,000		4.66	11/01/13
	125,000		5.18	11/01/14
	50,000	50,000(5)	1.91	11/04/18
	12,500	37,500(7)	2.44	09/09/19
		100,000(1)	1.82	09/07/20
Richard Zaremba	7,500		6.12	05/08/11
	16,000		6.07	10/17/11
	20,000		5.10	09/30/12
	15,000		4.70	09/16/13
	12,000		8.00	09/15/14
	8,000		7.60	09/27/15
	4,000		5.82	02/07/16
	12,000		3.45	10/20/16
	7,500	2,500(2)	4.04	09/04/17
	9,000	9,000(4)	2.04	09/26/18
	2,500	2,500(6)	.85	12/11/18
	8,000	16,000(7)	2.44	09/09/19
		30,000(1)	1.82	09/07/20
Michael Ryan	9,000	9,000(4)	2.04	09/26/18
	2,500	2,500(6)	.85	12/11/18
	6,000	18,000(7)	2.44	09/09/19
		30,000(1)	1.82	09/07/20

(1) Options issued 09/07/10 and vest equally over 4 years

(2) Options issued 09/05/07 and vest equally over 4 years

(3) Options issued 11/07/07 and

vest equally
over 4 years

(4) Options issued 09/29/08 and vest equally over 4 years

(5) Options issued 11/04/08 and vest equally over 4 years

(6) Options issued 12/11/08 and vest equally over 4 years

(7) Options issued 09/09/09 and vest equally over 4 years

Stock Options

In September 1991, in order to attract and retain persons necessary for the success of the Company, the Company adopted a stock option plan (the 1991 Plan) which covers up to 375,000 shares of Common Stock. Pursuant to the 1991 Plan, officers, directors, consultants and key employees of the Company are eligible to receive incentive and/or non-incentive stock options. At June 30, 2009, options to purchase 30,000 shares were outstanding under the 1991 Plan at an exercise price of $7.38 per share with a vesting period of two years, options to purchase 327,750 shares had been exercised and options to purchase 47,250 shares have been forfeited (of which options to purchase 30,000 shares have been reissued). There are no shares available for future grants.

In March 1996, the Board of Directllion and is expected to be recognized over a weighted average period of 2.7 years. *Restricted Stock* Changes in our restricted stock for the six months ended December 31, 2008 were as follows:

	Shares	Weighted Average Fair Value
Unvested restricted stock, June 30, 2008	486,591	$ 31.55
Granted	175,302	29.25
Vested	(123,398)	29.35
Lapsed and forfeited	(72,178)	27.99
Unvested restricted stock, December 31, 2008	466,317	$ 31.82

During the six months ended December 31, 2008 and 2007, compensation expense related to restricted stock awards was $2.7 million and $2.4 million, respectively. As of December 31, 2008, the total unrecognized compensation cost related to unvested restricted stock was $8.5 million and is expected to be recognized over a weighted average period of 2.5 years.

Restricted Stock Units

The assumptions used in our valuation of the cumulative adjusted earnings per share (EPS) performance-based portion of restricted stock units granted during the six months ended December 31, 2008 and 2007 were as follows:

	2008	2007
Expected quarterly dividend per share	$0.12	$0.12
Risk-free interest rate	2.3%	3.3%

As of December 31, 2008, we assumed that none of the EPS performance-based restricted stock units will vest.

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

Changes in the EPS performance-based portion of restricted stock units for the six months ended December 31, 2008 were as follows:

	Stock Units	Weighted Average Fair Value
Unvested EPS performance-based restricted stock units, June 30, 2008	531,435	$ 37.45
Granted	95,492	23.21
Forfeited	(41,519)	(37.45)
Unvested EPS performance-based restricted stock units, December 31, 2008	585,408	$ 35.13

The assumptions used in our lattice model valuation for the TSR performance-based portion of restricted stock units granted during the six months ended December 31, 2008 and 2007 were as follows.

	2008	2007
Expected volatility	34.1%	24.1%
Expected dividend yield	2.0%	1.2%
Risk-free interest rate	2.3%	3.3%

Changes in the Company s total shareholder return (TSR) performance-based restricted stock units for the six months ended December 31, 2008 were as follows:

	Stock Units	Weighted Average Fair Value
Unvested TSR performance-based restricted stock units, June 30, 2008	286,149	$ 9.20
Granted	51,418	2.08
Forfeited	(22,355)	(9.20)
Unvested TSR performance-based restricted stock units, December 31, 2008	315,212	$ 8.04

Based on a change in the probability of achieving the performance criteria related to the vesting of the EPS performance-based portion of the restricted stock units, we reversed previously recognized compensation expense related to these units of $0.9 million for the six months ended December 31, 2008. For the six months ended December 31, 2007, compensation expense related to restricted stock units was $0.2 million. As of December 31, 2008, the total unrecognized compensation cost related to unvested stock units was $1.4 million and is expected to be recognized over a weighted average period of 2.8 years.

