INERGY L P
Form 424B2
February 28, 2003
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Filed Pursuant to Rule 424(b)(2)

Registration No. 333-101165

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 22, 2002)

700,000 Common Units

Representing Limited Partner Interests

We are offering to sell 700,000 common units. Our common units are traded on the Nasdaq National Market under the symbol NRGY. The last reported sale price of our common units on the Nasdaq on February 27, 2003 was $31.01 per common unit.

Investing in our common units involves risks. See Risk Factors beginning on page 1 of the accompanying prospectus.

	Per Common Unit	Total
Public offering price	$ 31.010	$ 21,707,000
Underwriting discount	$ 1.628	$ 1,139,600
Proceeds, before expenses, to Inergy, L.P.	$ 29.382	$ 20,567,400

We have granted the underwriter a 30-day option to purchase up to an additional 105,000 common units on the same terms and conditions as set forth above to cover over-allotments of common units, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers expects to deliver the common units on or about March 5, 2003.

February 27, 2003

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This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of common units. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the common units.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference.

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SUMMARY

This summary highlights some basic information from this prospectus supplement and the accompanying prospectus to help you understand the common units. It does not contain all of the information that is important to you. You should carefully read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference to understand fully the terms of the common units. You should read Risk Factors beginning on page 1 of the accompanying prospectus for more information about important risks that you should consider before buying common units in this offering. The information presented in this prospectus supplement assumes that the underwriter does not exercise its over-allotment option.

Throughout this prospectus supplement and the accompanying prospectus,

(1) *when we use the terms we, us, or Inergy, L.P., we are referring either to Inergy, L.P., the registrant itself, or to Inergy, L.P. and its operating subsidiaries collectively, as the context requires, and*

(2) *when we use the term our predecessor, we are referring to Inergy Partners, LLC, the entity that conducted our business prior to our initial public offering, which closed on July 31, 2001. Inergy, L.P. was formed as a Delaware limited partnership on March 7, 2001 and did not have operations until the initial public offering. Our predecessor commenced operations in November 1996. The discussion of our business throughout this prospectus supplement and the accompanying prospectus relates to the business operations of Inergy Partners, LLC prior to Inergy, L.P. s initial public offering and Inergy, L.P. thereafter.*

Inergy, L.P.

We own and operate a rapidly growing retail and wholesale propane marketing and distribution business. Since our predecessor s inception in November 1996, we have acquired 16 propane companies for an aggregate purchase price of approximately $245 million, including working capital, assumed liabilities and acquisition costs. For the fiscal year ended September 30, 2002, we sold and physically delivered approximately 89 million gallons of propane to retail customers and approximately 428 million gallons of propane to wholesale customers.

We believe we are the seventh largest propane retailer in the United States, based on retail propane gallons sold. Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products primarily under seven regional brand names: Bradley Propane, Country Gas, Hancock, Hoosier Propane, McCracken, Pro Gas and Independent Propane Company (IPC). We serve approximately 210,000 retail customers in Arkansas, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia and Wisconsin from 109 customer service centers which have an aggregate of approximately 6.6 million gallons of above-ground propane storage capacity. In addition to our retail business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGL) marketing and distribution companies. We currently provide wholesale supply and distribution services to customers in 33 states, primarily in the eastern half of the United States.

We have grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since our initial acquisition of McCracken Oil & Propane Company in 1996, we have completed fifteen additional acquisitions in Florida, North Carolina, Ohio, Tennessee, Illinois, Indiana, Michigan and Texas. The following chart sets forth information about each company we have acquired:

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Acquisition Date	Company (1)	Headquarter s Location
November 1996	McCracken Oil & Propane Company, LLC	Wake Forest, NC
December 1998	Wilson Oil Company of Johnston County, Inc.	Wilson s Mills, NC
December 1998	Ernie Lee Oil & LP Gas, LLC	Raleigh, NC
May 1999	Langston Gas & Oil Co., Inc.	Four Oaks, NC
July 1999	Castleberry s, Inc.	Smithfield, NC
August 1999	Rolesville Gas & Oil Company, Inc.	Raleigh, NC
October 1999	Bradley Propane, Inc.	Chattanooga, TN
November 1999	Butane-Propane Gas Company of Tenn., Inc.	Marion, TN
June 2000	Country Gas Company, Inc.	Crystal Lake, IL
November 2000	Bear-Man Propane	Hixson, TN
January 2001	Hoosier Propane Group	Kendallville, IN
November 2001	Pro Gas Companies	Muskegon, MI
December 2001	Independent Propane Company Holdings	Irving, TX
October 2002	Hancock Gas Service, Inc.	Findlay, OH
December 2002	Central Carolina Gas Company, Inc.	Hamlet, NC
December 2002	Live Oak Gas Company, Inc.	Live Oak, FL

(1) Name of acquired company as of acquisition date.

