
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2006

Commission file number 1-5318

KENNAMETAL INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction
of incorporation or organization)

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

World Headquarters
1600 Technology Way
P.O. Box 231
Latrobe, Pennsylvania 15650-0231
(Address of principal executive offices) (Zip Code)

Website: www.kennametal.com

Registrant's telephone number, including area code: **(724) 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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

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

<u>Title Of Each Class</u>	<u>Outstanding at January 31, 2007</u>
Capital Stock, par value \$1.25 per share	38,634,156

KENNAMETAL INC.
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2006
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This Form 10-Q contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify forward-looking statements by the fact they use words such as “should,” “anticipate,” “estimate,” “approximate,” “expect,” “may,” “will,” “project,” “intend,” “plan,” “believe” and other words of similar meaning and expression in connection with any discussion of future operating or financial performance. These statements are likely to relate to, among other things, our strategy, goals, plans and projections regarding our financial position, results of operations, market position, and product development, all of which are based on current expectations that involve inherent risks and uncertainties, including factors that could delay, divert or change any of them in the next several years. It is not possible to predict or identify all factors; however, they may include the following: global and regional economic conditions; risks associated with the availability and costs of the raw materials we use to manufacture our products; our ability to protect our intellectual property in foreign jurisdictions; risks associated with our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; energy costs; commodity prices; risks associated with integrating recent acquisitions, as well as any future acquisitions, and achieving the expected savings and synergies; risks relating to our recent business divestitures; competition; demands on management resources; future terrorist attacks or acts of war; labor relations; demand for and market acceptance of new and existing products; and risks associated with the implementation of restructuring plans and environmental remediation matters. We provide additional information about many of the specific risks we face in the “Risk Factors” Section of our Annual Report on Form 10-K, and in this Form 10-Q, as applicable. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

[Table of Contents](#)**PART I — FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****KENNAMETAL INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(in thousands, except per share data)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Sales	\$ 569,321	\$ 562,536	\$ 1,112,132	\$ 1,108,302
Cost of goods sold	371,171	365,815	726,951	714,253
Gross profit	198,150	196,721	385,181	394,049
Operating expense	140,329	142,674	275,373	287,575
Loss on divestiture	—	—	1,686	—
Amortization of intangibles	1,955	1,438	3,895	2,789
Operating income	55,866	52,609	104,227	103,685
Interest expense	7,286	7,984	14,713	15,813
Other income, net	(625)	(1,178)	(3,631)	(2,057)
Income from continuing operations before income taxes and minority interest expense	49,205	45,803	93,145	89,929
Provision for income taxes	15,006	14,382	28,935	29,682
Minority interest expense	642	511	1,199	1,259
Income from continuing operations	33,557	30,910	63,011	58,988
(Loss) income from discontinued operations, net of income taxes	(3,506)	177	(2,599)	196
Net income	\$ 30,051	\$ 31,087	\$ 60,412	\$ 59,184

PER SHARE DATA

Basic earnings per share:				
Continuing operations	\$ 0.87	\$ 0.81	\$ 1.65	\$ 1.55
Discontinued operations	(0.09)	—	(0.07)	0.01
Total	\$ 0.78	\$ 0.81	\$ 1.58	\$ 1.56

Diluted earnings per share:				
Continuing operations	\$ 0.86	\$ 0.79	\$ 1.61	\$ 1.51
Discontinued operations	(0.09)	—	(0.07)	0.01
Total	\$ 0.77	\$ 0.79	\$ 1.54	\$ 1.52

Dividends per share	\$ 0.21	\$ 0.19	\$ 0.40	\$ 0.38
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Basic weighted average shares outstanding	38,331	38,174	38,270	38,014
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Diluted weighted average shares outstanding	39,225	39,278	39,142	39,064
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The accompanying notes are an integral part of these condensed consolidated financial statements.

[Table of Contents](#)**KENNAMETAL INC.**
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)	December 31, 2006	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 114,121	\$ 233,976
Accounts receivable, less allowance for doubtful accounts of \$16,151 and \$14,692	382,426	386,714
Inventories	359,911	334,949
Deferred income taxes	56,923	55,328
Current assets of discontinued operations held for sale	—	24,280
Other current assets	46,201	51,610
Total current assets	<u>959,582</u>	<u>1,086,857</u>
Property, plant and equipment:		
Land and buildings	318,826	290,848
Machinery and equipment	1,106,520	1,058,623
Less accumulated depreciation	<u>(868,011)</u>	<u>(819,092)</u>
Net property, plant and equipment	<u>557,335</u>	<u>530,379</u>
Other assets:		
Investments in affiliated companies	19,802	17,713
Goodwill	533,842	500,002
Intangible assets, less accumulated amortization of \$21,051 and \$16,891	146,404	118,421
Deferred income taxes	45,392	39,721
Assets of discontinued operations held for sale	—	11,285
Other	134,537	130,894
Total other assets	<u>879,977</u>	<u>818,036</u>
Total assets	<u>\$ 2,396,894</u>	<u>\$ 2,435,272</u>
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$ 1,484	\$ 1,597
Notes payable to banks	1,302	617
Accounts payable	124,083	124,907
Accrued income taxes	32,596	112,364
Accrued expenses	88,966	82,118
Current liabilities of discontinued operations held for sale	—	3,065
Other current liabilities	119,979	137,531
Total current liabilities	<u>368,410</u>	<u>462,199</u>
Long-term debt and capital leases, less current maturities	373,686	409,508
Deferred income taxes	90,925	73,338
Accrued pension and postretirement benefits	149,470	144,768
Other liabilities	28,848	35,468
Total liabilities	<u>1,011,339</u>	<u>1,125,281</u>
Commitments and contingencies		
Minority interest in consolidated subsidiaries	<u>15,807</u>	<u>14,626</u>
SHAREOWNERS' EQUITY		
Preferred stock, no par value; 5,000 shares authorized; none issued	—	—
Capital stock, \$1.25 par value; 120,000 and 70,000 shares authorized; 40,864 and 40,356 shares issued	51,082	50,448
Additional paid-in capital	672,025	638,399
Retained earnings	715,379	670,433
Treasury shares, at cost; 2,251 and 1,749 shares held	(131,437)	(101,781)
Accumulated other comprehensive income	62,699	37,866
Total shareowners' equity	<u>1,369,748</u>	<u>1,295,365</u>
Total liabilities and shareowners' equity	<u>\$ 2,396,894</u>	<u>\$ 2,435,272</u>

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

[Table of Contents](#)**KENNAMETAL INC.**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Six Months Ended December 31,	
	2006 ^a	2005 ^a
OPERATING ACTIVITIES		
Net income	\$ 60,412	\$ 59,184
Adjustments for non-cash items:		
Depreciation	33,655	33,092
Amortization	3,895	2,789
Stock-based compensation expense	10,355	13,826
Impairment charge (Note 6)	3,000	—
Loss on divestitures (Notes 5 and 6)	2,531	—
Other	1,165	(1,490)
Changes in certain assets and liabilities (excluding acquisitions):		
Accounts receivable	22,789	21,995
Change in accounts receivable securitization	—	(9,491)
Inventories	(9,308)	(22,168)
Accounts payable and accrued liabilities	(13,135)	(40,057)
Accrued income taxes	(78,722)	10,357
Other	(817)	7,586
Net cash flow provided by operating activities	<u>35,820</u>	<u>75,623</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(44,929)	(31,297)
Disposals of property, plant and equipment	781	1,452
Acquisitions of business assets, net of cash acquired	(76,661)	(29,811)
Proceeds from divestitures	29,420	—
Purchase of subsidiary stock	—	(2,108)
Other	(151)	3,285
Net cash flow used for investing activities	<u>(91,540)</u>	<u>(58,479)</u>
FINANCING ACTIVITIES		
Net increase (decrease) in notes payable	663	(41,757)
Net increase in short-term revolving and other lines of credit	—	7,600
Term debt borrowings	19,345	279,974
Term debt repayments	(66,381)	(262,025)
Repurchase of capital stock	(24,622)	(4,550)
Dividend reinvestment and employee benefit and stock plans	21,256	23,522
Cash dividends paid to shareowners	(15,466)	(14,680)
Other	(393)	(6,452)
Net cash flow used for financing activities	<u>(65,598)</u>	<u>(18,368)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1,463</u>	<u>(2,542)</u>
CASH AND CASH EQUIVALENTS		
Net decrease in cash and cash equivalents	(119,855)	(3,766)
Cash and cash equivalents, beginning of period	233,976	43,220
Cash and cash equivalents, end of period	<u>\$ 114,121</u>	<u>\$ 39,454</u>

^a Amounts presented include cash flows from discontinued operations.

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

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

Kennametal Inc. was incorporated in Pennsylvania in 1943 and maintains its world headquarters in Latrobe, Pennsylvania. Kennametal Inc. and its subsidiaries (collectively, "Kennametal" or the "Company") is a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool and farm machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries. Our end users' products include items ranging from airframes to coal, medical implants to oil wells and turbochargers to motorcycle parts. We previously operated three global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG) and J&L Industrial Supply (J&L). During the year ended June 30, 2006, we divested our J&L segment.

2. BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our majority-owned subsidiaries, should be read in conjunction with the 2006 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to reflect the activity of discontinued operations (see Note 6). The condensed consolidated balance sheet as of June 30, 2006 was derived from the audited balance sheet included in our 2006 Annual Report on Form 10-K. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair statement of the results of the interim periods were made and all adjustments are normal, recurring adjustments. The results for the six months ended December 31, 2006 and 2005 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. For example, a reference to 2007 is to the fiscal year ending June 30, 2007. When used in this Form 10-Q, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its subsidiaries.

3. NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status through comprehensive income of a business entity in the year in which the changes occur. SFAS 158 is effective for Kennametal as of June 30, 2007. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented will not be restated. Based on the funded status of our pension and other postretirement benefit plans as of June 30, 2006, the adoption of SFAS 158 would have resulted in the following estimated impacts: a \$0.8 million reduction of intangible assets, recognition of a \$0.5 million deferred tax asset, a \$78.5 million reduction of prepaid pension assets, a \$20.8 million reduction in deferred tax liabilities, a \$6.2 million reduction in accrued postretirement benefits, recognition of a \$4.9 million pension liability and recognition of a \$56.7 million other comprehensive loss. The ultimate impact is contingent on plan asset returns and the assumptions that will be used to measure the funded status of each of our pension and other postretirement benefit plans as of June 30, 2007.

SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The funded status of each of our pension and other postretirement benefit plans is currently measured as of June 30.

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

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, (SAB 108), which expresses the staff's views regarding the process of quantifying financial statement misstatements. The guidance in SAB 108 must be applied in our 2007 annual financial statements. We are in the process of evaluating the guidance in SAB 108 to determine the impact, if any, on our results of operations or financial condition.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for Kennametal as of July 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. We are in the process of evaluating the impact of the provisions of SFAS 157 on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a method of recognition, measurement, presentation and disclosure within the financial statements for uncertain tax positions that a company has taken or expects to take in a tax return. FIN 48 is effective for Kennametal July 1, 2007. We are in the process of evaluating the provisions of FIN 48 to determine the impact of adoption on our results of operations or financial condition.

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

(in thousands)	Six Months Ended December 31,	
	2006	2005
Cash paid for:		
Interest	\$ 14,038	\$15,078
Income taxes	104,918	12,548
Non-cash financing activities:		
Contribution of stock to employees defined contribution benefit plans	3,983	4,692
Change in fair value of interest rate swaps	(5,993)	7,344

5. DIVESTITURES

In 2006, we divested our J&L segment for net consideration of \$359.2 million. During the first quarter of 2007, we recognized a pre-tax loss of \$1.7 million related to a post-closing adjustment. Certain claims raised by the purchaser related to the post-closing adjustment were submitted to binding arbitration for resolution in accordance with the terms of the sale agreement. These claims were resolved during the current quarter. We have received \$359.2 million in net proceeds related to the sale of this business of which \$9.7 million was received during the six months ended December 31, 2006.

6. DISCONTINUED OPERATIONS

During 2006, our Board of Directors and management approved plans to divest our Kemmer Praezision Electronics business (Electronics) and our consumer retail product line, including industrial saw blades (CPG) as part of our strategy to exit non-core businesses. These divestitures are accounted for as discontinued operations. As a result, prior years' financial results have been restated to reflect the activity from these operations as discontinued operations.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Electronics The divestiture of Electronics, which was part of the AMSSG segment, was completed in two separate transactions. The first transaction closed during 2006. The second transaction closed on December 31, 2006. During the three and six months ended December 31, 2006, we recognized a pre-tax gain on divestiture of \$0.1 million to adjust the related net assets to fair value, which has been presented in discontinued operations. The assets and liabilities of the business were recorded at fair value as of June 30, 2006.

