

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1995

Commission file number 1-5318

KENNAMETAL INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction
of incorporation)

25-0900168
(I.R.S. Employer
Identification No.)

ROUTE 981 AT WESTMORELAND COUNTY AIRPORT
P.O. BOX 231
LATROBE, PENNSYLVANIA 15650
(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (412) 539-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

TITLE OF EACH CLASS	OUTSTANDING AT OCTOBER 31, 1995
Capital Stock, par value \$1.25 per share	26,624,461

KENNAMETAL INC.
FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 1995

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 1995	June 30, 1995
	-----	-----
ASSETS		
Current Assets:		
Cash and equivalents	\$ 12,636	\$ 10,827
Accounts receivable, less allowance for doubtful accounts of \$12,067 and \$12,106	167,143	175,405
Inventories	212,218	200,680
Deferred income taxes	22,262	22,362
	-----	-----
Total current assets	414,259	409,274
	-----	-----
Property, Plant and Equipment:		
Land and buildings	152,651	151,905
Machinery and equipment	372,274	365,275
Less accumulated depreciation	(262,266)	(256,838)
	-----	-----
Net property, plant and equipment	262,659	260,342
	-----	-----
Other Assets:		
Investments in affiliated companies	7,001	6,873
Intangible assets, less accumulated amortization of \$19,451 and \$19,009	31,810	32,253
Deferred income taxes	51,273	56,629
Other	24,961	16,238
	-----	-----
Total other assets	115,045	111,993
	-----	-----
Total assets	\$791,963	\$781,609
	=====	=====
LIABILITIES		
Current Liabilities:		
Current maturities of term debt and capital leases	\$ 16,433	\$ 17,475
Notes payable to banks	62,145	53,555
Accounts payable	57,479	60,211
Accrued vacation pay	18,116	18,424
Other	74,131	75,537
	-----	-----
Total current liabilities	228,304	225,202
	-----	-----
Term Debt and Capital Leases,		
Less Current Maturities	78,177	78,700
Deferred Income Taxes	21,154	20,998
Other Liabilities	50,967	51,615
	-----	-----
Total liabilities	378,602	376,515
	-----	-----
Minority Interest in Consolidated Subsidiaries	13,861	13,209
	-----	-----
SHAREHOLDERS' EQUITY		
Shareholders' Equity:		
Preferred stock, 5,000 shares authorized; none issued	-	-
Capital stock, \$1.25 par value; 70,000 shares authorized; 29,370 shares issued	36,712	36,712
Additional paid-in capital	86,285	85,768
Retained earnings	307,490	297,838
Treasury shares, at cost; 2,745 and 2,793 shares held	(36,435)	(36,737)
Cumulative translation adjustments	5,448	8,304
	-----	-----
Total shareholders' equity	399,500	391,885
	-----	-----
Total liabilities and shareholders' equity	\$791,963	\$781,609
	=====	=====

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended	
	September 30,	
	1995	1994
OPERATIONS:		
Net sales	\$254,903	\$218,838
Cost of goods sold	148,461	128,051
Gross profit	106,442	90,787
Research and development expenses	4,964	4,419
Selling, marketing and distribution expenses	59,375	50,768
General and administrative expenses	15,692	12,877
Amortization of intangibles	384	773
Operating income	26,027	21,950
Interest expense	2,939	3,474
Other income (expense)	(249)	92
Income before taxes	22,839	18,568
Provision for income taxes	9,200	7,900
Net income	\$ 13,639	\$ 10,668
PER SHARE DATA:		
Earnings per share	\$ 0.51	\$ 0.40
Dividends per share	\$ 0.15	\$ 0.15
Weighted average shares outstanding	26,597	26,390

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)