Our common units, which represent limited partner interests, are traded on the Nasdaq National Market under the symbol NRGY. On February 27, 2003, the last reported sale price of our common units on the Nasdaq was $31.01 per common unit.

Our principal executive offices are located at 2 Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112, and our phone number is (816) 842-8181.

Recent Developments

Potential Acquisitions

As part of our ongoing acquisition program, we are continuing to evaluate a number of potential acquisitions, which are at various stages of the due diligence and negotiation process and which we believe are consistent with our acquisition strategy of making acquisitions that will increase our distributable cash flow per unit. As of February 27, 2003, Inergy had executed non-binding letters of intent to acquire substantially all of the assets of three retail propane marketers. The aggregate purchase price for these three propane marketers is anticipated to be approximately $50 million. It is expected that the consideration for these acquisitions would be payable in cash which would be obtained from our revolving line of credit for acquisitions under our bank credit facility. Each of these acquisitions is subject to the successful negotiation of a definitive purchase agreement and the satisfaction of customary closing conditions. There can be no assurance that any or all of these acquisitions will be consummated.

Recent Acquisitions

Live Oak Acquisition. In December 2002, we acquired the assets of Live Oak Gas Company, Inc. Live Oak Gas serves approximately 3,800 retail customers from two customer service centers in northern Florida.

Central Carolina Gas Acquisition. In December 2002, we acquired the assets of Central Carolina Gas Company, Inc. Central Carolina Gas serves approximately 2,000 retail customers.

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Hancock Gas Acquisition. In October 2002, we acquired the assets of Hancock Gas Service, Inc. Hancock Gas Service serves approximately 8,500 retail customers from four customer service centers and two satellite plants in northwestern Ohio.

Business Strategy

Our primary objective is to increase distributable cash flow for our unitholders, while maintaining the highest level of commitment and service to our customers. We intend to pursue this objective by capitalizing on our competitive strengths as follows:

Proven Acquisition Expertise. Our executive officers and key employees, who combined have more than 115 years of experience in the propane or energy industry, have significant industry contacts that have enabled us to negotiate all sixteen of our acquisitions on an exclusive basis. This acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions that complement our existing operations.

Internal Growth. We promote internal growth in our retail operations through a combination of marketing programs and employee incentives. We also provide various financial and other services, including level payment, fixed price and price cap programs, supply, repair and maintenance contracts, and 24-hour customer service, in order to attract new customers and retain existing customers.

Operations in High Growth Markets. A majority of our operations are concentrated in higher-than-average population growth areas where natural gas distribution is not cost effective. We intend to pursue acquisitions in similar high growth markets.

Regional Branding. We believe that our success in generating internal growth at our customer service centers results from our established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention.

High Percentage of Retail Sales to Residential Customers. Our retail propane operations concentrate on sales to residential customers who generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2002, sales to residential customers represented approximately 70% of our retail propane gallons sold.

Strong Wholesale Supply, Marketing and Distribution Business. Our wholesale business provides us with growing revenues as well as valuable market intelligence and awareness of potential acquisition opportunities. In addition, these operations help us achieve a secure, efficient source of supply and product cost advantages for our customer service centers. Moreover, the presence of our trucks serving our wholesale customers across the eastern half of the United States allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time.

Flexible Financial Structure. We have a $75.0 million revolving credit facility for acquisitions and a $50.0 million revolving working capital facility. Upon completion of this offering, we expect to have available capacity of approximately $63.1 million under our acquisition facility and approximately $50.0 million under our working capital facility. We believe our available capacity under these facilities combined with our ability to fund acquisitions through the issuance of additional partnership interests will provide us with a flexible financial structure that will facilitate our acquisition strategy.

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Our Structure

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through our operating company, Inergy Propane, LLC.