7. BENEFIT PLANS

We sponsor several defined benefit pension plans. Additionally, we provide varying levels of postretirement health care and life insurance benefits to most U.S. employees.

The table below summarizes the components of net periodic pension cost:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007
Service cost	$ 1,923	$ 2,508	$ 3,888	$ 5,010
Interest cost	10,267	9,986	20,853	19,934
Expected return on plan assets	(11,548)	(12,305)	(23,477)	(24,627)
Amortization of transition obligation	13	41	31	83
Amortization of prior service credit	(54)	(10)	(107)	(21)
Recognition of actuarial losses	469	564	958	1,127
Net periodic pension cost	$ 1,070	$ 784	$ 2,146	$ 1,506

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

The table below summarizes the components of the net periodic other postretirement cost:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007
Service cost	$ 89	$ 133	$178	$ 266
Interest cost	418	433	837	867
Amortization of prior service cost	12	12	24	24
Recognition of actuarial gains	(21)	(131)	(42)	(263)
Net periodic other postretirement benefit cost	$498	$ 447	$997	$ 894

8. INVENTORIES

We used the last-in, first-out (LIFO) method of valuing inventories for approximately 51 percent and 48 percent of total inventories at December 31, 2008 and June 30, 2008, respectively. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

Inventories consisted of the following:

(in thousands)	December 31, 2008	June 30, 2008
Finished goods	$290,753	$288,188
Work in process and powder blends	177,440	176,680
Raw materials and supplies	83,350	75,999
Inventories at current cost	551,543	540,867
Less: LIFO valuation	(86,859)	(80,067)
Total inventories	$464,684	$460,800

9. ENVIRONMENTAL MATTERS

We are subject to various U.S. Federal, state and international environmental laws and regulatory requirements and are involved from time to time in investigations or proceedings of various potential environmental issues concerning activities at our facilities or former facilities or remediation efforts as a result of past activities (including past activities of companies we have acquired). From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the Superfund Act) and/or equivalent laws. These notices assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us.

Superfund Sites We are involved as a PRP at several Superfund sites, and have responded to notices for other Superfund sites as to which our records disclose no involvement or for which predecessors of certain of our acquired companies have acknowledged responsibility. We have established reserves that we believe to be adequate to cover our share of the potential costs of remediation at certain of the Superfund sites; at December 31, 2008 the total of these accruals was $0.2 million. For the remaining Superfund sites, proceedings in those matters have not yet progressed to a stage 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 also maintain reserves for other potential environmental issues. At December 31, 2008, the total of these accruals was $5.2 million and represents anticipated costs associated with the remediation of these issues. We recorded favorable foreign currency translation adjustments of $0.8 million during the six months ended December 31, 2008 related to these reserves.

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

10. INCOME TAXES

The effective income tax rate for the three months ended December 31, 2008 and 2007 was 23.2 percent and 17.3 percent, respectively. The increase in the rate from the prior year was primarily the result of the impacts of restructuring and related charges in the current year and a benefit in the prior year associated with a dividend reinvestment plan in China. The impact of these items was partially offset by a benefit in the current quarter from the completion of a routine income tax examination for certain prior fiscal years.

The effective income tax rate for the six months ended December 31, 2008 and 2007 was 20.3 percent and 27.1 percent, respectively. The decrease in the rate from the prior year was driven by a non-cash income tax charge related to a German tax reform bill that adversely impacted the prior year, the release of a valuation allowance in Europe in the first quarter of the current year, and a benefit in the current year from the completion of a routine income tax examination for certain prior fiscal years. The impact of these items was partially offset by the impact of restructuring and related charges in the current year.

11. EARNINGS PER SHARE

Basic earnings per share is computed using the weighted average number of shares outstanding during the period, while diluted earnings per share is calculated to reflect the potential dilution that occurs related to the issuance of capital stock under stock option grants, restricted stock awards and restricted stock unit grants. The difference between basic and diluted earnings per share relates solely to the effect of capital stock options and restricted stock awards.

For purposes of determining the number of diluted shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised capital stock options and restricted stock awards by 0.6 million shares and 1.5 million shares for the three months ended December 31, 2008 and 2007, respectively, and 0.8 million shares and 1.6 million shares for the six months ended December 31, 2008 and 2007, respectively. Unexercised stock options to purchase our capital stock of 3.4 million shares for the three months ended December 31, 2008, and 2.0 million shares for the six months ended December 31, 2008, are not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price, and therefore their inclusion would have been anti-dilutive.

12. COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007
Net income	$ 15,659	$50,146	$ 51,126	$ 85,025
Unrealized gain on derivatives designated and qualified as cash flow hedges, net of income tax	130	310	1,131	381
Reclassification of unrealized loss (gain) on expired derivatives designated and qualified as cash flow hedges, net of	2,220	(658)	4,866	(2,098)

income tax				
Unrecognized net pension and other postretirement benefit gains (losses), net of income tax	3,143	(85)	4,564	(555)
Reclassification of net pension and other postretirement benefit losses, net of income tax	566	340	898	666
Foreign currency translation adjustments, net of income tax	(48,736)	24,935	(141,415)	58,198
Comprehensive (loss) income	$(27,018)	$74,988	$ (78,830)	$141,617

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
13. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of cost over the fair value of acquired companies. Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. We perform our annual impairment tests during the June quarter in connection with our annual planning process. We also perform specific impairment tests on an interim basis if we deem that a triggering event indicating impairment of the goodwill for a reporting unit or an indefinite-lived intangible asset may have occurred. We evaluate the recoverability of goodwill for 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. This evaluation is sensitive to changes in market interest rates and other external factors.

A possible indicator of impairment is the relationship of a company s market capitalization to its book value. As of December 31, 2008, our market capitalization exceeded our book value. The persistence or further acceleration of the recent downturn in global economic conditions and turbulence in financial markets could have a further negative impact on our market capitalization and/or financial performance. Going forward, this could increase the likelihood of future non-cash impairment charges related to our goodwill or indefinite-lived intangible assets.

The carrying amount of goodwill attributable to each segment is as follows:

(in thousands)	June 30, 2008	Acquisitions	Adjustments	Translation	December 31, 2008
MSSG	$282,187	$	$ 248	$(19,034)	$263,401
AMSG	326,332	21,260		(6,775)	340,817
Total	$608,519	$21,260	$ 248	$(25,809)	$604,218

During the six months ended December 31, 2008, we completed a business acquisition in our AMSG segment for a net purchase price of $63.9 million, which generated AMSG goodwill of $21.3 million based on final purchase price allocation.
The components of other intangible assets and their useful lives are as follows:

	Estimated	December 31, 2008		June 30, 2008	
(in thousands)	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract-based	4 to 15	$ 6,344	$ (4,639)	$ 6,237	$ (4,469)
Technology-based and other	4 to 15	38,799	(17,067)	41,461	(16,850)
Customer-related	5 to 20	111,137	(19,128)	109,387	(16,233)
Unpatented technology	30	19,456	(3,322)	19,725	(2,955)
Trademarks	5 to 10	9,782	(1,995)	5,788	(1,503)

Trademarks	Indefinite	50,463		53,615	
Total		$235,981	$(46,151)	$236,213	$(42,010)

As a result of the recent business acquisition discussed above, we recorded $10.7 million of identifiable intangible assets based on our aforementioned purchase price allocations as follows: Contract-based of $0.2 million, Customer-related of $6.3 million and Trademarks of $4.2 million. During the six months ended December 31, 2008, we also incurred $8.4 million in unfavorable foreign currency translation adjustments and amortization expense of $6.7 million

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

We operate two reportable operating segments consisting of MSSG and AMSG, and Corporate. We do not allocate certain corporate shared service costs, certain employee benefit costs, certain employment costs, such as performance-based bonuses and stock-based compensation expense, interest expense, other expense, income taxes or minority interest to our operating segments.

Our external sales, intersegment sales and operating income by segment are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007
External sales:				
MSSG	$344,630	$434,733	$ 775,916	$ 842,430
AMSG	224,054	212,690	462,033	420,069
Total external sales	$568,684	$647,423	$1,237,949	$1,262,499
Intersegment sales:				
MSSG	$ 36,353	$ 39,186	$ 87,043	$ 82,317
AMSG	4,662	9,695	11,615	20,548
Total intersegment sales	$ 41,015	$ 48,881	$ 98,658	$ 102,865
Total sales:				
MSSG	$380,983	$473,919	$ 862,959	$ 924,747
AMSG	228,716	222,385	473,648	440,617
Total sales	$609,699	$696,304	$1,336,607	$1,365,364
Operating income (loss):				
MSSG	$ 7,827	$ 61,986	$ 51,138	$ 117,338
AMSG	19,437	27,197	49,427	57,177
Corporate	(3,770)	(19,792)	(23,796)	(41,010)
Total operating income	$ 23,494	$ 69,391	$ 76,769	$ 133,505

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

RESULTS OF OPERATIONS

SALES

Sales for the three months ended December 31, 2008 were $568.7 million, a decrease of $78.7 million, or 12.2 percent, from $647.4 million in the prior year quarter. The decrease in sales was due to 10 percent organic decline and 5 percent from unfavorable foreign currency effects partially offset by the net favorable impact of acquisitions and divestitures of 2 percent and more workdays of 1 percent. On a global basis, industrial production declined in contrast to the prior year quarter. Demand in most industry and market sectors weakened considerably in the latter half of the current year quarter.