During the three months ended December 31, 2006, management completed its assessment of the future use of a building owned and previously used by Electronics, but not divested. We concluded that we have no future economic use for this facility. As a result, we wrote the building down to fair value and have recognized a pre-tax impairment charge of \$3.0 million, which has been presented in discontinued operations.

CPG The divestiture of CPG, which was part of the MSSG segment, closed August 31, 2006 for net consideration of \$31.2 million. We have received \$21.2 million in net proceeds related to the sale of this business of which \$1.5 million and \$19.7 million were received during 2006 and the six months ended December 31, 2006, respectively. We expect to receive the remaining \$10.0 million prior to February 28, 2007. During the three and six months ended December 31, 2006, we recognized additional pre-tax losses on divestiture of \$0.7 million and \$1.0 million, respectively, related to post-closing adjustments which have been recorded in discontinued operations. The assets and liabilities of this business were recorded at fair value and presented as held for sale as of June 30, 2006.

The following represents the results of discontinued operations:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Sales	\$ 2,424	\$22,722	\$15,034	\$46,174
(Loss) income from discontinued operations before income taxes	\$(3,625)	\$ 326	\$(2,464)	\$ 104
Income tax expense (benefit)	(119)	149	135	(92)
(Loss) income from discontinued operations	<u>\$(3,506)</u>	<u>\$ 177</u>	<u>\$(2,599)</u>	<u>\$ 196</u>

The major classes of assets and liabilities of discontinued operations held for sale in the condensed consolidated balance sheet are as follows:

(in thousands)	June 30, 2006
Assets:	
Accounts receivable, net	\$ 14,147
Inventories	10,113
Other current assets	20
Current assets of discontinued operations held for sale	<u>24,280</u>
Property, plant and equipment, net	5,895
Goodwill	5,208
Other long-term assets	182
Long-term assets of discontinued operations held for sale	<u>11,285</u>
Total assets of discontinued operations held for sale	<u>\$ 35,565</u>
Liabilities:	
Accounts payable	\$ 1,213
Other	1,852
Total liabilities of discontinued operations held for sale	<u>\$ 3,065</u>

KENNAMETAL INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****7. STOCK-BASED COMPENSATION**

Stock options are granted to eligible employees at fair market value on the date of grant. Stock options are exercisable under specific conditions for up to 10 years from the date of grant. The aggregate number of shares authorized for issuance under the Kennametal Inc. Stock and Incentive Plan of 2002, as amended (the 2002 Plan), is 3,750,000. Under the provisions of the 2002 Plan, participants may deliver our stock, owned by the holder for at least six months, in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. The fair value of shares delivered during the six months ended December 31, 2006 and 2005 was \$0.6 million and \$1.5 million, respectively. Stock option expense for the six months ended December 31, 2006 and 2005 was \$2.8 million and \$4.6 million, respectively. In addition to stock option grants, the 2002 Plan permits the award of restricted stock to directors, officers and key employees.

The assumptions used in our Black-Scholes valuation related to grants made during the period were as follows: risk free interest rate – 4.9 percent, expected life – 4.5 years, volatility – 22.4 percent and dividend yield – 1.4 percent.

Changes in our stock options for the six months ended December 31, 2006 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, June 30, 2006	2,228,697	\$41.42		
Granted	376,414	54.41		
Exercised	(316,893)	39.84		
Lapsed and forfeited	(123,228)	48.17		
Options outstanding, December 31, 2006	2,164,990	\$43.52	6.7	\$33,761
Options vested and expected to vest, December 31, 2006	2,127,553	\$43.36	6.7	\$33,519
Options exercisable, December 31, 2006	1,376,827	\$38.83	5.5	\$27,920
Weighted average fair value of options granted during the period		\$12.95		

The amount of cash received from the exercise of options during the six months ended December 31, 2006 and 2005 was \$12.0 million and \$15.7 million, respectively. The related tax benefit for the six months ended December 31, 2006 and 2005 was \$2.1 million and \$2.2 million, respectively. The total intrinsic value of options exercised during the six months ended December 31, 2006 and 2005 was \$6.4 million and \$7.4 million, respectively. As of December 31, 2006, the total unrecognized compensation cost related to options outstanding was \$7.0 million and is expected to be recognized over a weighted average period of 2.7 years.

[Table of Contents](#)**KENNAMETAL INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Changes in our restricted stock for the six months ended December 31, 2006 were as follows:

	Shares	Weighted Average Fair Value
Unvested restricted stock, June 30, 2006	442,155	\$44.06
Awarded	100,793	54.24
Vested	(127,413)	42.22
Forfeited	(105,335)	41.50
Unvested restricted stock, December 31, 2006	310,200	\$48.99

During the six months ended December 31, 2006 and 2005, compensation expense related to restricted stock awards was \$3.6 million and \$4.5 million respectively. As of December 31, 2006, the total unrecognized compensation cost related to unvested restricted stock was \$10.7 million and is expected to be recognized over a weighted average period of 2.3 years.

8. BENEFIT PLANS

We sponsor several defined benefit pension plans that cover substantially all employees. 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 the net periodic cost of our defined benefit pension plans:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Service cost	\$ 2,442	\$ 3,050	\$ 4,859	\$ 6,006
Interest cost	9,593	8,836	19,092	17,355
Expected return on plan assets	(11,301)	(9,905)	(22,525)	(19,400)
Amortization of transition obligation	40	11	77	48
Amortization of prior service cost	167	187	333	367
Amortization of actuarial loss	1,309	3,430	2,604	6,849
Total net periodic pension cost	\$ 2,249	\$ 5,609	\$ 4,440	\$ 11,225

The decrease in net periodic pension cost is primarily the result of an increase in the discount rates applied to our plans and an increase in expected return on plan assets resulting from funding \$73.0 million in the prior year related to our U.S. and U.K. defined benefit pension plans.

During the three and six months ended December 31, 2006, the Company contributed \$1.4 million and \$2.7 million, respectively, to its various defined benefit pension plans. During the three and six months ended December 31, 2006, the Company also expensed contributions of \$1.7 million and \$4.0 million, respectively, to its defined contribution plan.

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

The table below summarizes the components of the net periodic cost (benefit) of our other postretirement and postemployment benefit plans:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Service cost	\$ 133	\$ 209	\$ 266	\$ 417
Interest cost	420	436	840	872
Amortization of prior service cost	12	(858)	24	(1,716)
Amortization of actuarial gain	(366)	(213)	(733)	(425)
Total net periodic cost (benefit)	\$ 199	\$(426)	\$ 397	\$ (852)

9. INVENTORIES

Inventories are stated at the lower of cost or market. We use the last-in, first-out (LIFO) method for determining the cost of a significant portion of our U.S. inventories. The cost for the remainder of our inventories is determined under the first-in, first-out or average cost methods. We used the LIFO method of valuing inventories for approximately 53.0 percent of total inventories at December 31, 2006 and June 30, 2006. 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, 2006	June 30, 2006
Finished goods	\$ 206,638	\$ 184,349
Work in process and powder blends	160,668	167,475
Raw materials and supplies	62,131	53,454
Inventory at current cost	429,437	405,278
Less: LIFO valuation	(69,526)	(70,329)
Total inventories	\$ 359,911	\$ 334,949

10. ENVIRONMENTAL MATTERS

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

Superfund Sites We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites, including the Li Tungsten Superfund site in Glen Cove, New York. With respect to the Li Tungsten site, we recorded an environmental reserve following the identification of other PRPs, an assessment of potential remediation solutions and an entry of a unilateral order by the USEPA directing certain remedial action. In May 2006, we reached an agreement in principle with the U.S. Department of Justice (DOJ) with respect to this site; the DOJ informed us that it would accept a payment of \$0.9 million in full settlement for its claim against us for costs related to the Li Tungsten site. To date, the draft Consent Order and Agreement for settlement of our Li Tungsten liability has not been finalized, but we expect that the final settlement will proceed according to the terms outlined in the agreement in principle. At December 31, 2006, we had an accrual of \$1.0 million recorded relative to this environmental issue.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During 2006, the USEPA notified us that we have been named as a PRP at the Alternate Energy Resources Inc. site located in Augusta, Georgia. The proceedings in this matter 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, if any, alone or in relation to that of any other PRPs.

Other Environmental Issues Additionally, we also maintain reserves for other potential environmental issues. At December 31, 2006, the total of these accruals was \$5.5 million, and represents anticipated costs associated with the remediation of these issues. We recorded unfavorable foreign currency translation adjustments of \$0.2 million during the three months ended December 31, 2006 related to these reserves.

11. INCOME TAXES

The effective income tax rate for the three months ended December 31, 2006 and 2005 was 30.5 percent and 31.4 percent, respectively. The reduction from prior year is primarily the result of the extension of the research, development and experimental tax credit that was enacted during the quarter, partially offset by non-tax benefited plant-closing costs. Both periods reflect benefits of our pan-European business model strategy.

The effective income tax rate for the six months ended December 31, 2006 and 2005 was 31.1 percent and 33.0 percent, respectively. The reduction from prior year is primarily the result of benefits of our pan-European business model strategy, as well as the extension of the research, development and experimental tax credit, partially offset by the net effects of non-tax benefited plant closing costs recorded in the current period and a favorable valuation allowance adjustment recorded in the prior period related to a change in judgment about the realizability of certain deferred tax assets in Europe.

12. 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 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 stock options and restricted stock awards by 0.9 million shares and 1.1 million shares for the three months ended December 31, 2006 and 2005, respectively, and 0.9 million shares and 1.1 million shares for the six months ended December 31, 2006 and 2005, respectively. Unexercised stock options to purchase our capital stock of 0.3 million and 0.7 million shares for the three months ended December 31, 2006 and 2005, respectively, and 0.4 million and 0.7 million shares for the six months ended December 31, 2006 and 2005, respectively, 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.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. COMPREHENSIVE INCOME

Comprehensive income is as follows:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Net income	\$30,051	\$31,087	\$60,412	\$59,184
Unrealized gain (loss) on derivatives designated and qualified as cash flow hedges, net of tax	244	(7)	731	63
Reclassification of unrealized loss (gain) on expired derivatives, net of tax	109	589	(78)	352
Unrealized gain on investments, net of tax	—	460	—	450
Minimum pension liability adjustment, net of tax	(455)	380	(415)	454
Foreign currency translation adjustments	24,735	(8,262)	24,595	(7,159)
Comprehensive income	\$54,684	\$24,247	\$85,245	\$53,344

14. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(in thousands)	June 30, 2006	Acquisitions	Translation Adjustments	December 31, 2006
MSSG	\$201,258	\$ —	\$3,926	\$205,184
AMSG	298,744	30,591	(677)	328,658
Total	\$500,002	\$30,591	\$3,249	\$533,842

During the six months ended December 31, 2006, we completed two business acquisitions in our AMSG segment for a combined purchase price of \$76.7 million (2007 Business Acquisitions), which generated goodwill of \$30.6 million based on our preliminary purchase price allocations.

The components of our other intangible assets and their useful lives are as follows:

(in thousands)	Estimated Useful Life	December 31, 2006		June 30, 2006	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract-based	4 -- 15 years	\$ 5,824	\$ (4,247)	\$ 5,183	\$ (4,096)
Technology-based and other	4 -- 15 years	19,167	(8,183)	12,723	(7,048)
Customer-related	5 -- 20 years	64,540	(7,120)	42,312	(4,704)
Unpatented technology	30 years	19,351	(1,501)	19,283	(1,043)
Trademarks	Indefinite	57,049	—	54,322	—
Intangible pension assets	N/A	1,524	—	1,489	—
Total		\$167,455	\$(21,051)	\$135,312	\$(16,891)

As a result of the 2007 Business Acquisitions, we recorded \$30.4 million of identifiable intangible assets based on our preliminary purchase price allocations as follows: contract-based of \$0.6 million, technology-based and other of \$5.8 million, customer-related of \$22.1 million and trademarks of \$1.9 million.

KENNAMETAL INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****15. SEGMENT DATA**

We currently operate two reportable operating segments consisting of MSSG and AMMSG, and Corporate. During 2006, we divested our J&L segment. We do not allocate corporate costs, performance-based bonuses, domestic pension expense, interest expense, other expense, income taxes, stock-based compensation expense or minority interest to the operating segment results presented below.