	Three Months Ended	
	September 30,	
	1995	1994
OPERATING ACTIVITIES:		
Net income	\$13,639	\$10,668
Adjustments for noncash items:		
Depreciation and amortization	9,767	9,935
Other	2,970	227
Changes in certain assets and liabilities net of effects from acquisitions:		
Accounts receivable	2,537	(4,627)
Inventories	(13,046)	(10,463)
Accounts payable and accrued liabilities	(4,848)	(12,063)
Other	3,868	5,742
Net cash flow from (used for) operating activities	14,887	(581)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(18,030)	(7,713)
Disposals of property, plant and equipment	1,008	1,040
Other	(418)	555
Net cash flow used for investing activities	(17,440)	(6,118)
FINANCING ACTIVITIES:		
Increase in short-term debt	8,498	24
Increase in term debt	1,041	2,288
Reduction in term debt	(1,879)	(1,831)
Dividend reinvestment and employee stock plans	819	2,299
Cash dividends paid to shareholders	(3,987)	(3,953)
Net cash flow from (used for) financing activities	4,492	(1,173)
Effect of exchange rate changes on cash	(130)	126
CASH AND EQUIVALENTS:		
Net increase (decrease) in cash and equivalents	1,809	(7,746)
Cash and equivalents, beginning	10,827	17,190
Cash and equivalents, ending	\$12,636	\$ 9,444
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 1,654	\$ 2,294
Income taxes paid	4,995	1,627

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company's 1995 Annual Report. The condensed consolidated balance sheet as of June 30, 1995 has been derived from the audited balance sheet included in the Company's 1995 Annual Report. These interim statements are unaudited; however, management believes that all adjustments necessary for a fair presentation have been made and all adjustments are normal, recurring adjustments. The results for the three months ended September 30, 1995 are not necessarily indicative of the results to be expected for the full fiscal year.
2. Inventories are stated at lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of domestic inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The Company used the LIFO method of valuing its inventories for approximately 55 percent of total inventories at September 30, 1995. 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 management's projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.
3. The major classes of inventory as of the balance sheet dates were as follows (in thousands):

	September 30, 1995	June 30, 1995
	-----	-----
Finished goods	\$157,072	\$147,231
Work in process and powder blends	67,934	65,231
Raw materials and supplies	26,603	24,629
	-----	-----
Inventory at current cost	251,609	237,091
Less LIFO valuation	(39,391)	(36,411)
	-----	-----
Total inventories	\$212,218	\$200,680
	=====	=====

4. The Company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the Company has been named as a potentially responsible party at four Superfund sites in the United States. However, it is management's opinion, based on its evaluations and discussions with outside counsel and independent consultants, that the ultimate resolution of these environmental matters will not have a material adverse effect on the results of operations, financial position or cash flows of the Company.

The Company maintains a Corporate Environmental, Health and Safety (EH&S) Department to ensure compliance with all environmental regulations and to monitor and oversee remediation activities. In addition, the Company has established an EH&S administrator at each of its domestic manufacturing facilities. The Company's financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly and annual basis, management establishes or adjusts financial provisions and reserves for environmental contingencies in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies."

5. Prior to its acquisition by the Company, a non-U.S. subsidiary recorded sales of approximately \$60 million in calendar 1993 under contracts with a certain customer to provide various equipment, know-how and training for a manufacturing facility. Upon the acquisition by the Company, the subsidiary decided to complete performance under the contracts with this customer but to not enter into any such contracts in the future.

Pursuant to a United States embargo effective June 6, 1995, the

subsidiary suspended performance under the contracts pending issuance by the U.S. government of definitive embargo regulations. Other than finalizing the transfer of know-how and training to commence production, performance was substantially completed prior to the suspension. The estimated costs to complete performance are not material and were accrued in the consolidated financial statements. The customer disputed the suspension and advised that it might file suit to require completion of performance as well as for compensation for alleged damages. However, the subsidiary reinstated performance following the issuance of definitive embargo regulations in September of 1995.

Management believes that the ultimate resolution of this matter will not have a material adverse impact on the financial position of the Company.

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

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

There were no material changes in financial position, liquidity or capital resources between June 30, 1995 and September 30, 1995. The ratio of current assets to current liabilities was 1.8 as of September 30, 1995 and June 30, 1995. The debt to capital ratio (i.e., total debt divided by the sum of total debt and shareholders' equity) was 28 percent as of September 30, 1995 unchanged from June 30, 1995.

Capital expenditures are estimated to be \$60-70 million in fiscal year 1996. Expenditures are being made to modernize facilities, upgrade machinery and equipment, and acquire new information technology. Capital expenditures are being financed with cash from operations and borrowings under existing revolving credit agreements with banks.

RESULTS OF OPERATIONS

SALES AND EARNINGS

During the quarter ended September 30, 1995, consolidated sales were \$255 million, up 16 percent from \$219 million in the same quarter last year. The increase in consolidated sales is attributable to an increase in sales volume of 11 percent, modest price increases, newly-consolidated international subsidiaries and favorable foreign currency translation effects. Excluding favorable foreign currency translation effects, international sales increased 20 percent and continued to show strong demand in all end markets.