Sales for the six months ended December 31, 2008 were $1,238.0 million, a decrease of $24.5 million, or 1.9 percent, from $1,262.5 million in the same period a year ago. The decrease in sales was primarily due to 3 percent organic decline partially offset by more workdays of 1 percent. Organic sales declined in all major metalworking markets except for Latin America and Asia Pacific. Organic sales increased in our advanced materials business primarily due to stronger sales of energy and related products as well as higher sales of mining and construction products partially offset by lower sales of engineered products.

GROSS PROFIT

Gross profit for the three months ended December 31, 2008 decreased $57.6 million, or 26.1 percent, to $163.3 million from $220.9 million in the prior year quarter. This decrease was primarily due to lower organic sales volume, reduced absorption of manufacturing costs due to lower production levels, unfavorable impact of foreign currency effects of $7.2 million, temporary disruption effects from restructuring programs, unfavorable business unit mix as well as restructuring and related charges of $3.9 million. Improved price realization more than offset the impact of higher raw material costs and the net favorable impact of acquisitions and divestitures was $7.4 million for the current quarter.

Gross profit margin for the three months ended December 31, 2008 was 28.7 percent, down 540 basis points from 34.1 percent in the prior year quarter. The change from the prior year quarter was primarily due to reduced absorption of manufacturing costs due to lower production levels, temporary disruption costs from restructuring programs as well as the unfavorable impact of restructuring and related charges of 70 basis points and less favorable business unit mix partially offset by the net favorable impact of improved price realization.

Gross profit for the six months ended December 31, 2008 decreased $50.9 million, or 11.8 percent, to $382.1 million from $433.0 million in the prior year quarter. The decrease was primarily due to lower organic sales volume, reduced absorption of manufacturing costs due to lower production levels, temporary disruption effects from restructuring programs and less favorable business unit mix as well as restructuring and related charges of $4.6 million. Improved price realization more than offset the impact of higher raw material costs, whereas the net favorable impact of acquisitions and divestitures was $6.7 million and foreign currency effects were favorable by $4.1 million for the current period.

Gross profit margin for the six months ended December 31, 2008 was 30.9 percent, down 340 basis points from 34.3 percent in the prior year period. The change from the prior year period was primarily due to reduced absorption of manufacturing costs due to lower production levels, temporary disruption costs from restructuring programs and the unfavorable impact of restructuring and related charges of 30 basis points as well as less favorable business unit mix partially offset by the net favorable impact of price realization.

OPERATING EXPENSE

Operating expense for the three months ended December 31, 2008 was $130.3 million, a decrease of $17.6 million, or 11.9 percent, compared to $147.9 million in the prior year quarter. The decrease is attributable to an $11.8 million decrease in employment expenses driven by lower provisions for employee incentive compensation programs, favorable impact of foreign currency effects of $6.4 million and the impact of other cost reductions of $3.2 million offset somewhat by the net unfavorable impact of acquisitions and divestitures of $3.8 million.

Operating expense for the six months ended December 31, 2008 was $284.0 million, a decrease of $9.0 million, or 3.0 percent, compared to $293.0 million in the prior year period. The decrease is attributable to a $10.6 million decrease in employment expenses driven by lower provisions for employee incentive compensation programs as well as the impact of other cost reductions of $2.7 million offset somewhat by the net unfavorable impact of acquisitions and divestitures of $3.2 million and unfavorable foreign currency effects of $1.2 million.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESTRUCTURING CHARGES

As previously announced, the Company continued to implement certain restructuring plans to reduce costs and improve efficiency in our operations. The actions taken in 2009 related to facility rationalizations and employment reductions. For the three and six months ended December 31, 2008, we recorded restructuring charges of $6.2 million and $14.6 million, respectively. For the three months ended December 31, 2008, restructuring charges for MSSG and AMSG were $4.5 million and $1.7 million, respectively. For the six months ended December 31, 2008, restructuring charges for MSSG, AMSG and Corporate were $11.2 million, $2.9 million and $0.5 million, respectively. See Note 5 to our condensed consolidated financial statements set forth in Part 1 Item 1 of this Form 10-Q.