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

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
External sales:				
MSSG	\$ 373,995	\$ 336,197	\$ 731,079	\$ 667,777
AMMSG	195,326	161,002	381,053	310,186
J&L	—	65,337	—	130,339
Total external sales	\$ 569,321	\$ 562,536	\$ 1,112,132	\$ 1,108,302
Intersegment sales:				
MSSG	\$ 32,005	\$ 41,473	\$ 65,448	\$ 89,210
AMMSG	10,686	9,480	20,439	18,704
J&L	—	213	—	399
Total intersegment sales	\$ 42,691	\$ 51,166	\$ 85,887	\$ 108,313
Total sales:				
MSSG	\$ 406,000	\$ 377,670	\$ 796,527	\$ 756,987
AMMSG	206,012	170,482	401,492	328,890
J&L	—	65,550	—	130,738
Total sales	\$ 612,012	\$ 613,702	\$ 1,198,019	\$ 1,216,615
Operating income:				
MSSG	\$ 45,208	\$ 42,585	\$ 90,874	\$ 88,526
AMMSG	33,993	29,582	61,379	53,434
J&L	—	6,312	—	13,156
Corporate	(23,335)	(25,870)	(48,026)	(51,431)
Total operating income	\$ 55,866	\$ 52,609	\$ 104,227	\$ 103,685

16. SHARE REPURCHASE PROGRAM

On October 24, 2006, the Board of Directors authorized a share repurchase program for up to 3.3 million shares of our outstanding capital stock. The purchases would be made from time to time, on the open market or in private transactions, with consideration given to the market price of the stock, the nature of other investment opportunities, cash flows from operating activities and general economic conditions.

17. AUTHORIZED SHARES OF CAPITAL STOCK

At the Annual Meeting of Shareowners on October 24, 2006, our shareowners voted to increase the authorized shares of capital stock from 70,000,000 shares to 120,000,000 shares. Shares of capital stock may be used for general purposes, including stock splits and stock dividends, acquisitions, possible financing activities and other employee, executive and director benefit plans. We have no present plans, arrangements, commitments or understanding with respect to the issuance of these additional shares of capital stock.

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

RESULTS OF CONTINUING OPERATIONS

SALES

Sales for the three months ended December 31, 2006 were \$569.3 million, an increase of \$6.8 million, or 1.2 percent, from \$562.5 million in the prior year quarter. The change in sales is primarily attributed to 6.0 percent organic growth and a 2.0 percent favorable foreign currency impact offset by the net impact of acquisitions and divestitures. The organic increase in sales for the quarter is primarily attributed to favorable market conditions, particularly in the energy and mining markets, growth in the distribution and general engineering markets, growth in Europe and market penetration in developing economies.

Sales for the six months ended December 31, 2006 were \$1,112.1 million, an increase of \$3.8 million, or 0.3 percent, from \$1,108.3 million in the same period a year ago. The change in sales is primarily attributed to 6.0 percent organic growth and a 2.0 percent favorable foreign currency impact offset by the net impact of acquisitions and divestitures. The organic increase in sales for the period is primarily attributed to the above-mentioned factors for the quarter.

GROSS PROFIT

Gross profit for the three months ended December 31, 2006 increased \$1.5 million to \$198.2 million from \$196.7 million in the prior year quarter. This change is primarily due to the favorable impacts of organic sales growth, cost containment and foreign currency effects, mostly offset by a reduction from the net impact of acquisitions and divestiture amounting to \$15.9 million, higher raw material costs and costs related to a plant closure of \$2.6 million.

Gross profit margin for the three months ended December 31, 2006 was 34.8 percent; a decrease of 20 basis points from 35.0 percent for the prior year quarter. This decrease is primarily attributed to an unfavorable 50 basis point impact due to the above-mentioned plant closure costs and higher raw material costs partially offset by the net impact of acquisitions and divestitures, which favorably impacted the margin by 80 basis points.

Gross profit for the six months ended December 31, 2006 decreased \$8.9 million, or 2.3 percent, to \$385.2 million from \$394.1 million in the prior year period. This decrease is primarily due to the unfavorable impact of acquisitions and divestitures amounting to \$33.2 million, higher raw material costs and costs related to a plant closure of \$2.6 million, partially offset by the favorable impact of organic sales growth and favorable foreign currency effects.

Gross profit margin for the six months ended December 31, 2006 decreased 100 basis points to 34.6 percent from 35.6 percent in the prior year period. The decrease is primarily attributed to higher raw material costs and an unfavorable 30 basis point impact due to the above-mentioned plant closure costs partially offset by the net impact of acquisitions and divestitures, which favorably impacted the margin by 70 basis points.

OPERATING EXPENSE

Operating expense for the three months ended December 31, 2006 was \$140.3 million, a decrease of \$2.4 million, or 1.6 percent, compared to \$142.7 million in the prior year quarter. The decrease in operating expense is primarily attributed to the net impact of acquisitions and divestitures of \$11.2 million partially offset by a \$4.6 million increase in employment costs and foreign currency exchange rate fluctuations of \$3.3 million.

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

Operating expense for the six months ended December 31, 2006 was \$275.4 million, a decrease of \$12.2 million, or 4.2 percent, compared to \$287.6 million in the prior year period. The decrease in operating expense is primarily attributed to the net impact of acquisitions and divestitures of \$21.8 million and a \$3.3 million reduction in professional fee expense, driven by a reduction in fees related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002, partially offset by foreign currency exchange rate fluctuations of \$5.5 million and a \$4.8 million increase in employment costs.

AMORTIZATION EXPENSE

Amortization expense was \$2.0 million for the three months ended December 31, 2006, an increase of \$0.6 million from \$1.4 million in the prior year quarter. Amortization expense was \$3.9 million for the six months ended December 31, 2006, an increase of \$1.1 million from \$2.8 million in the prior year period. These increases are due to the impact of acquisitions.

INTEREST EXPENSE

Interest expense for the three months ended December 31, 2006 decreased to \$7.3 million from \$8.0 million in the prior year quarter. This decrease is due primarily to a \$174.3 million decrease in average daily domestic borrowings partially offset by the impact of higher average borrowing rates. The weighted average domestic borrowing rate increased from 5.2 percent in the prior year quarter to 7.0 percent in the current quarter.

Interest expense for the six months ended December 31, 2006 decreased to \$14.7 million from \$15.8 million in the prior year period. This decrease is due primarily to a \$182.8 million decrease in average daily domestic borrowings partially offset by the impact of higher average borrowing rates. The weighted average domestic borrowing rate increased from 5.5 percent in the prior year period to 7.0 percent in the current period.

OTHER INCOME, NET

Other income for the three months ended December 31, 2006 was \$0.6 million compared to \$1.2 million in the prior year quarter. This decrease is primarily due to unfavorable foreign currency effects of \$1.7 million partially offset by a reduction in accounts receivable securitization fees of \$1.2 million.

Other income for the six months ended December 31, 2006 was \$3.6 million compared to \$2.1 million in the prior year period. This increase is primarily due to a reduction in accounts receivable securitization fees of \$2.2 million and an increase in interest income of \$1.9 million partially offset by unfavorable foreign currency effects of \$3.1 million.

INCOME TAXES

The effective income tax rate for the three months ended December 31, 2006 and 2005 was 30.5 percent and 31.4 percent, respectively. The reduction from prior year is primarily the result of the extension of the research, development and experimental tax credit that was enacted during the quarter, partially offset by non-tax benefited plant-closing costs. Both periods reflect benefits of our pan-European business model strategy.

The effective income tax rate for the six months ended December 31, 2006 and 2005 was 31.1 percent and 33.0 percent, respectively. The reduction from prior year is primarily the result of benefits of our pan-European business model strategy, as well as the extension of the research, development and experimental tax credit, partially offset by the net effects of non-tax benefited plant closing costs recorded in the current period and a favorable valuation allowance adjustment recorded in the prior period related to a change in judgment about the realizability of certain deferred tax assets in Europe.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**INCOME FROM CONTINUING OPERATIONS**

Income from continuing operations for the three months ended December 31, 2006 was \$33.6 million, or \$0.86 per diluted share, compared to \$30.9 million, or \$0.79 per diluted share, in the same quarter last year. Income from continuing operations for the six months ended December 31, 2006 was \$63.0 million, or \$1.61 per diluted share, compared to \$59.0 million, or \$1.51 per diluted share, in the prior year period. The increase in income from continuing operations is a result of the factors set forth above.

DISCONTINUED OPERATIONS

During 2006, our Board of Directors and management approved plans to divest our Kemmer Praezision Electronics business (Electronics) and our consumer retail product line, including industrial saw blades (CPG) as part of our strategy to exit non-core businesses. These divestitures are accounted for as discontinued operations. As a result, prior years' financial results have been restated to reflect the activity from these operations as discontinued operations.

Electronics The divestiture of Electronics, which was part of the AMSSG segment, was completed in two separate transactions. The first transaction closed during 2006. The second transaction closed on December 31, 2006. During the three and six months ended December 31, 2006, we recognized a pre-tax gain on divestiture of \$0.1 million to adjust the related net assets to fair value, which has been presented in discontinued operations.

During the three months ended December 31, 2006, management completed its assessment of the future use of a building owned and previously used by Electronics, but not divested. We concluded that we have no future economic use for this facility. As a result, we wrote the building down to fair value and have recognized a pre-tax impairment charge of \$3.0 million, which has been presented in discontinued operations.

CPG The divestiture of CPG, which was part of the MSSG segment, closed August 31, 2006 for net consideration of \$31.2 million. We have received \$21.2 million in net proceeds related to the sale of this business of which \$1.5 million and \$19.7 million were received during 2006 and the six months ended December 31, 2006, respectively. We expect to receive the remaining \$10.0 million prior to February 28, 2007. During the three and six months ended December 31, 2006, we recognized additional pre-tax losses on divestiture of \$0.7 million and \$1.0 million, respectively, related to post-closing adjustments which have been recorded in discontinued operations.

The following represents the results of discontinued operations:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Sales	\$ 2,424	\$22,722	\$15,034	\$46,174
(Loss) income from discontinued operations before income taxes	\$(3,625)	\$ 326	\$(2,464)	\$ 104
Income tax expense (benefit)	(119)	149	135	(92)
(Loss) income from discontinued operations	\$(3,506)	\$ 177	\$(2,599)	\$ 196

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

In 2006, we divested our J&L segment for net consideration of \$359.2 million. During the first quarter of 2007, we recognized a pre-tax loss of \$1.7 million related to a post-closing adjustment. Certain claims raised by the purchaser related to the post-closing adjustment were submitted to binding arbitration for resolution in accordance with the terms of the sale agreement. These claims were resolved during the current quarter. We have received \$359.2 million in net proceeds related to the sale of this business of which \$9.7 million was received during the six months ended December 31, 2006.

BUSINESS SEGMENT REVIEW

Our operations were previously organized into three reportable operating segments consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG) and J&L Industrial Supply (J&L), and Corporate. We divested J&L in 2006. For the three and six months ended December 31, 2005, J&L outside sales, intersegment sales and operating income were \$65.3 million and \$130.3 million, \$0.2 million and \$0.4 million, and \$6.3 million and \$13.2 million, respectively. The presentation of segment information reflects the manner in which we organize segments for making operating decisions and assessing performance.

METALWORKING SOLUTIONS & SERVICES GROUP

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
External sales	\$373,995	\$336,197	\$731,079	\$667,777
Intersegment sales	32,005	41,473	65,448	89,210
Operating income	45,208	42,585	90,874	88,526

For the three months ended December 31, 2006, MSSG external sales increased \$37.8 million, or 11.2 percent, from the prior year quarter. This increase was driven primarily by growth in European sales of 16.7 percent and growth in North American sales of 7.7 percent. MSSG experienced growth in the distribution, aerospace and general engineering markets. Favorable foreign currency effects were \$11.4 million for the quarter.

For the three months ended December 31, 2006, operating income increased \$2.6 million, or 6.2 percent, from the prior year quarter. Operating margin on total sales of 11.1 percent for the three months ended December 31, 2006 decreased 20 basis points compared to 11.3 percent in the prior year quarter. The decrease in operating margin is primarily due to \$2.6 million of plant closure costs and higher raw material costs realized in the current quarter, partially offset by the impacts of continued cost containment.