We own a 100% membership interest in Inergy Propane, LLC. Our membership interest in Inergy Propane, LLC carries all of the economic and voting rights.

Inergy GP, LLC, our managing general partner, has sole responsibility for conducting our business and managing our operations. Our managing general partner s only interest in us is its management rights. Inergy GP, LLC has no economic interest in our partnership and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf.

Inergy Partners, LLC, our non-managing general partner, owns a 2% general partner interest in us. The 2% general partner interest is entitled to its proportionate share of allocations and distributions in our partnership. Our non-managing general partner has no operational or managerial responsibilities under our partnership agreement. In this prospectus supplement, we refer to the interest owned by the non-managing general partner as its 2% general partner interest.

Inergy Holdings, LLC and its affiliates own 100% of our managing general partner and our non-managing general partner. Inergy Holdings also owns all of the incentive distribution rights, which entitle it to receive increasing percentages, up to 48%, of any cash we distribute in excess of $0.66 per unit in any quarter. Additionally, Inergy Holdings, LLC and its affiliates own 404,601 common units and 1,807 senior subordinated units, which will represent an aggregate limited partner interest in us of approximately 4.7% after this offering.

New Inergy Propane, LLC, a wholly-owned subsidiary of our non-managing general partner, owns 959,954 senior subordinated units and 507,063 junior subordinated units, which will represent an aggregate limited partner interest in us of approximately 17.1% after this offering.

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The Offering

Common units offered by Inergy, L.P.	700,000 common units.
	805,000 common units if the underwriter exercises its over-allotment option in full.
Units outstanding after this offering	4,527,176 common units, or 4,632,176 common units if the underwriter exercises its over-allotment option in full;
	3,313,367 senior subordinated units; and
	572,542 junior subordinated units
Use of proceeds	We will use the net proceeds from this offering and the general partner s capital contribution to reduce approximately $20.7 million of indebtedness under the revolving acquisition facility within our bank credit facility, all of which was incurred for recent acquisitions and funding of growth capital expenditures. Upon completion of this offering, we expect to have available borrowing capacity of approximately $63.1 million under our revolving acquisition facility.
Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand at the end of each quarter, less reserves established by our managing general partner. We refer to this cash as available cash, and we define its meaning in our partnership agreement. The amount of available cash may be greater than or less than the minimum quarterly distribution.
	Common units are entitled to receive distributions of available cash of $0.60 per quarter, or $2.40 on an annualized basis, before any distributions are paid on our subordinated units.
	On February 14, 2003, we paid a quarterly cash distribution for the first quarter of fiscal year 2003 of $0.715 per common, senior subordinated and junior subordinated unit, or $2.86 on an annualized basis.
	In general, during the subordination period we will pay any cash distributions we make each quarter in the following manner:
	first, 98% to the common units and 2% to the non-managing general partner, until each common unit has received a minimum quarterly distribution of $0.60 plus any arrearages from earlier quarters;
	second, 98% to the senior subordinated units and 2% to the non-managing general partner, until each senior subordinated unit has received a minimum quarterly distribution of $0.60;
	third, 98% to the junior subordinated units and 2% to the non-managing general partner, until each junior subordinated unit has received a minimum quarterly distribution of $0.60; and

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	fourth, 98% to all units, pro rata, and 2% to the non-managing general partner, until each unit has received a distribution of $0.66 per quarter.
	If cash distributions exceed $0.66 per unit in any quarter, Inergy Holdings will receive increasing percentages, up to 48%, of the cash we distribute in excess of that amount. We refer to Inergy Holdings right to receive these higher amounts of cash as incentive distribution rights.
Subordination periods	The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before June 30, 2006 with respect to the senior subordinated units and June 30, 2008 with respect to the junior subordinated units.
	When the applicable subordination period ends, all remaining senior subordinated units or junior subordinated units, as applicable, will convert into common units on a one-for-one basis. Once all subordinated units have been converted into common units, the common units sold in this offering will no longer be entitled to arrearages.
Early conversion of subordinated units	If we meet the applicable financial tests in the partnership agreement for any quarter ending on or after June 30, 2004, 25% of the senior subordinated units will convert into common units. If we meet these tests for any quarter ending on or after June 30, 2005, an additional 25% of the senior subordinated units will convert into common units. The early conversion of the second 25% of the senior subordinated units may not occur until at least one year after the early conversion of the first 25% of the senior subordinated units.
	If we meet the applicable financial tests in the partnership agreement for any quarter ending on or after June 30, 2006, 25% of the junior subordinated units will convert into common units. If we meet these tests for any quarter ending on or after June 30, 2007, an additional 25% of the junior subordinated units will convert into common units. The early conversion of the second 25% of the junior subordinated units may not occur until at least one year after the early conversion of the first 25% of the junior subordinated units.
	Notwithstanding the foregoing, all outstanding junior subordinated units may convert into common units on a one-for-one basis on or after June 30, 2006, if we have paid a distribution of at least $2.80 on each outstanding unit for each of the three preceding non-overlapping four-quarter periods, all of the senior subordinated units have been converted into common units, and we have met other applicable financial tests in the partnership agreement.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through December 31, 2005, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be no more than 20% of the cash distributed to you with respect to that period. Please read Tax Considerations in the prospectus supplement for the basis of this estimate.
Nasdaq National Market symbol	NRGY