The actions being taken pursuant to our restructuring plans are expected to be completed over the next six to nine months. The restructuring and related charges recorded through December 31, 2008 were $27.5 million. Including these charges, the company expects to recognize approximately $90 million of pre-tax charges related to its restructuring plans. Approximately 95 percent of these charges are expected to be cash expenditures. Annual ongoing benefits from these actions, once fully implemented, are expected to be approximately $100 million.

AMORTIZATION OF INTANGIBLES

Amortization expense was $3.3 million for the three months ended December 31, 2008, a decrease of $0.3 million from $3.6 million in the prior year quarter. Amortization expense was $6.7 million for the six months ended December 31, 2008, an increase of $0.1 million from $6.6 million in the prior year period.

INTEREST EXPENSE

Interest expense for the three months ended December 31, 2008 of $8.0 million decreased $0.5 million, or 5.9 percent, from $8.5 million in the prior year quarter. The impact of an increase in average domestic borrowings of $195.0 million was more than offset by the impact of a 220 basis point decrease in average interest rates on domestic borrowings. The increase in these borrowings was driven by first quarter share repurchases for $127.5 million and a cash outlay of $65.0 million in the second quarter for a business acquisition.

Interest expense for the six months ended December 31, 2008 of $15.1 million decreased $1.2 million, or 7.3 percent, from $16.3 million in the prior year period. The impact of an increase in average domestic borrowings of $153.0 million due to the factors discussed above was more than offset by the impact of a 220 basis point decrease in average interest rates on domestic borrowings.

OTHER INCOME, NET

Other income, net for the three months ended December 31, 2008 and 2007 was $4.8 million and $1.0 million, respectively. The change was primarily driven by favorable foreign currency transaction results of $2.4 million.

Other income, net for the six months ended December 31, 2008 and 2007 was $3.4 million and $2.1 million, respectively. The change was primarily driven by an increase in interest income of $1.2 million.

INCOME TAXES

The effective income tax rate for the three months ended December 31, 2008 and 2007 was 23.2 percent and 17.3 percent, respectively. The increase in the rate from the prior year was primarily the result of the impacts of restructuring and related charges in the current year and a benefit in the prior year associated with a dividend reinvestment plan in China. The impact of these items was partially offset by a benefit in the current quarter from the completion of a routine income tax examination for certain prior fiscal years.

The effective income tax rate for the six months ended December 31, 2008 and 2007 was 20.3 percent and 27.1 percent, respectively. The decrease in the rate from the prior year was driven by a non-cash income tax charge related to a German tax reform bill that adversely impacted the prior year, the release of a valuation allowance in Europe in the first quarter of the current year, and a benefit in the current year from the completion of a routine income tax examination for certain prior fiscal years. The impact of these items was partially offset by the impact of restructuring and related charges in the current year.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

BUSINESS SEGMENT REVIEW

Our operations are organized into two reportable operating segments consisting of Metalworking Solutions & Services Group (MSSG) and Advanced Materials Solutions Group (AMSG), and Corporate. The presentation of segment information reflects the manner in which we organize segments for making operating decisions and assessing performance. Corporate represents certain corporate shared service costs, employee benefit costs, employment costs, including performance-based bonuses and stock-based compensation expense, and eliminations of operating results between segments.

METALWORKING SOLUTIONS & SERVICES GROUP

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007
External sales	$344,630	$434,733	$775,916	$842,430
Intersegment sales	36,353	39,186	87,043	82,317
Operating income	7,827	61,986	51,138	117,338

For the three months ended December 31, 2008, MSSG external sales decreased $90.1 million, or 20.7 percent, from the prior year quarter. This decrease was the result of an organic sales decline of 15 percent, unfavorable foreign currency effects of 5 percent and 1 percent from the impact of divestitures. On a global basis, industrial production declined in contrast to the prior year quarter. Demand in most industry and market sectors weakened considerably in the latter half of the current year quarter. On a regional basis, Europe, India and North America reported organic sales declines of 17 percent, 17 percent and 16 percent, respectively, for the current year quarter. Asia Pacific and Latin America also experienced organic sales declines of 9 percent and 2 percent, respectively.

For the three months ended December 31, 2008, MSSG operating income decreased $54.2 million, or 87.4 percent, from the prior year quarter. Operating margin on total sales was 2.1 percent for the current quarter as compared to 13.1 percent in the prior year quarter. The primary drivers of the decline in operating margin were reduced absorption of manufacturing costs due to lower production levels and temporary disruption effects related to restructuring initiatives as well as restructuring and related charges of $7.3 million. The impact of recent price increases essentially offset the effect of higher raw material costs.