For the six months ended December 31, 2006, MSSG external sales increased \$63.3 million, or 9.5 percent, from the prior year period. This increase was driven primarily by growth in European sales of 11.3 percent, North American sales of 8.2 percent and Asia Pacific sales of 12.2 percent. MSSG experienced growth in the distribution, aerospace and general engineering markets. Favorable foreign currency effects were \$18.8 million for the period.

For the six months ended December 31, 2006, operating income increased \$2.3 million, or 2.7 percent, from the prior year period. Operating margin on total sales of 11.4 percent for the six months ended December 31, 2006 decreased 30 basis points compared to 11.7 percent in the prior year period. The decrease in operating margin is primarily due to the factors discussed above.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**ADVANCED MATERIALS SOLUTIONS GROUP**

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
External sales	\$195,326	\$161,002	\$381,053	\$310,186
Intersegment sales	10,686	9,480	20,439	18,704
Operating income	33,993	29,582	61,379	53,434

For the three months ended December 31, 2006, AMSG external sales increased \$34.3 million, or 21.3 percent, from the prior year quarter. The increase in sales is primarily attributed to the impact of favorable market conditions and the effects of acquisitions. The increase in sales was achieved primarily in energy, engineered and mining and construction products, which were up 32.4 percent, 18.2 percent and 8.5 percent, respectively.

For the three months ended December 31, 2006, operating income increased \$4.4 million, or 14.9 percent, over the prior year quarter. The increase is primarily attributed to the factors discussed above and the effects of acquisitions and new product introductions partially offset by higher raw material costs.

For the six months ended December 31, 2006, AMSG external sales increased \$70.9 million, or 22.9 percent, from the prior year period. The increase in sales is primarily attributed to the impact of favorable market conditions and the effects of acquisitions. The increase in sales was achieved primarily in energy, engineered and mining and construction products, which were up 33.9 percent, 17.6 percent and 8.6 percent, respectively.

For the six months ended December 31, 2006, operating income increased \$7.9 million, or 14.9 percent, over the prior year period. The increase is primarily attributed to the factors discussed above and the effects of acquisitions partially offset by higher raw material costs.

CORPORATE

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Operating loss	\$(23,335)	\$(25,870)	\$(48,026)	\$(51,431)

Corporate represents corporate shared service costs, certain employee benefit costs, stock-based compensation expense and eliminations of operating results between segments.

For the three months ended December 31, 2006, operating loss decreased \$2.5 million, or 9.8 percent, compared to the prior year quarter. The decrease is primarily attributed to reductions in employment costs of \$1.2 million and a decrease in information technology costs of \$0.9 million.

For the six months ended December 31, 2006, operating loss decreased \$3.4 million, or 6.6 percent, compared to the prior year period. The decrease is primarily attributed to reductions in employment costs of \$3.7 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from discontinued operations are not deemed material and have been combined with cash flows from continuing operations within each cash flow statement category. The absence of cash flows from discontinued operations is not expected to have a material impact on our future liquidity and capital resources.

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

Our cash flow from operations is our primary source of financing for capital expenditures and internal growth. During the six months ended December 31, 2006, cash flow provided by operating activities was \$35.8 million, compared to \$75.6 million for the prior year period. Cash flow provided by operating activities for the period ended December 31, 2006 consists of net income and non-cash items totaling \$115.0 million offset by changes in certain assets and liabilities netting to \$79.2 million. Contributing to this change was a decrease in accrued income taxes of \$78.7 million primarily due to tax payments related to the gain on divestiture of J&L and cash repatriated during 2006 under the American Jobs Creation Act (AJCA). During the six months ended December 31, 2006, cash paid for income taxes totaled \$104.9 million.

Cash flow provided by operating activities for the six months ended December 31, 2005 consisted of net income and non-cash items totaling \$107.4 million offset by changes in certain assets and liabilities netting to \$31.8 million. Contributing to this change was an increase in inventory of \$22.2 million resulting from higher raw material costs and the increase in production to meet sales demand, offset by a net decrease in accounts receivable of \$12.5 million due to focused collection efforts.

Net cash flow used for investing activities was \$91.5 million for the six months ended December 31, 2006, an increase of \$33.0 million, compared to \$58.5 million in the prior year period. During the six months ended December 31, 2006, cash used for investing activities includes \$44.9 million used for purchases of property, plant and equipment, which consisted primarily of equipment upgrades, and \$76.7 million used for the acquisition of business assets, partially offset by proceeds from divestitures of \$29.4 million. During the prior year period, cash used for investing activities included \$31.3 million of purchases of property, plant and equipment, which consisted primarily of equipment upgrades, and \$30.0 million used for the acquisition of business assets.

During the six months ended December 31, 2006 net cash flow used for financing activities was \$65.6 million, an increase of \$47.2 million, compared to \$18.4 million in the prior year period. During the current year period, cash used for financing activities includes a \$46.4 million net decrease in borrowings, \$24.6 million for the repurchase of capital stock and \$15.5 million of cash dividends paid to shareowners offset by \$21.3 million of dividend reinvestment and the effects of employee benefit and stock plans. The reduction in borrowings, repurchase of capital stock and increase in cash dividends paid of \$0.8 million reflect the Company's priority uses of cash as a result of the J&L divestiture in 2006. During the prior year period, cash used for financing activities included a \$16.2 million net decrease in borrowings, \$4.6 million for the repurchase of capital stock, \$14.7 million of cash dividends paid to shareowners offset by \$23.5 million of dividend reinvestment and the effects of employee benefit and stock plans.

We believe that cash flow from operations and the availability under our credit lines will be sufficient to meet our cash requirements over the next 12 months.

There have been no material changes in our contractual obligations and commitments since June 30, 2006.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is party to a three-year securitization program, which permits us to securitize up to \$10.0 million of accounts receivable. As of December 31, 2006, the Company had no securitized accounts receivable.

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

FINANCIAL CONDITION

Total assets were \$2,396.9 million at December 31, 2006, compared to \$2,435.3 million at June 30, 2006. Working capital decreased \$33.5 million to \$591.2 million at December 31, 2006 from \$624.7 million at June 30, 2006. The decrease in working capital is primarily driven by cash used for acquisitions of \$76.7 million, partially offset by proceeds from divestitures of \$29.4 million. Net property, plant and equipment increased \$26.9 million to \$557.3 million at December 31, 2006 from \$530.4 million at June 30, 2006 due to acquisitions of business assets and machinery and equipment upgrades partially offset by depreciation expense.

Total liabilities decreased \$114.0 million to \$1,011.3 million at December 31, 2006 from \$1,125.3 million at June 30, 2006, primarily due to decreases in accrued income taxes of \$79.8 million and a net reduction in long-term debt, notes payable and capital leases of \$35.3 million.

Shareowners' equity increased \$74.3 million to \$1,369.7 million as of December 31, 2006 from \$1,295.4 million as of June 30, 2006. The increase is primarily a result of net income of \$60.4 million, foreign currency translation adjustments of \$24.6 million and the effect of employee benefit and stock plans of \$24.7 million, partially offset by repurchases of capital stock of \$24.6 million and cash dividends paid to shareowners of \$15.5 million.

ENVIRONMENTAL MATTERS

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

Superfund Sites We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites, including the Li Tungsten Superfund site in Glen Cove, New York. With respect to the Li Tungsten site, we recorded an environmental reserve following the identification of other PRPs, an assessment of potential remediation solutions and an entry of a unilateral order by the USEPA directing certain remedial action. In May 2006, we reached an agreement in principle with the U.S. Department of Justice (DOJ) with respect to this site; the DOJ informed us that it would accept a payment of \$0.9 million in full settlement for its claim against us for costs related to the Li Tungsten site. To date, the draft Consent Order and Agreement for settlement of our Li Tungsten liability has not been finalized, but we expect that the final settlement will proceed according to the terms outlined in the agreement in principle. At December 31, 2006 we had an accrual of \$1.0 million recorded relative to this environmental issue.

During 2006, the USEPA notified us that we have been named as a PRP at the Alternate Energy Resources Inc. site located in Augusta, Georgia. The proceedings in this matter 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, if any, alone or in relation to that of any other PRPs.

Other Environmental Issues Additionally, we also maintain reserves for other potential environmental issues. At December 31, 2006 the total of these accruals was \$5.5 million, and represents anticipated costs associated with the remediation of these issues. We recorded unfavorable foreign currency translation adjustments of \$0.2 million during the three months ended December 31, 2006 related to these reserves.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies since June 30, 2006.

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

NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status through comprehensive income of a business entity in the year in which the changes occur. SFAS 158 is effective for Kennametal June 30, 2007. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented will not be restated. Based on the funded status of our pension and other postretirement benefit plans as of June 30, 2006, the adoption of SFAS 158 would have resulted in the following estimated impacts: a \$0.8 million reduction of intangible assets, recognition of a \$0.5 million deferred tax asset, a \$78.5 million reduction of prepaid pension assets, a \$20.8 million reduction in deferred tax liabilities, a \$6.2 million reduction in accrued postretirement benefits, recognition of a \$4.9 million pension liability and recognition of a \$56.7 million other comprehensive loss. The ultimate impact is contingent on plan asset returns and the assumptions that will be used to measure the funded status of each of our pension and other postretirement benefit plans as of June 30, 2007.

SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The funded status of each of our pension and other postretirement benefit plans is currently measured as of June 30.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, (SAB 108), which expresses the staff's views regarding the process of quantifying financial statement misstatements. The guidance in SAB 108 must be applied in our 2007 annual financial statements. We are in the process of evaluating the guidance in SAB 108 to determine the impact, if any, on our results of operations or financial condition.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for Kennametal July 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. We are in the process of evaluating the impact of the provisions of SFAS 157 on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a method of recognition, measurement, presentation and disclosure within the financial statements for uncertain tax positions that a company has taken or expects to take in a tax return. FIN 48 is effective for Kennametal July 1, 2007. We are in the process of evaluating the provisions of FIN 48 to determine the impact of adoption on our results of operations or financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have experienced certain changes in our exposure to market risk from June 30, 2006. The fair value of our interest rate swap agreements was a liability of \$8.2 million as of December 31, 2006 compared to a liability of \$14.2 million as of June 30, 2006. The offset to this liability is a corresponding increase to long-term debt, as the instruments are accounted for as a fair value hedge of our long-term debt. The \$6.0 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, 2006.

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 are effective to provide reasonable assurance at December 31, 2006 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act was (i) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

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 ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2006	324	\$54.62	—	3.3 million
November 1 through November 30, 2006	101,707	\$60.69	94,100	3.2 million
December 1 through December 31, 2006	159,314	\$60.04	157,900	3.0 million
Total:	<u>261,345</u>	\$60.29	<u>252,000</u>	

(1) Employees delivered 2,152 shares of restricted stock to Kennametal, upon vesting, to satisfy tax-withholding requirements. Employees delivered 7,193 shares of stock to Kennametal as payment for the exercise price of stock options.

(2) On October 24, 2006, Kennametal's Board of Directors authorized a share repurchase program, under which Kennametal is authorized to repurchase up to 3.3 million shares of its capital stock. This repurchase program does not have a specified expiration date.

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ITEM 6. EXHIBITS

(3)	Articles of Incorporation and Bylaws	
(3.1)	Amended and Restated Articles of Incorporation as amended through October 30, 2006	Filed herewith.
(10)	Material Contracts	
(10.1)*	Form of Amended and Restated Officer's Employment Agreement	Filed herewith.
(10.2)*	Letter Agreement dated December 7, 2006 by and between Kennametal Inc. and Markos I. Tambakeras	Filed herewith.
(10.3)*	Letter Agreement dated December 6, 2006 by and between Kennametal Inc. and Frank P. Simpkins	Filed herewith.
(31)	Rule 13a-14a/15d-14(a) Certifications	
(31.1)	Certification executed by Carlos M. Cardoso, 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, 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.

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 9, 2007

By: /s/ Wayne D. Moser

Wayne D. Moser

Vice President Finance and Corporate Controller

**ARTICLES OF INCORPORATION
OF
KENNAMETAL INC.**

(as amended pursuant to the Articles of Amendment
filed with the Pennsylvania Department of State,
Corporation Bureau, on October 30, 2006)

FIRST: The name of the Corporation is Kennametal Inc.

SECOND: The address of this corporation's current registered office in this Commonwealth is 1600 Technology Way, Latrobe, Pennsylvania 15650, Westmoreland County.