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RISK FACTORS

You should read carefully the discussion of the material risks relating to an investment in the common units offered by Inergy set forth under Risk Factors beginning on page 1 of the accompanying prospectus.

USE OF PROCEEDS

We will receive approximately $20.3 million from the sale of the 700,000 common units, or approximately $23.4 million if the underwriter s over-allotment option is exercised in full, in each case, after deducting underwriting discounts and commissions and offering expenses. In connection with the offering, we will also receive a capital contribution of $0.4 million from our general partner to maintain its 2% general partner interest, or $0.5 million if the underwriter exercises the over-allotment option in full.

We will use the net proceeds of this offering and the general partner s capital contribution to reduce approximately $20.7 million of indebtedness under the revolving acquisition facility within our bank credit facility, all of which was incurred for recent acquisitions and funding of growth capital expenditures. Upon completion of this offering, we expect to have available borrowing capacity of approximately $63.1 million under our revolving acquisition facility, which could be used for additional acquisitions that would increase distributable cash flow per unit.

As of February 27, 2003, total borrowings under our revolving acquisition facility were approximately $32.6 million and had a weighted average interest rate of 3.70%. The credit facility has a maturity date of December 20, 2004.

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of December 31, 2002, we had 3,827,176 common units outstanding, owned by approximately 5,400 holders of record. The common units are listed and traded on the Nasdaq National Market under the symbol NRGY.

The following table shows the high and low closing sales prices per common unit, as reported by the Nasdaq National Market, for the periods indicated. Distributions are shown in the quarter for which they were paid. For each quarter, an identical cash distribution was paid on all outstanding senior and junior subordinated units. The last reported sale price of the common units on the Nasdaq on February 27, 2003 was $31.01.

Period Ended	Low	High	Cash Distributions Per Unit
Fiscal 2003:			
March 31, 2003 (a)	$ 28.40	$ 32.23	
December 31, 2002	27.60	29.44	$ 0.715

Fiscal 2002:			
September 30, 2002	$ 27.97	$ 30.24	$ 0.700
June 30, 2002	29.75	34.24	0.675
March 31, 2002	27.65	30.10	0.660
December 31, 2001	23.50	28.25	0.625
Fiscal 2001:			
September 30, 2001	$ 22.20	$ 27.45	$ 0.400(b)

(a) Through February 27, 2003.

(b) Reflects the pro rata portion of the $0.60 minimum quarterly distribution per unit, representing the period from the July 31, 2001 closing of the initial public offering through September 30, 2001.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2002:

- On a consolidated historical basis; and

- As adjusted to give effect to the sale of common units offered by this prospectus supplement, our general partner s proportionate capital contribution and the application of the net proceeds from this offering as described under Use of Proceeds.

You should read our financial statements and the notes to those financial statements that are incorporated by reference in the prospectus supplement for additional information about our capital structure.

	As of December 31, 2002		
	Consolidated Historical	Equity Offering Adjustments	As Adjusted
		(in thousands)	
Cash and cash equivalents	$ 4,524		$ 4,524
Debt:			
Current portion of long-term debt	$ 14,232		$ 14,232
Long-term debt	121,698	$ (20,710)	100,988
Total debt	135,930	(20,710)	115,220
Partners capital:			
Common unitholders	77,789	20,267	98,056
Senior subordinated unitholders	42,221		42,221
Junior subordinated unitholders	768		768
Non-managing general partner	2,252	443	2,695
Total partners capital	123,030	20,710	143,740
Total capitalization	$ 258,960	$	$ 258,960

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TAX CONSIDERATIONS

The tax consequences to you of an investment in common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the ownership and disposition of common units, please read Tax Considerations in the accompanying prospectus. You are urged to consult your own tax advisor about the federal, state, local and foreign tax consequences peculiar to your circumstances.