For the six months ended December 31, 2008, MSSG external sales decreased $66.5 million, or 7.9 percent, from the prior year period. This decrease was the result of an organic sales decline of 8 percent and 1 percent from the impact of divestitures partially offset by the favorable impact of more workdays of 1 percent. On a regional basis, North America, Europe and India reported organic sales declines of 12 percent, 8 percent and 6 percent, respectively for the current period. Asia Pacific and Latin America experienced organic sales growth of 6 percent and 3 percent, respectively, for the same period.

For the six months ended December 31, 2008, MSSG operating income decreased $66.2 million, or 56.4 percent, from the prior year period. Operating margin on total sales was 5.9 percent for the current period as compared to 12.7 percent in the prior year period. The primary drivers of the decline in operating margin were reduced absorption of manufacturing costs due to lower production levels and temporary disruption effects related to restructuring initiatives as well as restructuring and related charges of $14.5 million. The impact of recent price increases nearly offset the effect of higher raw material costs.

ADVANCED MATERIALS SOLUTIONS GROUP

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007

External sales	$224,054	$212,690	$462,033	$420,069
Intersegment sales	4,662	9,695	11,615	20,548
Operating income	19,437	27,197	49,427	57,177

For the three months ended December 31, 2008, AMSG external sales increased $11.4 million, or 5.3 percent, from the prior year quarter. This increase was the result of 8 percent from the impact of acquisitions partially offset by 3 percent from unfavorable foreign currency effects. Organic sales were flat as increased mining and construction sales and higher energy-related sales were offset by lower sales of engineered products.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

For the three months ended December 31, 2008, AMSG operating income decreased $7.8 million, or 28.5 percent, from the prior year quarter. Operating margin on total sales was 8.5 percent in the current quarter as compared to 12.2 percent in the prior year quarter. The decline was primarily due to restructuring and related charges of $2.8 million, unfavorable business mix and lower performance in the engineered products business. Improved price realization more than offset the impact of higher raw material costs.

For the six months ended December 31, 2008, AMSG external sales increased $42.0 million, or 10.0 percent, from the prior year period. This was the result of 5 percent organic growth, 4 percent from the favorable impact of acquisitions and 1 percent from more workdays. Organic sales increased due to stronger energy-related and mining and construction product sales, offset somewhat by lower sales of engineered products.

For the six months ended December 31, 2008, AMSG operating income decreased $7.8 million, or 13.6 percent, from the prior year period. Operating margin on total sales was 10.4 percent in the current period as compared to 13.0 percent in the prior year period. This decline was primarily due to restructuring and related charges of $4.2 million, unfavorable business mix and lower performance in the engineered products business. Improved price realization more than offset the impact of higher raw material costs for the current period.

CORPORATE

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2008	2007	2008	2007
Operating loss	$(3,770)	$(19,792)	$(23,796)	$(41,010)

For the three months ended December 31, 2008, operating loss decreased $16.0 million, or 81.0 percent, compared to the prior year quarter, primarily due to lower provisions for employee incentive compensation programs.

For the six months ended December 31, 2008, operating loss decreased $17.2 million, or 42.0 percent, compared to the prior year period, primarily due to lower provisions for employee incentive compensation programs and the impact of continued cost containment efforts.

LIQUIDITY AND CAPITAL RESOURCES

Despite the recent unprecedented turmoil in the global financial markets, we continue to believe that cash flow from operations and the availability under our credit lines will be sufficient to meet our cash requirements for the foreseeable future. At December 31, 2008, we had cash and cash equivalents of $69.7 million. Also at December 31, 2008, we had remaining borrowing capacity of $324.9 million available under our multi-currency, revolving credit line which extends to March 2011. Our current senior credit ratings are at investment grade levels. We believe that our current financial position, liquidity and credit ratings provide 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.

There have been no material changes in our contractual obligations and commitments since June 30, 2008.

Cash Flow Provided by Operating Activities

Cash flow from operations is our primary source of financing for capital expenditures and internal growth. During the six months ended December 31, 2008, cash flow provided by operating activities was $115.5 million, compared to $68.9 million for the prior year period. Cash flow provided by operating activities for the current year period consisted of net income and non-cash items totaling $108.2 million and changes in certain assets and liabilities netting to $7.3 million. Contributing to these changes were a decrease in accounts receivable of $113.2 million partially offset by a decrease in accounts payable and accrued liabilities of $78.8 million due in part to a $14.3 million payment of 2008 performance-based bonuses, and an increase in inventories of $24.2 million.