THIRD: The purpose or purposes of the Corporation are to have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which corporations may be incorporated under the Business Corporation Law, approved the 5th day of May, A.D. 1933, P.L. 364, as amended, including but not limited to, manufacturing, processing, research or development, and the business of manufacturing cemented carbide products including tools and related items.

FOURTH: The term of its existence is perpetual.

FIFTH: The authorized capital stock of the Corporation shall be 120,000,000 shares of Capital Stock of the par value of \$1.25 per share and 5,000,000 shares of Class A Preferred Stock without par value.

A description of each class of shares and a statement of the voting rights, designations, preferences, qualifications, privileges, limitations, options, restrictions, conversion rights and other special or relative rights granted to or imposed upon the shares of each class and of the authority vested in the Board of Directors of the Corporation to establish series of Class A Preferred Stock and to fix and determine the relative rights and preferences as between series of Class A Preferred Stock, and the variations therein, are as follows:

1. The Board of Directors is hereby expressly authorized, at any time or from time to time, to divide any or all of the shares of Class A Preferred Stock into one or more series, and in the resolution or resolutions establishing a particular series, before issuance of any of the shares thereof, to fix and determine the number of shares and the designation of such series, so as to distinguish it from the shares of all other series and classes, and to fix and determine the voting rights, preferences, qualifications, privileges, limitations, options, conversion rights, restrictions, and other special or relative rights of such series. Each of such series may differ from every other series previously authorized, as may be determined by the Board of Directors in any or all respects, to the fullest extent now or hereafter permitted by the laws of the Commonwealth of Pennsylvania, including, but not limited to, the variations between different series in the following respects:

(a) the distinctive designation of such series and the number of shares which shall constitute such series, which number may be increased or decreased (but not below the number of shares thereof then outstanding) from time to time by the Board of Directors;

(b) the annual dividend or dividend rate for such series, and the date or dates from which dividends shall commence to accrue;

(c) the price or prices at which, and the terms and conditions on which, if any, the shares of such series may be redeemed or made redeemable;

(d) the purchase or sinking fund provisions, if any, for the purchase or redemption of shares of such series;

(e) the preferential amount or amounts, if any, payable upon shares of such series in the event of liquidation, dissolution, or winding up of the Corporation;

(f) the voting rights, if any, of the shares of such series; provided, that exclusive of any other voting rights fixed and determined for shares of Class A Preferred Stock or any series thereof, and solely for purposes of determining, in connection with a stockholder vote required by Article SEVENTH, Article EIGHTH, Article NINTH or Article TENTH, (i) the outstanding stock of the Corporation entitled to vote and (ii) the percentage thereof that is voted affirmatively by the holders thereof, the portions of such outstanding stock and of such percentage thereof respectively, that are represented by the holders of outstanding shares of Class A Preferred Stock shall be determined on the basis of (i) the aggregate number of votes, if any, that the holders of all outstanding shares of Class A Preferred Stock are entitled to cast and (ii) the aggregate number of votes, if any, that the holders of all outstanding shares of Class A Preferred Stock affirmatively do cast, respectively, in connection with a stockholder vote required by Article SEVENTH, Article EIGHTH, Article NINTH or Article TENTH;

(g) the terms and conditions, if any, upon which shares of such series may be converted and the class or classes or series of shares of the Corporation or other securities into which such shares may be converted;

(h) the relative seniority, priority or junior rank of such series as to dividends or assets with respect to any other classes or series of capital stock then or thereafter to be issued; and

(i) such other terms, preferences, qualifications, privileges, limitations, options, restrictions, and other special rights, if any, of shares of such series as the Board of Directors may, at the time of such resolution or resolutions, lawfully fix or determine under the laws of the Commonwealth of Pennsylvania.

All shares within each series of Class A Preferred Stock shall be alike in every particular, except with respect to the dates from which dividends, if any, shall commence to accrue.

2. Unless otherwise provided by law, the Articles of Incorporation or the By-laws of the Corporation, or in a resolution or resolutions establishing any particular series of Class A Preferred Stock, the aggregate number of authorized shares of Class A Preferred Stock may be increased by an amendment to the Articles of Incorporation approved solely by a majority vote of the outstanding shares of Capital Stock.

3. The Board of Directors may in its discretion, at any time or from time to time, issue or cause to be issued all or any part of the authorized and unissued shares of Class A Preferred Stock or all or any part of the authorized and unissued shares of Capital Stock for consideration of such character and value as the Board of Directors shall from time to time fix or determine.

4. The holders of Capital Stock shall have one vote per share.

5. The Capital Stock shall be subject to the prior rights of holders of any series of Class A Preferred Stock outstanding, according to the preferences, if any, of such series.

6. The Corporation may issue shares of stock, option rights, or securities having conversion or option rights, without first offering them to the holders of Class A Preferred Stock or Capital Stock.

SIXTH: The Board of Directors of the Corporation, when evaluating any offer of another party to (a) make a tender or exchange offer for any equity security of the Corporation, (b) merge or consolidate the Corporation with another corporation or other person, or (c) purchase or otherwise acquire all or substantially all of the properties and assets of the Corporation, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its stockholders, give due consideration to all relevant factors, including without limitation the social and economic effects on the employees, suppliers and other constituents of the Corporation and its subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located.

SEVENTH: (a) Except as set forth in paragraph (b) of this Article Seventh, the affirmative vote of the holders of seventy-five percent (75%) of the outstanding stock of the Corporation entitled to vote shall be required for:

(i) any merger or consolidation to which the Corporation, or any of its subsidiaries, and an Interested Person (as hereinafter defined) are parties;

(ii) any sale or other disposition by the Corporation, or any of its subsidiaries, of all or substantially all of the assets of the Corporation or any of its subsidiaries to an Interested Person;

(iii) any purchase or other acquisition by the Corporation, or any of its subsidiaries, of all or substantially all of the assets or stock of an Interested Person; and

(iv) any other transaction with an Interested Person which requires the approval of the stockholders of the Corporation under the Pennsylvania Business Corporation Law, as in effect from time to time.

(b) The provisions of paragraph (a) of this Article Seventh shall not be applicable to any transaction described therein, if such transaction is approved by resolution of the Board of Directors of the Corporation, provided that a majority of the members of the Board of Directors voting for the approval of such transaction were duly elected and acting members of the Board of Directors prior to the date that the person, firm or corporation, or any group thereof, with whom such transaction is proposed, became an Interested Person.

(c) As used in this Article Seventh, the term "Interested Person" shall mean any person, firm or corporation, or any group thereof acting or intending to act in concert, including any person directly or indirectly controlling or controlled by or under direct or indirect common control with such person, firm or corporation or group, which owns of record or beneficially, directly or indirectly, five percent (5%) or more of any class of voting securities of the Corporation. The Board of Directors' determination of who constitutes an Interested Person within the meaning of this provision shall be conclusive.

(d) The affirmative vote of the holders of seventy-five percent (75%) of the outstanding stock of the Corporation entitled to vote shall be required to amend, alter or repeal this Article Seventh.

EIGHTH: (a) An affirmative vote of the holders of seventy-five (75%) of the outstanding stock of the Corporation entitled to vote shall be required for:

(i) The removal of the entire Board of Directors, a class of the Board of Directors or any individual director without assigning any cause; and

(ii) Increasing the size of the Board to more than twelve, or decreasing the size of the Board to fewer than eight, members.

(a) The affirmative vote of the holders of seventy-five percent (75%) of the outstanding stock of the Corporation entitled to vote shall be required to amend, alter or repeal this Article Eighth.

(b) Any reclassification of the Board of Directors or decrease in its size which would have the effect of eliminating the seat of an existing director shall be considered the removal of a director and within the voting requirements of this provision.

NINTH: (a) Any purchase by the Corporation, directly or indirectly, of shares of Voting Stock (as hereinafter defined) from a 4% Shareholder (as hereinafter defined) at a price per share in excess of the Market Price (as hereinafter defined) at the time of such purchase shall, except as hereinafter expressly provided, require the affirmative vote of the holders of that amount of the voting power of the then outstanding shares of Voting Stock equal to the sum of (i) the voting power of the shares of Voting Stock of which such 4% Shareholder is the beneficial owner (as hereinafter defined) and (ii) a majority of the voting power of the remaining outstanding shares of Voting Stock, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or any agreement with any national securities exchange, or otherwise.

(b) The provisions of paragraph (a) of this Article Ninth shall not be applicable to (i) any offer to purchase made by the Corporation which is made on the same terms and conditions to all holders of the same class of Voting Stock as those so purchased, (ii) any transaction which may be deemed to be a purchase by the Corporation of Voting Stock which is made in connection with the terms or operation of any stock option or other employee benefit plan now or hereafter maintained by the Corporation, or (iii) any purchase by the Corporation of Voting Stock on the open market and not as a result of a privately negotiated transaction.

(c) For purposes of this Article Ninth:

(i) A “person” shall mean any individual, firm, corporation, partnership, trust or other entity.

(ii) “Voting Stock” shall mean the outstanding shares of all classes or series of authorized capital stock of the Corporation entitled to vote generally in the election of directors.

(iii) “4% Shareholder” shall mean any person (other than the Corporation or any corporation of which a majority of any class or series of equity security is owned, directly or indirectly, by the Corporation), including any group formed for the purpose of acquiring, holding or voting Voting Stock, who or which is the beneficial owner, directly or indirectly, of at least 4% of the voting power of the outstanding Voting Stock and became such beneficial owner within two years prior to the date of the purchase referred to in paragraph (a) of this Article Ninth or any agreement in respect thereof.

(iv) A person shall be a “beneficial owner” of any Voting Stock which such person directly or indirectly, beneficially or of record, owns or controls by agreement, understanding, voting trust or otherwise.

(v) For purposes of determining whether a person is a 4% Shareholder pursuant to paragraph (c)(iii) of this Article Ninth, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph (c)(iv) of this Article Ninth but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(vi) "Market Price" means the last closing sale price immediately preceding the time in question of a share of the stock in question on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States Securities Exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such Exchange, the last closing bid quotation with respect to a share of such stock immediately preceding the time in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use (or any other system of reporting or ascertaining quotations then available), or if such stock is not quoted, the fair market value at the time in question of a share of such stock as determined by the Board in good faith.

(vii) "Disinterested Director" means (A) any member of the Board of Directors of the Corporation (the "Board") who neither is a director or officer of, has a material equity interest in, nor is, the 4% Shareholder referred to in paragraph (a) of this Article Ninth and who was a member of the Board more than two years prior to the date of the purchase referred to in paragraph (a) of this Article Ninth, and (B) any successor of a Disinterested Director who was not nominated for election as a director by the 4% Shareholder referred to in paragraph (a) of this Article Ninth and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board.

(d) A majority of the Disinterested Directors of the Corporation shall have the power and duty to determine for purposes of this Article Ninth, on the basis of information known to them after reasonable inquiry, (i) whether a person is a 4% Shareholder, (ii) the number of shares of Voting Stock beneficially owned by any person, (iii) whether a price is in excess of the Market Price, and (iv) such other matters with respect to which a determination is required under this Article Ninth. The good faith determination of a majority of the Disinterested Directors shall be conclusive and binding for all purposes of this Article Ninth.

TENTH: (a) In addition to any affirmative vote required by law, the Articles of Incorporation, or the By-laws of the Corporation, Business Combinations with an Interested Shareholder shall require the affirmative vote of at least a majority of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock other than the Interested Shareholder, voting together as a single class; provided, however, that such affirmative vote shall not be required and such Business Combination shall require only the affirmative vote, if any, required by law, the Articles of Incorporation, or the By-laws of the Corporation if:

(i) The Business Combination shall have been approved by a majority of Disinterested Directors; or

(ii) All of the following six conditions shall have been met:

(A) The transaction constituting the Business Combination shall provide for a consideration to be received by holders of Capital Stock in exchange for their stock, and the aggregate amount of the cash consideration and the Fair Market Value as of the date of the consummation of the Business Combination of consideration

other than cash to be received per share by holders of Capital Stock in such Business Combination shall be at least equal to the highest of the following:

(I) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes, and soliciting dealers' fees) paid by the Interested Shareholder in order to acquire any shares of Capital Stock beneficially owned by the Interested Shareholder which were acquired (x) within the two-year period immediately prior to the first public announcement of the proposed Business Combination (the "Announcement Date") or (y) in the transaction in which the Interested Shareholder became an Interested Shareholder, whichever is higher;

(II) The Fair Market Value per share of Capital Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (the "Determination Date"), whichever is higher;

(III) the highest Fair Market Value per share of Capital Stock for the two years immediately preceding the Announcement Date, where the closing sale price is determined for each trading day without reference to the immediately preceding 30-day period; and

(IV) (if applicable) the price per share equal to the Fair Market Value per share of Capital Stock determined pursuant to clause (II) preceding, multiplied by the ratio of (x) the highest per share price (including any brokerage commissions, transfer taxes, and soliciting dealers' fees) paid in order to acquire any shares of Capital Stock beneficially owned by the Interested Shareholder which were acquired within the two-year period immediately prior to the Announcement Date to (y) the Fair Market Value per share of Capital Stock on the first day in such two-year period on which the Interested Shareholder beneficially owned any shares of Capital Stock.