We estimate that if you purchase common units in this offering and own them through December 31, 2005, then you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed to you with respect to that period. If you own common units purchased in this offering for a shorter period, the percentage of federal taxable income allocated to you may be higher. These estimates are based upon the assumption that our available cash for distribution will be sufficient for us to make quarterly distributions of $0.715 per unit to the holders of our common units, and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and certain tax reporting positions that we have adopted with which the IRS could disagree. In addition, subsequent issuances of equity securities by us could also affect the percentage of distributions that will constitute taxable income. Accordingly, we cannot assure you that the estimates will be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could be material and could materially affect the value of the common units.

Recent Treasury pronouncements directed at abusive tax shelter activity appear to apply to transactions not conventionally regarded as tax shelters. Temporary and proposed regulations require taxpayers to report certain information on Internal Revenue Service Form 8886 if they participate in a reportable transaction. A transaction may be a reportable transaction based upon any of several factors, including the existence of book-tax differences common to financial transactions, one or more of which may be present with respect to your investment in our common units. There are pending in the Congress legislative proposals that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. The Internal Revenue Service has announced that it intends to issue revised regulations regarding these disclosure requirements in 2003. It is not known whether any such revised regulations will explicitly exclude from the disclosure requirements transactions such as the issuance of common units. The new regulations also impose obligations on persons that provide statements concerning the tax consequences of certain tax shelters to participants in such transactions. Those obligations apply to registered tax shelters. As described in the accompanying prospectus, we have registered as a tax shelter, and, thus, specific persons who provide you with a statement about the tax consequences of your investment in our common units will be required to maintain a list with specific information, including your name and tax identification number, and to furnish this information to the Internal Revenue Service upon request. Investors should consult their own tax advisors concerning any possible disclosure obligation with respect to their investment, and should be aware that we intend to comply with such disclosure requirements.

On January 7, 2003, the Bush Administration released a proposal that would exclude certain corporate dividends from an individual s federal taxable income. Enactment of legislation reducing or eliminating the federal income tax on corporate dividends may cause certain investments to be a more attractive investment to individual investors than an investment in the common units. As of the date of this prospectus supplement, we cannot predict whether the Bush Administration s plan will ultimately be enacted into law, and if so, the form or effective date of that legislation. Enactment of legislation reducing or eliminating the federal income tax on corporate dividends could materially affect the value of the common units.

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UNDERWRITING

Units in Trust - Valued at the quoted NAV at year end.

The methods described above might produce a fair value calculation that might not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan administrator believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial statements could result in a different fair value measurement at the reporting date.

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The following table sets forth by level, within the fair value hierarchy, the Master Trust's investments at fair value measurements at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds	$251,894,135	$ —	$ —	$251,894,135
Kennametal Inc. capital stock	44,541,947	—	—	44,541,947
Self-directed brokerage account:				
Common and preferred stocks	2,711,154	—	—	2,711,154
Mutual funds	376,988	—		376,988
Cash and cash equivalents	2,295,664	—	—	2,295,664
Units in trust	1,121,940	—	—	1,121,940
Total Investments in the fair value hierarchy	$302,941,828	$ —	$ —	$302,941,828
Investments measured at NAV (1)				228,268,165
Investments, at fair value				$531,209,993

The following table sets forth by level, within the fair value hierarchy, the Master Trust's investments at fair value measurements at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds	$219,579,499	$ —	$ —	$219,579,499
Kennametal Inc. capital stock	35,515,682	—	—	35,515,682
Self-directed brokerage account:				
Common and preferred stocks	2,695,100	—	—	2,695,100
Mutual funds	1,523,945	—		1,523,945
Cash and cash equivalents	2,000,428	—	—	2,000,428
Units in trust	223,869	—	—	223,869
Total Investments in the fair value hierarchy	$261,538,523	$ —	$ —	$261,538,523
Investments measured at NAV (1)				202,624,453
Investments, at fair value				$464,162,976

[1] In accordance with Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

Transfers Between Levels - The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques might require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Plan evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. There were no significant transfers between levels during 2017 or 2016.