During the six months ended December 31, 2007, cash flow provided by operating activities was $68.9 million and consisted of net income and non-cash items totaling $144.9 million offset somewhat by changes in certain assets and liabilities netting to $76.0 million. Contributing to these changes were a decrease in accounts payable and accrued liabilities of $60.7 million partially driven by a $15.1 million payment of 2007 performance-based bonuses, an increase in inventories of $39.9 million due to higher raw material prices and initiatives to increase service levels, and a decrease in accounts receivable of $45.5 million.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Cash Flow Used for Investing Activities

Cash flow used for investing activities was $132.2 million for the six months ended December 31, 2008, an increase of $66.8 million, compared to $65.4 million in the prior year period. During the six months ended December 31, 2008, cash used for investing activities included $68.7 million used for purchases of property, plant and equipment, which consisted primarily of equipment upgrades, and $65.4 million used for the acquisition of business assets.

For the six months ended December 31, 2007, cash flow used for investing activities was $65.4 million and included $79.6 million used for purchases of property, plant and equipment, which consisted primarily of equipment upgrades and geographical expansion, partially offset by proceeds from the sale of investments in affiliated companies of $5.9 million and proceeds from divestitures of $3.0 million.

Cash Flow Provided by Financing Activities

Cash flow provided by financing activities was $25.9 million for the six months ended December 31, 2008, an increase of $22.0 million, compared to $3.9 million in the prior year period. During the six months ended December 31, 2008, cash flow provided by financing activities included a $163.7 million net increase in borrowings and $3.8 million of dividend reinvestment and the effect of employee benefit and stock plans partially offset by $127.5 million used for the repurchase of capital stock and $17.9 million of cash dividends paid to shareowners.

During the six months ended December 31, 2007, cash flow provided by financing activities was $3.9 million and included a $65.2 million net increase in borrowings and $11.9 million of dividend reinvestment and the effect of employee benefit and stock plans, mostly offset by $55.4 million for the repurchase of capital stock and $17.5 million of cash dividends paid to shareowners.

FINANCIAL CONDITION

At December 31, 2008, total assets were $2,625.4 million having decreased $158.9 million from $2,784.3 million at June 30, 2008. Total liabilities increased $60.6 million from $1,114.9 million at June 30, 2008 to $1,175.5 million at December 31, 2008.

Working capital was $590.9 million at December 31, 2008, a decrease of $39.8 million or 6.3 percent from $630.7 million at June 30, 2008. The decrease in working capital included a decrease in accounts receivable of $145.4 million, a decrease in accounts payable of $60.3 million and a decrease in accrued expenses of $31.2 driven partially by the payment of 2008 performance-based bonuses of $14.3 million. Foreign currency effects accounted for $42.4 million, $8.9 million and $9.8 million of the decreases in accounts receivable, accounts payable and accrued liabilities, respectively.

Property, plant and equipment, net decreased $13.8 million from $749.8 million at June 30, 2008 to $736.0 million at December 31, 2008, primarily due to the unfavorable impact of foreign currency effects of $38.9 million and depreciation expense of $42.2 million partially offset by the impact from a business acquisition of $14.5 million and capital additions of $53.1 million.

At December 31, 2008, other assets were $885.2 million, an increase of $2.6 million from $882.6 million at June 30, 2008. The primary drivers for the increase were an increase in goodwill and other intangible assets of $32.0 million due to a business acquisition and an increase in the fair value of derivative contracts of $13.7 million partially offset by unfavorable foreign currency effects of $42.9 million and amortization of intangible assets of $6.7 million

Long-term debt and capital leases increased $166.5 million from $313.1 million at June 30, 2008 to $479.6 million at December 31, 2008 primarily due to borrowings for the repurchase of capital stock during the September quarter of $127.5 million and cash used for the acquisition of business assets for the six months ended December 31, 2008 of $65.4 million.

Shareowners equity was $1,430.7 million at December 31, 2008, a decrease of $217.2 million from $1,647.9 million at June 30, 2008. The decrease was primarily attributed to a reduction from foreign currency translation adjustments of $141.0 million, the purchase of capital stock of $127.5 million and cash dividends paid to shareowners of $17.9 million partially offset by net income of $51.1 million.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

ENVIRONMENTAL MATTERS

We are subject to various U.S. Federal, state and international environmental laws and regulatory requirements and are involved from time to time in investigations or proceedings of various potential environmental issues concerning activities at our facilities or former facilities or remediation efforts as a result of past activities (including past activities of companies we have acquired). From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the Superfund Act) and/or equivalent laws. These notices assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us.