Net income for the September 1995 quarter was \$13.6 million, or \$0.51 per share, as compared with net income of \$10.7 million, or \$0.40 per share in the same quarter last year. Net income increased from higher sales of metalcutting tools in North America and Europe, and the continued growth of catalog sales.

The following table presents the Company's sales by product class and geographic area (in thousands):

	Quarter ended September 30,		
	1995	1994	% Change
	-----	-----	-----
Sales by Product Class:			
Metalworking	\$216,947	\$183,581	18.2
Mining and construction	30,240	28,367	6.6
Metallurgical	7,716	6,890	12.0
	-----	-----	
Net sales	\$254,903	\$218,838	16.5
	=====	=====	
Sales by Geographic Area:			
Within the U.S.	\$154,940	\$140,569	10.2
Foreign and export	99,963	78,269	27.7
	-----	-----	
Net sales	\$254,903	\$218,838	16.5
	=====	=====	

METALWORKING PRODUCTS

During the September 1995 quarter, worldwide sales of metalworking products increased 18 percent from last year.

In the United States, direct sales of metalcutting inserts and toolholding devices increased 5 percent. Total sales of industrial supply products

increased 24 percent as a result of increased sales through mail order catalogs and full service supply programs.

International sales of metalworking products increased 27 percent from the previous year primarily because of higher sales volume in Europe, the impact of favorable foreign currency translation effects, and newly-consolidated subsidiaries in Japan and China. Excluding the currency translation effect, international metalworking sales increased an estimated 19 percent.

MINING AND CONSTRUCTION PRODUCTS

During the September 1995 quarter, sales of mining and construction tools increased 7 percent from the previous year primarily because of additional domestic demand for mining and construction tools. International sales of highway construction and mining tools increased because of strong demand in Canada and Europe.

METALLURGICAL PRODUCTS

During the September 1995 quarter, sales of metallurgical products increased 12 percent from the previous year primarily because of strong international demand for carbide powders.

GROSS PROFIT

As a percentage of sales, gross profit for the September 1995 quarter was 41.8 percent as compared with 41.5 percent in the prior year. The gross profit margin benefited from higher production levels, modest price increases and favorable currency effects of international sales of products manufactured in the United States. These benefits were largely offset by higher raw material costs and reduced manufacturing efficiencies.

OPERATING EXPENSES

For the quarter ended September 30, 1995, operating expenses increased 18 percent primarily because of costs necessary to support the higher sales levels, increased spending on research and development, marketing programs, additional catalog branch openings and the implementation of new information systems. As a percentage of sales, operating expenses increased slightly to 31.4 percent as compared with 31.1 percent in the prior year.

INCOME TAXES

The effective tax rate for the September 1995 quarter was 40.3 percent compared with an effective tax rate of 42.5 percent in the prior year. The effective tax rate decreased primarily because of lower estimated non-U.S. taxes and additional benefits derived from the utilization of the foreign sales corporation.

OUTLOOK

In looking to the second quarter ending December 31, 1995, management expects consolidated sales to increase from the \$230 million achieved in the same quarter last year. Sales of metalworking products in the United States should continue to benefit from full service supply programs and catalog sales as a result of additional branch openings. In addition, international sales are expected to increase as the European and Asia-Pacific economies continue to expand. Sales of mining and construction tools should continue to increase from additional international demand for highway construction and mining tools.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 4 to the condensed consolidated financial statements, contained in Part I, Item 1 of this Form 10-Q, is incorporated by reference herein and supplements the information previously reported in Part I, Item 3 of the Company's Form 10-K for the year ended June 30, 1995, which is also incorporated by reference herein.

It is management's opinion, based on its evaluation and discussions with outside counsel, that the Company has viable defenses to these cases and that, in any event, the ultimate resolutions of these matters will not have a materially adverse effect on the results of operations, financial position or cash flows of the Company.

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

At the Annual Meeting of Stockholders on October 30, 1995, the stockholders of the Company voted on the election of directors and independent auditors,

and for the approval of a new Performance Bonus Stock Plan. The following is the number of shares voted in favor of and against each matter, and the number of shares having authority to vote on each matter but withheld.