All per share prices shall be adjusted to reflect any intervening stock splits, stock dividends, and reverse stock splits.

(B) If the transaction constituting the Business Combination shall provide for a consideration to be received by holders of any class of outstanding Voting Stock other than Capital Stock, the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of such Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this clause (ii)(B) shall be required to be met with respect to every such class of outstanding Voting Stock whether or not the Interested Shareholder beneficially owns any shares of a particular class of such Voting Stock):

(I) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes, and soliciting dealers' fees) paid by the Interested Shareholder in order to acquire any shares of such class of Voting Stock beneficially owned by the Interested Shareholder which were acquired (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which the Interested Shareholder became an Interested Shareholder, whichever is higher;

(II) (if applicable) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any liquidation, dissolution, or winding up of the Corporation;

(III) the highest Fair Market Value per share of such class of Voting Stock for the two years immediately preceding the Announcement Date, where the closing sale price is determined for each trading day without reference to the immediately preceding 30-day period;

(IV) the Fair Market Value per share of such class of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher; and

(V) (if applicable) the price per share equal to the Fair Market Value per share of such class of Voting Stock determined pursuant to clause (IV) immediately preceding, multiplied by the ratio of (x) the highest per share price (including any brokerage commissions, transfer taxes, and soliciting dealers' fees) paid in order to acquire any shares of such class of Voting Stock beneficially owned by the Interested Shareholder which were acquired within the two-year period immediately prior to the Announcement Date to (y) the Fair Market Value per share of such class of Voting Stock on the first day in such two-year period on which the Interested Shareholder beneficially owned any share of such class of Voting Stock.

All per share prices shall be adjusted to reflect any intervening stock splits, stock dividends, and reverse stock splits.

(C) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Capital Stock) shall be in cash or in the same form as was previously paid in order to acquire shares of such class of Voting Stock which are beneficially owned by the Interested Shareholder. If the Interested Shareholder beneficially owns shares of any class of Voting Stock which were acquired with varying forms of consideration, the form of consideration to be received by holders of such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock beneficially owned by the Interested Shareholder.

(D) After such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination:

(I) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on any outstanding preferred stock;

(II) there shall have been (x) no reduction in the annual rate of dividends paid on the Capital Stock (except as necessary to reflect any subdivision of the Capital Stock), except as approved by a majority of the Disinterested Directors, and (y) an increase in such annual rate of dividends (as necessary to prevent any such reduction) in the event of any reclassification (including any reverse stock split), recapitalization, reorganization, or any similar transaction which has the effect of reducing the number of outstanding shares of the Capital Stock, unless the failure to so increase such annual rate is approved by a majority of the Disinterested Directors; and

(III) such Interested Shareholder shall not have become the beneficial owner of any additional shares of Voting Stock except as part of the transaction in which such Interested Shareholder became an Interested Shareholder.

(E) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges, or other financial assistance or any tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with a Business Combination or otherwise.

(F) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(b) For purposes of this Article Tenth:

(i) The term "Business Combination" shall mean:

(A) any merger or consolidation of the Corporation or any Subsidiary with (I) any Interested Shareholder or with (II) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger or consolidation would be, an Affiliate or Associate of an Interested Shareholder;

(B) any sale, lease, exchange, mortgage, pledge, transfer, or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder and/or any Affiliate or Associate of any Interested Shareholder of any assets

of the Corporation or any Subsidiary thereof having an aggregate Fair Market Value of, equal to or in excess of a Substantial Part of the assets of the Corporation;

(C) the issuance, exchange, sale, or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Shareholder and/or any Affiliate or Associate of any Interested Shareholder in exchange for cash, securities, or other consideration (or a combination thereof) having an aggregate Fair Market Value of, equal to or in excess of a Substantial Part of the assets of the Corporation;

(D) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder; or

(E) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries which involves or is proposed by or on behalf of any Interested Shareholder or any Affiliate or Associate of any Interested Shareholder and has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity securities or securities convertible into equity securities of the Corporation or any Subsidiary which is directly or indirectly owned by an Interested Shareholder or any Affiliate or Associate of any Interested Shareholder.

(ii) The term "person" shall mean any individual, firm, corporation, partnership, trust or other entity.

(iii) The term "Interested Shareholder" at any particular time shall mean any person (other than the Corporation or any Subsidiary and other than any profit sharing, employee stock ownership, or other employee benefit plan of the Corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which:

(A) is at such time the beneficial owner, directly or indirectly, of more than ten percent (10%) of the voting power of the outstanding Voting Stock;

(B) was at any time within the two-year period immediately prior to such time the beneficial owner, directly or indirectly, of more than ten percent (10%) of the voting power of the then outstanding Voting Stock; or

(C) is at such time an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within two years prior to such time beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.

(iv) A person shall be a "beneficial owner" of any Voting Stock:

(A) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly, within the meaning of Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, as in effect on September 1, 1988;

(B) which such person or any of its Affiliates or Associates has (i) the right to acquire (whether or not such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement, or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement, or understanding; or

(C) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of any shares of Voting Stock.

(v) For the purposes of determining whether a person is an Interested Shareholder pursuant to Section (b)(iii) of this Article Tenth, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned by an Interested Shareholder through application of Section (b)(iv) of this Article Tenth but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement, or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise.

(vi) "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, as in effect on September 1, 1988 (the term "registrant" in said Rule 12b-2 meaning in this case the Corporation).

(vii) "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of Interested Shareholder set forth in Section (b)(iii) of this Article Tenth the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

(viii) "Disinterested Director" means any member of the Board of Directors of the Corporation (the "Board") who is unaffiliated with, and not a representative of, an Interested Shareholder and who was a member of the Board prior to the time that the Interested Shareholder become an Interested Shareholder and any successor of a Disinterested Director who is unaffiliated with, and not a representative of, the Interested Shareholder and is recommended or elected to succeed a Disinterested Director by a majority of the Disinterested Directors then on the Board.

(ix) "Fair Market Value" means: (a) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such

stock is not listed on such exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc., Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by the Board of Directors in good faith with the approval of at least a majority of the Disinterested Directors in the determination made; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board of Directors in good faith with the approval of at least a majority of the Disinterested Directors in the determination made.

(x) In the event of any Business Combination in which the Corporation survives, the phrase “consideration other than cash to be received” as used in Section (a)(ii) of this Article Tenth shall include the shares of Capital Stock and/or the shares of any class of outstanding Voting Stock retained by the holders of such shares.

(xi) A “Substantial Part of the assets of the Corporation” shall mean more than twenty-five percent (25%) of the fair market value of the total assets of the Corporation as of the end of its most recent fiscal quarter ending prior to the time the determination is made.

(xii) The term “Voting Stock” shall mean the outstanding shares of all classes or series of authorized capital stock of the Corporation entitled to vote generally in the election of directors.

(xiii) The term “Capital Stock” shall mean the outstanding shares of the Capital Stock of the par value of \$1.25 per share and shall also mean any class of common stock which may be authorized under the Articles of Incorporation.

(c) A majority of the Disinterested Directors shall have the power and duty to determine for the purposes of this Article Tenth, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article Tenth, including without limitation (i) whether a person is an Interested Shareholder, (ii) the number of shares of Voting Stock beneficially owned by any person, (iii) whether a person is an Affiliate or Associate of another, (iv) whether the applicable conditions set forth in Section (a)(ii) of this Article Tenth have been met with respect to any Business Combination, and (v) whether the assets which are the subject of any Business Combination equal or exceed, or whether the consideration to be received from the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination equals or exceeds, a Substantial Part of the assets of the Corporation. Any such determination made in good faith shall be binding and conclusive on all parties.

(d) Nothing contained in this Article Tenth shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

(e) Unless otherwise clear from the context, all terms used in this Article Tenth shall have the meanings given to them in this Article Tenth. The masculine gender shall include the feminine and neuter genders, and vice versa; and the singular shall include the plural, and vice versa.

(f) Notwithstanding any other provisions of law, the Articles of Incorporation, or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of shareholders entitled to cast at least eighty percent (80%) of the votes which all shareholders would be entitled to cast at an annual election of directors, voting together as a single class, shall be required to amend, alter, or repeal, or to adopt any provision inconsistent with, this Article Tenth.

Officer's Employment Agreement

THIS AGREEMENT, is made and entered into as of this Date day of Month, Year, by and between KENNAMETAL INC., (hereinafter referred to as "Kennametal" or the "Corporation"), a corporation organized under the laws of the Commonwealth of Pennsylvania, for and on behalf of itself and on behalf of its subsidiary companies, and Officer's Name, an individual (hereinafter referred to as "Employee").

WITNESSETH:

WHEREAS, Employee acknowledges that by reason of employment by Kennametal, it is anticipated that Employee will work with, add to, create, have access to and be entrusted with trade secrets and confidential information belonging to Kennametal which are of a technical nature or business nature or pertain to future developments, the disclosure of which trade secrets or confidential information would be highly detrimental to the interests of Kennametal; and

WHEREAS, in order to have the benefit of Employee's assistance, Kennametal is desirous of employing or continuing the employment of Employee; and

NOW, THEREFORE, Kennametal and Employee, each intending to be legally bound hereby, do mutually covenant and agree as follows:

1. (a) Subject to the terms and conditions set forth herein, Kennametal hereby agrees to employ Employee as of the date hereof, and Employee hereby accepts such employment and agrees to devote his full time and attention to the business and affairs of Kennametal, in such capacity or capacities and to perform to the best of his ability such services as shall be determined from time to time by the Chief Executive Officer and the Board of Directors of Kennametal until the termination of his employment hereunder.

(b) Employee's base salary, the size of bonus awards, if any, granted to him and other emoluments for his services, if any, shall be determined by the Board of Directors or its Compensation Committee, as appropriate, from time to time in their sole discretion.
 2. In addition to the compensation set forth or contemplated elsewhere herein, Employee shall be entitled to participate in all employee benefit plans, programs and arrangements as and to the extent provided to other executives of Kennametal, subject to the terms and conditions of this agreement and the terms and conditions from time to time of such plans, programs and arrangements. Nothing herein contained shall be deemed to limit or prevent Employee, during his employment hereunder, from being
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reimbursed by Kennametal for out-of-pocket expenditures incurred for travel, lodging, meals, entertainment expenses or any other expenses in accordance with the policies of Kennametal applicable to the executives of Kennametal.

3. Employee's employment may be terminated with or without any reason for termination by either party hereto at any time by giving the other party prior written notice thereof, provided, however, that any termination on the part of Kennametal shall occur only if specifically authorized by its Board of Directors; provided, further, that termination by Kennametal for Cause (as hereinafter defined) shall be made by written notice which states that it is a termination for Cause; and provided, further, that termination by Employee, other than termination for Good Reason (as hereafter defined) following a Change-in-Control (as hereafter defined), shall be on not less than 30 days prior written notice to Kennametal.

4. (a) In the event that Employee's employment is terminated by Kennametal prior to a Change-in-Control (as hereinafter defined) and other than for Cause, Employee will receive, as severance pay, in addition to all amounts due him at the Date of Termination (as hereinafter defined), the continuance of the Employee's base salary (at the rate in effect on the Date of Termination and subject to applicable deductions and withholdings) for twelve (12) months following the Date of Termination. Any severance pay will be paid in accordance with Kennametal's established payroll policies and practices as in effect on the Date of Termination. Notwithstanding the foregoing, Kennametal may discontinue any such severance payments if Kennametal reasonably determines that Employee has violated any provision of this Agreement.

(b) In the event that Employee's employment is terminated (i) due to the death of the Employee or (ii) by Employee following a Change-in-Control (as hereafter defined) without Good Reason (as such term is defined in paragraph 4(h)) or prior to a Change-in-Control (as hereinafter defined), Employee will not be entitled to receive any severance pay in addition to the amounts, if any, due him at the Date of Termination (as hereinafter defined).