Superfund Sites We are involved as a PRP at several Superfund sites, and have responded to notices for other Superfund sites as to which our records disclose no involvement or for which predecessors of certain of our acquired companies have acknowledged responsibility. We have established reserves that we believe to be adequate to cover our share of the potential costs of remediation at certain of the Superfund sites; at December 31, 2008 the total of these accruals was $0.2 million. For the remaining Superfund sites, proceedings in those matters have not yet progressed to a stage 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 also maintain reserves for other potential environmental issues. At December 31, 2008, the total of these accruals was $5.2 million and represents anticipated costs associated with the remediation of these issues. We recorded favorable foreign currency translation adjustments of $0.8 million during the six months ended December 31, 2008 related to these reserves.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of cost over the fair value of acquired companies. Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. We perform our annual impairment tests during the June quarter in connection with our annual planning process. We also perform specific impairment tests on an interim basis if we deem that a triggering event indicating impairment of the goodwill for a reporting unit or an indefinite-lived intangible asset may have occurred. We evaluate the recoverability of goodwill for 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. This evaluation is sensitive to changes in market interest rates and other external factors.

A possible indicator of impairment is the relationship of a company s market capitalization to its book value. As of December 31, 2008, our market capitalization exceeded our book value. The persistence or further acceleration of the recent downturn in global economic conditions and turbulence in financial markets could have a further negative impact on our market capitalization and/or financial performance. Going forward, this could increase the likelihood of future non-cash impairment charges related to our goodwill or indefinite-lived intangible assets.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies since June 30, 2008.

NEW ACCOUNTING STANDARDS

See Note 3 to our condensed consolidated financial statements set forth in Part 1 Item 1 of this Form 10-Q for a description of new accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have experienced certain changes in our exposure to market risk from June 30, 2008. The fair value of our interest rate swap agreements was an asset of $14.4 million as of December 31, 2008 and an asset of $0.7 million as of June 30, 2008. We recorded the change in fair value of these agreements as a gain in other comprehensive income and a corresponding decrease to long-term debt, as these instruments are accounted for as a fair value hedge of our long-term debt. The $13.7 million change in the recorded value of these agreements was non-cash and was the result of marking these instruments to market.

There have been no other material changes to our market risk exposure since June 30, 2008.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-Q, the Company s management evaluated, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company s disclosure controls were designed to provide a reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls stated goals. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective.

There were no changes in the Company s internal control over financial reporting that occurred during the Company s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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
October 1 through October 31, 2008	2,117	$ 20.94		
November 1 through November 30, 2008	11,562	17.11		
December 1 through December 31, 2008	1,668	18.36		
Total	15,347	$ 17.77		

(1) During the three months ended December 31,

2008, employees delivered 3,834 shares of restricted stock to Kennametal, upon vesting, to satisfy tax-withholding requirements. Also during the three months ended December 31, 2008, 11,513 shares were purchased on the open market on behalf of Kennametal to fund the Company s dividend reinvestment program.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information set forth in Part II, Item 4 of the Company s September 30, 2008 Form 10-Q is incorporated herein by reference.

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ITEM 6. EXHIBITS

(10)	**Material Contracts**	
(10.1)*	Deferred Fee Plan for Outside Directors, as amended	Filed herewith.
(10.2)*	Directors Stock Incentive Plan, as amended	Filed herewith.
(10.3)*	Performance Bonus Stock Plan of 1995, as amended	Filed herewith.
(10.4)*	Kennametal Inc. Stock and Incentive Plan of 2002 (as amended on October 21, 2008)	Appendix A to the 2008 Proxy Statement filed September 8, 2008 is incorporated herein by reference.
(10.5)*	Amendment No. 3 to Employment Agreement with Carlos M. Cardoso	Filed herewith.
(10.6)*	Form of Amendment to Amended and Restated Employment Agreement with Named Executive Officers (other than Mr. Cardoso)	Filed herewith.
(10.7)*	Schedule of Named Executive Officers who have entered into the Amendment to the Amended and Restated Employment Agreement as set forth in Exhibit 10.6.	Filed herewith.
(10.8)*	Kennametal Inc. 2006 Executive Retirement Plan (as amended effective December 30, 2008)	Filed herewith.
(10.9)*	Kennametal Inc. Supplemental Executive Retirement Plan (as amended effective December 30, 2008)	Filed herewith.
(31)	**Rule 13a-14a/15d-14(a) Certifications**	
(31.1)	Certification executed by Carlos M. Cardoso, Chairman, President and Chief Executive Officer of Kennametal Inc.	Filed herewith.
(31.2)	Certification executed by Frank P. Simpkins, Vice President and Chief Financial Officer of Kennametal Inc.	Filed herewith.
(32)	**Section 1350 Certifications**	
(32.1)	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Carlos M. Cardoso, Chairman, President and Chief Executive Officer of Kennametal Inc., and Frank P. Simpkins, Vice President and Chief Financial Officer of Kennametal Inc.	Filed herewith.

*

Denotes management contract or compensatory plan or arrangement.

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SIGNATURES

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

	KENNAMETAL INC.
Date: February 4, 2009	By: /s/ Wayne D. Moser Wayne D. Moser Vice President Finance and Corporate Controller

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