1. With respect to the votes cast for directors whose terms expire in 1998.

	For -----	Withheld -----	Broker Non-Vote -----
A. Peter Held	22,374,882	79,286	0
Aloysius T. McLaughlin, Jr.	22,395,437	58,731	0
Larry Yost	22,156,926	297,242	0

2. With respect to the approval of the new Performance Bonus Stock Plan of 1995.

	For -----	Against -----	Abstained -----	Broker Non-Vote -----
Approval of Performance Bonus Stock Plan of 1995	21,365,723	975,467	112,978	2,352,956

3. With respect to the election of the firm of Arthur Andersen LLP, independent public accountants, to audit the financial statement of the Company and its subsidiary companies for the fiscal year ending June 30, 1996.

	For -----	Against -----	Abstained -----	Broker Non-Vote -----
Arthur Andersen LLP	22,377,216	31,329	45,623	0

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Reference

(a) Exhibits

(10.1)	Performance Bonus Stock Plan of 1995	Filed herewith
(27)	Financial Data Schedule	Filed herewith

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1995.

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: November 13, 1995

By: /s/ RICHARD J. ORWIG

Richard J. Orwig
Vice President
Chief Financial and Administrative Officer

This schedule contains summary financial information extracted from the September 30, 1995 Condensed Consolidated Financial Statements (unaudited) and is qualified in its entirety by reference to such financial statements.

1,000

3-MOS	
	JUN-30-1996
	JUL-01-1995
	SEP-30-1995
	12,636
	0
	179,210
	12,067
	212,218
	414,259
	524,925
	262,266
	791,963
228,304	
	0
	36,712
0	
	0
	362,788
791,963	
	254,903
	254,903
	148,461
	148,461
	5,348
	523
	2,939
	22,839
	9,200
13,639	
	0
	0
	0
	13,639
	.51
	.51

PERFORMANCE BONUS STOCK PLAN OF 1995

ARTICLE I
General Provisions

Section 1.1. ESTABLISHMENT AND PURPOSE. There is hereby established the Kennametal Inc. (the "Corporation") Performance Bonus Stock Plan of 1995 (the "Plan") pursuant to which each participant in a Management Performance Bonus Plan (as defined herein) shall be eligible: (a) to elect to receive shares of the Corporation's capital stock, par value \$1.25 per share (the "Capital Stock"), in lieu of cash bonus compensation; and/or (b) through an election to defer receipt of compensation to be earned by such participant made under any Corporation deferred compensation plan or arrangement ("Deferred Compensation Plan"), to have Stock Credits (as hereinafter defined) credited to an account ("Stock Credit Account") established for such participant by the Corporation. The purposes of the Plan are to provide an incentive to Corporation executives to increase their ownership of Capital Stock and to promote this goal by establishing stock as an alternative method by which managers and/or senior executives may elect to be compensated.

Section 1.2. DEFINITIONS. In addition to the terms previously or hereafter defined herein, the following terms when used herein shall have the meaning set forth below:

"Board" shall mean the Board of Directors of the Corporation.

"Bonus Compensation" shall mean all remuneration designated as bonus compensation that is earned by a Participant (as defined below) pursuant to a Management Performance Bonus Plan.

"Committee" shall mean the committee of the Board appointed by the Board to administer the Plan. Unless otherwise determined by the Board, the Committee shall be the Committee on Executive Compensation of the Board.

"Deferred Bonus Compensation" shall mean all Bonus Compensation that is deferred by a Participant pursuant to a Deferred Compensation Plan.

"Fair Market Value" shall mean, as of any date, the average of the highest and lowest sales prices for the Capital Stock as reported in the New York Stock Exchange - Composite Transactions reporting system for the date in question or, if no sales were effected on such date, on the next preceding date on which sales were effected.

"Management Performance Bonus Plan" shall mean any performance-based bonus compensation plan for management and/or senior executives of the Corporation or its subsidiaries which the Committee has determined to be then eligible for participation in the Plan.

"Non-Deferred Bonus Compensation" shall mean all Bonus Compensation that is not deferred by a Participant pursuant to a Deferred Compensation Plan.

"Participant" shall mean any employee of the Corporation or any of its subsidiaries who is eligible to participate in a Management Performance Bonus Plan.

"Plan Year" shall mean the Corporation's fiscal year.

"Stock Credit" shall mean a credit that is equivalent to one share of Capital Stock.