(c) In the event at or after a Change-in-Control and prior to the third anniversary of the date of the Change-in-Control that Employee's employment is terminated by Employee for Good Reason or by Kennametal other than for Cause or Disability pursuant to paragraph 5, Employee will receive as severance pay (in addition to all other amounts due him at the Date of Termination) an amount equal to the product of:

(i) the lesser of

(x) two and eight tenths (2.8),

(y) a number equal to the number of calendar months remaining from the Date of Termination to the Employee's Retirement Date (as such term is hereafter defined) divided by twelve (12), or

(z) a number equal to the product obtained by multiplying thirty-six (36) less the number of completed months after the date of the

Change-in-Control during which the Employee was employed and did not have Good Reason for termination times one-twelfth (1/12);

times

(ii) the sum of

(x) Employee's base salary at the annual rate in effect on the Date of Termination (or, at Employee's election, at the annual rate in effect on the first day of the calendar month immediately prior to the Change-in-Control), plus

(y) the average of any bonuses which Employee was entitled to or paid during the three most recent fiscal years ending prior to the Date of Termination or, if the Employee is employed for less than one year, the target bonus for the year in which the termination occurred.

Such severance pay shall be paid by delivery of a cashier's or certified check to the Employee at Kennametal's executive offices on a date which is no later than five business days following the Date of Termination.

In addition to the severance payments provided for in this paragraph 4(c), Employee also will receive the same or equivalent medical, dental, disability and group insurance benefits as were provided to the Employee at the Date of Termination, which benefits shall be provided to Employee for a three year period commencing on the Date of Termination.

(d) If for any reason, whether by law or provisions of Kennametal's employee medical, dental, disability or group insurance benefit plans, any benefits which the Employee would be entitled to under the foregoing subparagraph (c) of this paragraph 4 cannot be paid pursuant to such employee benefit plans, then Kennametal hereby contractually agrees to pay to the Employee the difference between the benefits which the Employee would have received in accordance with the foregoing subparagraphs of this paragraph 4 if the relevant employee medical, dental, disability or group insurance benefit plan could have paid such benefit and the amount of benefits, if any, actually paid by such employee medical, dental, disability or group insurance benefit plan. Kennametal shall not be required to fund its obligation to pay the foregoing difference.

(e) In the event of a termination of employment under the circumstances above described in paragraph 4(c), Employee shall have no duty to seek any other employment after termination of Employee's employment with Kennametal and Kennametal hereby waives and agrees not to raise or use any defense based on the position that Employee had a duty to mitigate or reduce the amounts due him hereunder by seeking other employment whether suitable or unsuitable and should Employee obtain other employment, then the only effect of such on the obligations of Kennametal hereunder shall be that Kennametal shall be entitled to credit against any payments which would otherwise be made for

medical, dental, disability or group insurance pursuant to the benefit provisions set forth in the second paragraph of paragraph 4(c) hereof, any comparable payments to which Employee is entitled under the employee benefit plans maintained by Employee's other employer or employers in connection with services to such employer or employers after termination of his employment with Kennametal.

(f) The term "Change-in-Control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date hereof ("1934 Act"), or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the 1934 Act which serve similar purposes; provided that, without limitation, such a change in control shall be deemed to have occurred if (A) Kennametal shall be merged or consolidated with any corporation or other entity other than a merger or consolidation with a corporation or other entity all of whose equity interests are owned by Kennametal immediately prior to the merger or consolidation, or (B) Kennametal shall sell all or substantially all of its operating properties and assets to another person, group of associated persons or corporation, or (C) any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act), is or becomes a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities coupled with or followed by the existence of a majority of the board of directors of Kennametal consisting of persons other than persons who either were directors of Kennametal immediately prior to or were nominated by those persons who were directors of Kennametal immediately prior to such person becoming a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities.

(g) For purposes of this agreement "Date of Termination" shall mean:

(i) if Employee's employment is terminated due to his death or retirement, the date of death or retirement, respectively; or

(ii) if Employee's employment is terminated for any other reason, the date on which the termination becomes effective as stated in the written notice of termination given to or by the Employee.

(h) The term "Good Reason" for termination by the Employee shall mean the occurrence of any of the following at or after a Change-in-Control:

(i) without the Employee's express written consent, the diminution of responsibilities or the assignment to the Employee of any duties materially and substantially inconsistent with his positions, duties, responsibilities and status with Kennametal immediately prior to a Change-in-Control, or a material change in his reporting responsibilities, titles or offices as in effect immediately prior to a Change-in-Control, or any removal of the Employee

from or any failure to re-elect the Employee to any of such positions, except in connection with the termination of the Employee's employment due to Cause (as hereinafter defined) or as a result of the Employee's death;

(ii) a reduction by Kennametal in the Employee's base salary as in effect immediately prior to any Change-in-Control;

(iii) a failure by Kennametal to continue to provide incentive compensation, under the rules by which incentives are provided, comparable to that provided by Kennametal immediately prior to any Change-in-Control;

(iv) the failure by Kennametal to continue in effect any benefit or compensation plan, stock option plan, retirement plan, life insurance plan, health and accident plan or disability plan in which Employee is actively participating immediately prior to a Change-in-Control (provided, however, that there shall not be deemed to be any such failure if Kennametal substitutes for the discontinued plan, a plan providing Employee with substantially similar benefits) or the taking of any action by Kennametal which would adversely affect Employee's participation in or materially reduce Employee's benefits under any of such plans or deprive Employee of any material fringe benefit enjoyed by Employee immediately prior to a Change-in-Control;

(v) the failure of Kennametal to obtain the assumption of this Agreement by any successor as contemplated in paragraph 11 hereof;

(vi) the relocation of the Employee to a facility or a location more than 50 miles from the Employee's then present location, without the Employee's prior written consent; or

(vii) any purported termination of the employment of Employee by Kennametal which is not for Cause as provided in paragraph 5.

5. In the event that Employee (a) shall be guilty of malfeasance, willful misconduct or gross negligence in the performance of the services contemplated by this agreement, or (b) shall not make his services available to Kennametal on a full time basis in accordance with paragraph 1 hereof for any reason (including Disability) other than arising from Employee's incapacity due to physical or mental illness or injury which does not constitute Disability and other than by reason of the fact Employee's employment has been terminated under the circumstances described in paragraph 4(a), or (c) shall breach the provisions of paragraph 8 hereof (the matters described in subparagraphs (a), (b) and (c) are collectively referred to as "Cause"), Kennametal shall have the right, exercised by resolution adopted by a majority of its Board of Directors, to terminate Employee's employment for Cause by giving prior written notice to Employee of its election so to do. In that event, Employee's employment shall be deemed terminated for Cause, Employee shall not be entitled to the benefits set forth in paragraph 4 which

shall not be paid or payable and Kennametal only shall have the obligation to pay Employee the unpaid portion of Employee's base salary for the period from the last period from which Employee was paid to the Date of Termination; provided, however, that if Employee's employment is terminated as a result of the Disability of Employee, the benefits set forth in paragraph 4 shall not be paid or payable but Employee shall be entitled to receive all benefits to which Employee is entitled under Kennametal's plans then in effect as a result of Employee's Disability. For purposes of this agreement "Disability" shall mean such incapacity due to physical or mental illness or injury which results in the Employee's being absent from his principal office at Kennametal's offices for the entire portion of 180 consecutive business days. Prior to a Change-in-Control, a decision by the Board of Directors of Kennametal that "Cause" exists shall be in the discretion of the Board of Directors and shall be final and binding upon the Employee and his rights hereunder. After a Change-in-Control, "Cause" shall not be deemed to include opposition by Employee to such a Change-in-Control or any matter incidental thereto and any determination by the Board of Directors that "Cause" existed shall not be final or binding upon the Employee or his rights hereunder or entitled to any deference in any court or other tribunal.

6. Employee understands and agrees that, except to the extent Employee is entitled to the benefits provided in paragraph 4(c) hereof, in the event Employee resigns or his employment is terminated for any reason other than death or Disability prior to his "Retirement Date" (as hereinafter defined), he will forfeit any interest he may have in any Kennametal retirement plan (except to the extent vested by actual service to date of separation as per the plan provisions), and all other benefits dependent upon continuing service. The term "Retirement Date" shall mean the first day of the month following the day on which Employee attains his sixty-fifth birthday, or at Employee's request, any other day that Kennametal's Board of Directors may approve in writing.

7. Nothing herein contained shall affect the right of Employee to participate in and receive benefits under and in accordance with the then current provisions of any employee benefit plan, program or arrangement of Kennametal and all payments hereunder shall be in addition to any benefits received thereunder (including long term disability payments).

8. During the period of employment of Employee by Kennametal and for three years thereafter, (provided, however, that this paragraph 8 shall not apply to the Employee following a termination of Employee's employment (x) if a Change-in-Control, shall have occurred prior to the Date of Termination or (y) if Employee's employment is terminated by Kennametal other than for Cause), he will not, in any geographic area in which Kennametal is offering its services and products, without the prior written consent of Kennametal:

(a) directly or indirectly engage in, or

(b) assist or have an active interest in (whether as proprietor, partner, investor, shareholder, officer, director or any type of principal whatsoever), or

(c) enter the employ of, or act as agent for, or advisor or consultant to, any person, firm, partnership, association, corporation or business organization, entity or enterprise which is or is about to become directly or indirectly engaged in, any business which is competitive with any business of Kennametal or any subsidiary or affiliate thereof in which Employee is or was engaged; provided, however, that the foregoing provisions of this paragraph 8 are not intended to prohibit and shall not prohibit Employee from purchasing, for investment, not in excess of 1% of any class of stock or other corporate security of any company which is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

Employee acknowledges that the breach by him of the provisions of this paragraph 8 would cause irreparable injury to Kennametal, acknowledges and agrees that remedies at law for any such breach will be inadequate and consents and agrees that Kennametal shall be entitled, without the necessity of proof of actual damage, to injunctive relief in any proceedings which may be brought to enforce the provisions of this paragraph 8. Employee acknowledges and warrants that he will be fully able to earn an adequate livelihood for himself and his dependents if this paragraph 8 should be specifically enforced against him and that such enforcement will not impair his ability to obtain employment commensurate with his abilities and fully acceptable to him.

If the scope of any restriction contained in this paragraph 8 is too broad to permit enforcement of such restriction to its full extent, then such restriction shall be enforced to the maximum extent permitted by law and Employee and Kennametal hereby consent and agree that such scope may be judicially modified in any proceeding brought to enforce such restriction.

9. (a) Employee acknowledges and agrees that in the course of his employment by Kennametal, Employee may work with, add to, create or acquire trade secrets and confidential information ("Confidential Information") which could include, in whole or in part, information:

(i) of a technical nature such as, but not limited to, Kennametal's manuals, methods, know-how, formulae, shapes, designs, compositions, processes, applications, ideas, improvements, discoveries, inventions, research and development projects, equipment, apparatus, appliances, computer programs, software, systems documentation, special hardware, software development and similar items; or

(ii) of a business nature such as, but not limited to, information about business plans, sources of supply, cost, purchasing, profits, markets, sales, sales volume, sales methods, sales proposals, identity of customers and prospective customers, identity of customers' key purchasing personnel, amount or kind of customers' purchases and other information about customers; or

(iii) pertaining to future developments such as, but not limited to, research and development or future marketing or merchandising.

Employee further acknowledges and agrees that (i) all Confidential Information is the property of Kennametal; (ii) the unauthorized use, misappropriation or disclosure of any Confidential Information would constitute a breach of trust and could cause irreparable injury to Kennametal; and (iii) it is essential to the protection of Kennametal's goodwill and to the maintenance of its competitive position that all Confidential Information be kept secret and that Employee not disclose any Confidential Information to others or use any Confidential Information to the detriment of Kennametal.

Employee agrees to hold and safeguard all Confidential Information in trust for Kennametal, its successors and assigns and Employee shall not (except as required in the performance of Employee's duties), use or disclose or make available to anyone for use outside Kennametal's organization at any time, either during employment with Kennametal or subsequent thereto, any of the Confidential Information, whether or not developed by Employee, without the prior written consent of Kennametal.