NOTE 5 – STABLE VALUE FUND

The Master Trust has a fully benefit-responsive guaranteed investment contract (Stable Value Fund) with Invesco which participants in the Plan own interest in. Invesco maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract with Invesco is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Master Trust, and in turn, the Plan. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer, but it may not be less than 0%. Such interest rates are reviewed on a quarterly basis for resetting. The guaranteed investment contract does not permit the insurance company to terminate the agreement prior to the scheduled maturity date.

This contract meets the fully benefit-responsive investment contract criteria and therefore is reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value, as reported to the Plan by Invesco, represents contributions made under the contract, plus earnings, less participant withdrawals, and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

The Plan's ability to receive amounts due is dependent on the issuer's ability to meet its financial obligations. The issuer's ability to meet its contractual obligations may be affected by future economic and regulatory developments. Certain events limit the ability of the Master Trust and the Plan to transact at contract value with the issuer. Such events include: 1) amendments to the Master Trust or Plan documents (including complete or partial termination of the Master Trust or merger with another plan that does not participate in the Master Trust arrangement), 2) changes to the Master Trust’s prohibition on competing investment options or deletion of equity wash provisions, 3) bankruptcy of the Plan sponsor or other Plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that cause a significant withdrawal from the Master Trust or the Plan, 4) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA, or 5) premature termination of the contract. The Plan administrator believes that any events that would limit the Master Trust’s or Plan’s ability to transact at contract value with participants are probable of not occurring.

In addition, certain events allow the issuer to terminate the contract with the Master Trust and Plan and settle at an amount different from contract value. Such events include (1) an uncured violation of the Plan's investment guidelines, (2) a breach of material obligation under the contract, (3) a material misrepresentation, (4) a material amendment to the agreement without the consent of the issuer.

NOTE 6 – TAX STATUS

The IRS has determined and informed the Plan sponsor by a letter dated December 4, 2014, that the Plan and related trust are designed in accordance with applicable sections of the IRC. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe the Plan is currently designed and is currently being operated in compliance with the applicable regulations of the Internal Revenue Code and therefore believe that the Plan is qualified and the related trust is tax-exempt. Accordingly, no provision for income taxes has been included in the Plan’s financial statements.

Accounting principles generally accepted in the United States of America require the Plan administrator to evaluate tax positions taken by the Plan and recognize a tax liability or asset if the Plan has taken an uncertain tax position that more likely than not would be sustained upon examination by the IRS. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 7 – PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions and to terminate the Plan at any time, subject to the provisions of ERISA. In the event of Plan termination, participants would become 100% vested in the Company contributions.

NOTE 8 – RISKS AND UNCERTAINTIES

The Plan, through the Master Trust, invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

NOTE 9 – RELATED PARTY TRANSACTIONS AND PARTY-IN-INTEREST TRANSACTIONS

Certain investments of the Plan are managed by Fidelity Investments. The trustee of the Plan is FMTC and, therefore, these transactions qualify as party-in-interest transactions.

One of the investment fund options available to participants is capital stock of Kennametal Inc., the Plan sponsor. The Plan held 919,104 and 1,135,074 shares of Kennametal Inc. capital stock, or $44,541,947 and $35,515,682 at December 31, 2017 and 2016, respectively. As a result, transactions related to this investment qualify as party-in-interest transactions.

KENNAMETAL THRIFT PLUS PLAN
PLAN NUMBER: 002
EIN: 25-0900168
SCHEDULE H, LINE 4i
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2017

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Cost	(e) Current Value
*	Plan Interest in the Kennametal Inc. Master Trust	Master Trust	**	$607,000,224
	PARTICIPANT LOANS*	Interest rates from 4.25% to 10.00%	$ —	$11,690,712

* - Designates party-in-interest as defined by ERISA
** - Cost omitted for participant directed accounts

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SIGNATURES

THE PLAN. Pursuant to the requirements of the Securities Exchange Act of 1934, the plan administrator of the Kennametal Thrift Plus Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

	KENNAMETAL THRIFT PLUS PLAN	
Date: June 14, 2018	By:	/s/ Meghana Kulkarni Meghana Kulkarni Plan Administrator

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