Section 1.3. ADMINISTRATION. The Plan shall be administered by the Committee. The Committee shall serve at the pleasure of the Board. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members of the Committee present at any meeting at which a quorum is present, or acts approved in writing by a majority of the members of the Committee, shall be deemed the acts of the Committee. The Committee is authorized to interpret and construe the Plan, to make all determinations and take all other actions necessary or advisable for the administration of the Plan, and to delegate to employees of the Corporation or any subsidiary the authority to perform administrative functions under the Plan.

Section 1.4. ELIGIBILITY. An individual who is a participant in a Management Performance Bonus Plan shall be eligible to participate in the Plan. Notwithstanding the foregoing, in the event that the Bonus Compensation payable with respect to a Plan Year is less than One Thousand U.S. Dollars (\$1,000), or the equivalent if payable in another currency, then such individual shall not be eligible to participate in the Plan for such Plan Year and any Bonus Compensation shall be paid in cash.

Section 1.5. CAPITAL STOCK SUBJECT TO THE PLAN. The maximum number of shares of Capital Stock that may be issued pursuant to the Plan is 750,000. Capital Stock to be issued under the Plan may be either authorized and unissued shares of Capital Stock or shares of Capital Stock held in treasury by the Corporation.

ARTICLE II Elections and Distributions

Section 2.1. ELECTIONS TO RECEIVE CAPITAL STOCK FROM COMPENSATION. Any Participant may elect to receive Capital Stock under this Plan in lieu of all or a portion of the Non-Deferred Bonus Compensation otherwise payable to such Participant in any Plan Year beginning with the Plan Year commencing July 1, 1995 (a "Stock Acquisition Election"); provided, however, that the percentage amount of Bonus Compensation subject to such an election must be in increments of ten percent (10%) and may not be less than ten percent (10%) of the Bonus Compensation earned by the Participant with respect to the Plan Year or relate to Bonus Compensation below One Thousand U.S. Dollars (\$1,000), or the equivalent if payable in another currency. If a Participant makes a Stock Acquisition Election, the Participant shall receive, as of the date that the Bonus Compensation otherwise would have been paid: (i) the number of shares of Capital Stock that could have been purchased on that date based on the amount of Bonus Compensation subject to the Stock Acquisition Election and the Fair Market Value of the Capital Stock on that date, rounded to the nearest whole share; and (ii) a number of shares of Capital Stock equal to the product of the number of shares awarded pursuant to Section 2.1(i) above multiplied by a percentage amount to be determined annually by the Committee (the "Stock Premium Percentage") rounded to the nearest whole share. The Stock Premium Percentage shall not exceed twenty-five percent (25%). In the absence of a Stock Acquisition Election, all Bonus Compensation not deferred as Stock Credits pursuant to Section 2.2 hereof or otherwise deferred pursuant to a Deferred Compensation Plan shall be paid to the Participant in cash in accordance with the Corporation's policies and procedures. Certificates for Capital Stock acquired by the Participant pursuant to a Stock Acquisition Election shall be issued as soon as practicable following the award of Bonus Compensation.

Section 2.2. ELECTIONS TO RECEIVE STOCK CREDITS FROM DEFERRED COMPENSATION. Any Participant may elect to receive Stock Credits under this Plan with respect to all or a portion of the Deferred Bonus Compensation credited to the Participant in any Plan Year beginning with the Plan Year commencing July 1, 1995 (a "Stock Credit Election"); provided, however, that the percentage amount of Bonus Compensation subject to such an election must be in increments of ten percent (10%) and may not be less than 10% of the total Bonus Compensation earned by the Participant with respect to a Plan Year or relate to Bonus Compensation below One Thousand U.S. Dollars (\$1,000), or the equivalent if payable in another currency. If a Participant makes a Stock Credit Election, a Stock Credit Account established for the Participant and maintained by the Corporation shall be credited with: (i) that number of Stock Credits equal to the number of shares of Capital Stock (including fractions of a share to four decimal places) that could have been purchased with the amount of Deferred Bonus Compensation subject to a Stock Credit Election based on the Fair Market Value of the Capital Stock on the date that the Bonus Compensation would otherwise have been paid if it had not been deferred; and (ii) that number of Stock Credits equal to the product of the number of Stock Credits awarded pursuant to Section 2.2(i) above multiplied by a percentage amount to be determined annually by the Committee, which percentage may be different from the Stock Premium Percentage (the "Stock Credit Premium Percentage"). The Stock Credit Premium Percentage shall not exceed twenty-five percent (25%).

Section 2.3 RESTRICTED PERIOD. The Committee may, in its sole discretion, establish a period of time (the "Restricted Period") that all or any portion of the shares of Capital Stock issued pursuant to a Stock Acquisition Election or shares of Capital Stock distributed with respect to Stock Credits pursuant to Section 2.7 hereof may not be sold, assigned, transferred, pledged or otherwise disposed of. Shares of Capital Stock subject to a Restricted Period ("Restricted Stock") shall be represented by a stock certificate registered in the name of the Participant which, in the discretion of the Committee, could be either held in the custody of the Corporation until the end of the Restricted Period applicable to such shares or bear a restrictive legend. Except for the limitations described above, a Participant shall have all the rights of a stockholder of the Corporation with respect to Restricted Stock, including the right to vote such shares.

Section 2.4. TERMS AND CONDITIONS OF ELECTION. A Stock Acquisition Election or Stock Credit Election (an "Election") shall be subject to the following terms and conditions.

- (a) An election shall be in writing and shall be irrevocable; and

- (b) An Election may be made on or before December 31, 1995, to take effect for the Plan Year ending on June 30, 1996; thereafter an Election shall be effective for any Plan Year only if made at such time as the Committee in its discretion shall determine; provided, however that such election must occur at least six (6) months prior to the date that Bonus Compensation would be paid or otherwise would become payable if it had not been deferred by the Participant.
- (c) An Election shall remain in effect only for the Plan Year to which it applies.

Section 2.5. ADJUSTMENT OF STOCK CREDIT ACCOUNTS.

- (a) Cash Dividends -- As of the date that any cash dividend is paid to stockholders of the Corporation, the Participant's Stock Credit Account shall be credited with additional Stock Credits equal to the number of shares of Capital Stock (including fractions of a share to four decimal places) that could have been purchased on that date with the dividends paid on the number of shares of Capital Stock equal to the number of Stock Credits in such Participant's Stock Credit Account based on the Fair Market Value of the Capital Stock on that date.
- (b) Stock Dividends -- In the event that a stock dividend shall be paid upon the Capital Stock, the number of Stock Credits in each Participant's Stock Credit Account shall be adjusted by adding thereto additional Stock Credits equal to the number of shares of Capital Stock which would have been distributable on the Capital Stock represented by Stock Credits if such shares of Capital Stock had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend.
- (c) Other Adjustments -- In the event that the outstanding shares of Capital Stock of the Corporation shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted, for the shares of Capital Stock represented by Stock Credits, the number and kind of shares of stock or other securities which would have been substituted therefor if such shares of Capital Stock had been outstanding on the date fixed for determining the stockholders entitled to receive such changed or substituted stock or other securities.

In the event there shall be any change, other than specified in this Section 2.5, in the number or kind of outstanding shares of Capital Stock of the Corporation or of any stock or other securities into which such Capital Stock shall be changed or for which it shall have been exchanged, then, if the Board shall determine, in its discretion, that such change equitably requires an adjustment in the number of Stock Credits or the Capital Stock represented by such Stock Credits, such adjustment shall be made by the Board and shall be effective and binding for all purposes of the Plan and on each outstanding Stock Credit Account.

Section 2.6. CHANGE IN CONTROL. In the event of any threatened or actual change in control of the Corporation (as set forth in any Deferred Compensation Plan to which the Stock Credits relate), issued and outstanding shares of Capital Stock shall be substituted for the Stock Credits in each Participant's Stock Credit Account and such Capital Stock shall be transferred to the deferred compensation trust established under the Deferred Compensation Plan to which the Stock Credits relate.

Section 2.7. DISTRIBUTION OF STOCK CREDITS. As soon as practicable following the date on which the Participant has elected to have the Deferred Bonus Compensation paid pursuant to the applicable Deferred Compensation Plan (the "Distribution Date"), the Corporation shall issue to such Participant that number of shares of Capital Stock equal to the whole number of Stock Credits in such Participant's Stock Credit Account to be distributed and cash equal to the fractional Stock Credits in such account to be distributed multiplied by the Fair Market Value of the Capital Stock as of the Distribution Date provided, however, that the Committee, in its sole discretion, shall have the right to pay the Participant a cash amount equal to the aggregate value of the whole shares of Capital Stock otherwise distributable with respect to the Stock Credits, in lieu of distributing such shares.

Section 2.8. DISTRIBUTIONS ON DEATH. Upon the death of a Participant,

any and all restrictions on transferability of Restricted Stock held by or on behalf of such Participant shall lapse and such shares shall become immediately transferable. In the event of the death of a Participant prior to the Distribution Date, the Stock Credit Account to which he or she was entitled shall be converted to cash and distributed in a lump sum to such person or persons or the survivors thereof, including corporations, unincorporated associates or trusts, as the Participant may have designated. All such designations shall be made in writing, signed by the Participant and delivered to the Corporation. A Participant may from time to time revoke or change any such designation by written notice to the Corporation. If there is no unrevoked designation on file with the Corporation at the time of the Participant's death, or if the person or persons designated therein shall have all predeceased the Participant or otherwise ceased to exist, such distributions shall be made to the estate of the Participant. Such distributions shall be made as soon as practicable following notification to the Corporation of the Participant's death. In this case, the Participant's Stock Credit Account shall be converted to cash by multiplying the number of whole and fractional shares of Capital Stock to which the Participant's Stock Credit Account is equivalent by the Fair Market Value of the Capital Stock on the date of death.

ARTICLE III Miscellaneous Provisions

Section 3.1. AMENDMENT AND DISCONTINUANCE. The Board may alter, amend, suspend or discontinue the Plan, provided that no such action shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto. The Board may, in its discretion, submit any proposed amendment to the Plan to the stockholders of the Corporation for approval and shall submit proposed amendments to the Plan to the stockholders of the Corporation for approval if such approval is required in order for the Plan to comply with Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act") (or any successor rule).

Section 3.2. COMPLIANCE WITH GOVERNMENTAL REGULATIONS. Notwithstanding any provision of the Plan or the terms of any agreement entered into pursuant to the Plan, the Corporation shall not be required to issue any Capital Stock or Stock Credits hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933 or the Exchange Act, if such registration shall be necessary, or before compliance by the Corporation or any Participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of the New York Stock Exchange, Inc. The Corporation shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

Section 3.3. COMPLIANCE WITH SECTION 16. With respect to persons subject to Section 16(a) of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 (or its successor rule). To the extent that any provision of the Plan or any action by the Board or the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and to the extent deemed advisable by the Committee.

Section 3.4. NON-ALIENATION OF BENEFITS. No right or interest of a Participant in a Stock Credit Account under the Plan may be sold, assigned, transferred, pledged, encumbered or otherwise disposed of except as expressly provided in the Plan; and no interest or benefit of any Participant under the Plan shall be subject to the claims of creditors of the Participant.

Section 3.5. WITHHOLDING TAXES. To the extent required by applicable law or regulation, each Participant must arrange with the Corporation for the payment of any federal, state or local income or other tax applicable to the receipt of Capital Stock or Stock Credits under the Plan before the Corporation shall be required to deliver to the Participant a certificate for Capital Stock or distribute cash with respect to a Stock Credit Account.

At the discretion of the Committee, share tax withholding may be permitted. Share tax withholding shall entitle the Participant to elect to satisfy, in whole or in part, any tax withholding obligations in connection with the issuance of shares of Capital Stock pursuant to the Plan by either (i) withholding shares of Capital Stock otherwise issuable to the Participant; or (ii) accepting delivery of previously owned shares of Capital Stock. Notwithstanding the foregoing, in the case of a Participant subject to Section 16(a) of the Exchange Act, no such election shall be effective unless made in compliance with any applicable requirements of Rule 16b-3 (or any successor rule) that must be satisfied in order to exempt the withholding transaction(s) from Section 16(b) of the Exchange Act.

Section 3.6. FUNDING. Except as provided in Section 2.6 hereof, no obligation of the Corporation under the Plan shall be secured by any specific assets of the Corporation, nor shall any assets of the Corporation be designated as attributable or allocated to the satisfaction of any such obligation. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of any unsecured creditor of the Corporation.

Section 3.7. GOVERNING LAW. The Plan shall be governed by and construed and interpreted in accordance with the internal laws of the Commonwealth of Pennsylvania.

Section 3.8. EFFECTIVE DATE OF THE PLAN. The Plan shall become effective upon approval and adoption of the Plan by the holders of a majority of the shares of Capital Stock present at the 1995 annual meeting of stockholders.