(b) Employee agrees that:

(i) he will promptly and fully disclose to Kennametal or such officer or other agent as may be designated by Kennametal any and all inventions made or conceived by Employee (whether made solely by Employee or jointly with others) during employment with Kennametal (1) which are along the line of the business, work or investigations of Kennametal, or (2) which result from or are suggested by any work which Employee may do for or on behalf of Kennametal; and

(ii) he will assist Kennametal and its nominees during and subsequent to such employment in every proper way (entirely at its or their expense) to obtain for its or their own benefit patents for such inventions in any and all countries; the said inventions, without further consideration other than such salary as from time to time may be paid to him by Kennametal as compensation for his services in any capacity, shall be and remain the sole and exclusive property of Kennametal or its nominee whether patented or not; and

(iii) he will keep and maintain adequate and current written records of all such inventions, in the form of but not necessarily limited to notes, sketches, drawings, or reports relating thereto, which records shall be and remain the property of and available to Kennametal at all times.

(c) Employee agrees that, promptly upon termination of his employment, he will disclose to Kennametal, or to such officer or other agent as may be designated by Kennametal, all inventions which have been partly or wholly conceived, invented or developed by him for which applications for patents have not been made and shall thereafter execute all such instruments of the character hereinbefore referred to, and will take such steps as may be necessary to secure

and assign to Kennametal the exclusive rights in and to such inventions and any patents that may be issued thereon any expense therefor to be borne by Kennametal.

(d) Employee agrees that he will not at any time aid in attacking the patentability, scope, or validity of any invention to which the provisions of subparagraphs (b) and (c), above, apply.

10. In the event that (a) Employee institutes any legal action to enforce his rights under, or to recover damages for breach of this agreement, or (b) Kennametal institutes any action to avoid making any payments due to Employee under this agreement, Employee, if he is the prevailing party, shall be entitled to recover from Kennametal any actual expenses for attorney's fees and other disbursements incurred by him in relation thereto.
11. The terms and provisions of this agreement shall be binding upon, and shall inure to the benefit of, Employee and Kennametal, its subsidiaries and affiliates and their respective successors and assigns.
12. This agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements and understandings, whether oral or written, among the parties with respect to the subject matter hereof. This agreement may not be amended orally, but only by an instrument in writing signed by each of the parties to this agreement; provided, however, the Company may, solely to the extent necessary to comply with Section 409A of the Code, modify the terms of this agreement if it is determined that such terms would subject any payments or benefits hereunder to the additional tax and/or interest assessed under Section 409A of the Code.
13. The invalidity or unenforceability of any provision of this agreement shall not affect the other provisions hereof, and this agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.
14. Any pronoun and any variation thereof used in this agreement shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the parties hereto may require.
15. Kennametal shall be entitled as a condition to paying any severance pay or providing any benefits hereunder upon a termination of the Employee's employment to require the Employee to deliver on or before the making of any severance payment or providing of any benefit a release in the form of Exhibit A attached hereto.
16. (a) At the time of making payment to an Employee entitled to receive the severance payment computed in accordance subsection 4(c)(i) and 4(c)(ii) of this agreement, the Corporation shall determine whether the Employee is expected to be subject to the tax (the "Excise Tax") imposed by section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to any payment or benefit received, or to be received, by Employee under this agreement or in connection with a change in control of the Corporation, or the termination of the

Employees' employment (whether pursuant to the terms of this agreement or any other plan, arrangement or agreement with the Corporation, any person whose actions result in a change in control or any person affiliated with the Corporation or such person) (collectively, the "Total Payments"). If the Corporation determines that the Employee will be subject to the Excise Tax, the Corporation shall immediately send a written notice to the Employee which sets forth that the Employee will be subject to the Excise Tax and the Corporation's computation of the Total Payments, of the amount of Total Payments which constitute "parachute payments" as defined in section 280G(b)(2) of the Code ("parachute payments") resulting in the imposition of the Excise Tax, and of the amount of Total Payments which the Employee would retain after giving effect to the Employee's receipt of the Excise Tax Payment (as hereafter defined) and payment of applicable taxes. Employee shall have five (5) business days after receipt of the foregoing notice and computation to deliver a written waiver to the Corporation irrevocable waiving the Employee's right to receive an amount of Total Payments equal to the "parachute payments" from any specified type of the Total Payments. If the Corporation had already withheld any Contract Payments due to the Excise Tax prior to receipt of such waiver, the Corporation upon receipt of such waiver shall immediately pay to Employee any withheld Contract Payments which would have been paid had the Corporation had the Employee's written waiver prior to the date the Corporation withheld any such payments.

(b) If

- (i) after giving effect to any waiver by the Employee pursuant to subsection (a) above, the Employee will be subject to the Excise Tax with respect to any portion of the Total Payments and
- (ii) the Employee After Tax Net (as hereafter defined) would be less than the Minimum Amount (as hereafter defined),

then the Corporation shall pay to Employee an additional amount (the "Excise Tax Payment") such that the Employee After Tax Net shall be equal to the Minimum Amount. The Excise Tax Payment, if any, under this subsection shall be made to Employee within fifteen (15) business days of Employee's Date of Termination.

(c) The "Employee After Tax Net" is the portion of the Total Payments which the Employee retains or would retain after payment of all federal and any state and local income taxes on the Total Payments and of the Excise Tax. The "Minimum Amount" is an amount equal to the severance pay computed in accordance with subsection 4(c)(i) and 4(c)(ii) of this agreement less the federal, state and/or local income taxes which would be owing by the Employee on such severance pay (ignoring any Excise Tax Payment). For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all Total Payments shall be treated as parachute payments and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Board of Directors, such Total Payments (in whole or

in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (i), above) of the Code, and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Corporation's independent auditors in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the Minimum Amount and the Excise Tax Payment, Employee shall be deemed to pay federal income taxes at Employee's highest marginal rate of federal income taxation in the calendar year in which the Excise Tax Payment is to be made and state and local income taxes at Employee's highest marginal rate of taxation in the state and locality of Employee's residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(d) In the event that the Excise Tax is subsequently determined to be less than the amount taken into account in arriving at any payment made pursuant to subsection (b) above, Employee shall repay to the Corporation at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Excise Tax Payment attributable to such reduction (plus the portion of the Excise Tax Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Excise Tax Payment being repaid by Employee if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment from the date the Excise Tax Payment was initially made to the date of repayment at the rate provided in Section 1274(b)(2)(B) of the Code (the "Applicable Rate"). In the event that the Excise Tax is determined to exist although the Corporation did not believe it existed in arriving at its determination in subsection (a) above or although the Corporation believed it existed but the actual amount exceeds the amount taken into account in arriving at any payment made pursuant to subsection (b) above (including by reason of any payment the existence or amount of which cannot be determined at the time of the Excise Tax Payment), the Corporation shall make an additional Excise Tax Payment in respect of such amount or such excess (plus any interest or penalties payable with respect thereto) at the time that the amount of such excess is finally determined.

17. The provisions of this agreement will be administered, interpreted and construed in a manner intended to comply with Section 409A, the regulations issued thereunder or any exception thereto (or disregarded to the extent such provision cannot be so administered, interpreted, or construed). If the Company determines in good faith that any amounts to be paid to Employee under this agreement are subject to Section 409A of the Code, then the Company may, to the extent necessary, adjust the form and/or the

timing of such payments as determined to be necessary or advisable to be in compliance with Section 409A. If any payment must be delayed to comply with Section 409A, then the deferred payment will be paid at the earliest practicable date permitted by Section 409A. Notwithstanding any provision of this agreement to the contrary, Employee acknowledges and agrees that the Company shall not be liable for, and nothing provided or contained in this agreement will be construed to obligate or cause the Company to be liable for, any tax, interest or penalties imposed on Employee related to or arising with respect to any violation of Section 409A.

18. This agreement shall be governed by the laws of the Commonwealth of Pennsylvania.

WITNESS the due execution hereto as of the day and year first above written.

KENNAMETAL INC.

By: _____
David W. Greenfield
Vice President, Secretary
and General Counsel

Employee:

Officer's Name

FORM OF RELEASE
[to be updated at the time of execution
in accordance with then existing law]

TO: Officer's Name

DATE: Date

For good and valuable consideration, the receipt of which is hereby acknowledged, and intending to be legally bound, you hereby release, remise, quitclaim and discharge completely and forever Kennametal Inc. and its directors, officers, employees, subsidiaries and affiliates (collectively, the "Company") from any and all claims, causes of action or rights which you have or may have, whether arising by virtue of contract or of applicable state laws or federal laws, and whether such claims, causes of action or rights are known or unknown, including but not limited to claims relating in any way to compensation and benefits and related to or resulting from your employment with the Company or its termination, claims arising under any public policy or any statutory, tort or common law, or any provision of state, federal or local law including, but not limited to, the Pennsylvania Human Relations Act, the Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, Sections 1981-1988 of Title 42 of the U. S. Code, Older Workers' Benefit Protection Act, Family and Medical Leave Act, the Fair Labor Standards Act, Pennsylvania Wage Payment and Collection laws, the Age Discrimination in Employment Act of 1967, the Employee Retirement Income Security Act of 1974, all as amended; *provided, however*, that this Release shall not release, raise, quitclaim or discharge any claims, causes of action or rights which you may have: (i) under that certain Officer's Employment Agreement dated as of [_____] between the undersigned and Kennametal Inc. (the "Employment Agreement"); (ii) to any unreimbursed expense account or similar out-of-pocket reimbursement amounts owing the undersigned; or (iii) under the bylaws or any agreement of Kennametal Inc. or any subsidiary thereof applicable to you or the applicable state corporate statutes to indemnification for having served as an officer, director and/or employee of Kennametal Inc. and/or its subsidiaries or as a fiduciary of any employee benefit plan applicable to former employees generally.

You must agree to immediately return all of the Company's equipment, documents and property, agree to forever waive your right to receive on your or any other person's behalf any monies, benefits, or damages from the Company other than those provided herein or in the Employment Agreement. You must also agree to maintain the confidentiality of this Release and not reveal the terms set forth herein to anyone other than your accountant, attorney or spouse.

By signing below, you acknowledge your continuing obligations under the Employment Agreement including, but not limited to, paragraphs 8-10 thereof.

Your failure to abide by any of the above stated obligations will result in irreparable harm to the Company and entitle the Company to require you to specifically perform your obligations under this Release, recover any damages that may flow from this

Agreement and obtain appropriate injunctive relief. Should you file a claim or charge against the Company, you agree that the Company may present this agreement for purposes of having your claim or charge dismissed.

Any severance payments due to you under the Employment Agreement are conditioned on your execution and non-revocation of this Release.

You should carefully consider the matters outlined in this letter. If, after due deliberation and consultation with lawyers or such professional advisors as you deem appropriate, the above is agreeable to you, please sign the attached copy of this letter and return the original to the Company for my files. Please retain a copy for your own records.

You may take up to twenty-one (21) days to consider this Release. Should you accept this severance offer by signing your name below, you will then have seven (7) days to reconsider your decision. If you choose to revoke your acceptance of this offer you must do so by writing to the Company within the seven (7) day revocation period. No severance payments will be made to you until the seven (7) day revocation period has expired.

AGREED TO AND ACCEPTED BY

Officer's Name

Dated: _____



Kevin Walling
Vice President and
Chief Human Resource Officer
Kennametal Inc.
1600 Technology Way
P.O. Box 231
Latrobe, PA 15650 USA
Telephone 724.539.4612
Fax 724.539.4710
kevin.walling@kennametal.com
www.kennametal.com

December 5, 2006

Kennametal Inc.
Attn: Markos I. Tambakeras
Executive Chairman
1600 Technology Way

Latrobe, PA 15650

Dear Markos:

This letter will serve to confirm your discussions earlier today with the Compensation Committee concerning healthcare coverage under your Amended and Restated Executive Employment Agreement (“Agreement”) dated December 6, 2005. On July 2, 2007, Kennametal will pay you \$223,583, subject to normal withholding for payroll taxes, in full and final payment and settlement of any and all obligations to you under Section 4(e) of the Agreement concerning the Company’s obligation to provide healthcare (medical, dental, vision and flexible account plans) coverage through enrollment in the Company’s group plans upon expiration of your rights under COBRA (June 30, 2008).

If you are in agreement with the foregoing, please sign and return to my attention the enclosed duplicate copy of this letter.

Very truly yours,

/s/ Kevin R. Walling

Agreed and Accepted:

/s/ Markos I. Tambakeras
Markos I. Tambakeras

Date: December 7, 2006

cc: Ronald M. DeFeo
Chair Compensation Committee

I, Carlos M. Cardoso, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kennametal Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2007

/s/ Carlos M. Cardoso

Carlos M. Cardoso
President and
Chief Executive Officer

I, Frank P. Simpkins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kennametal Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2007

/s/ Frank P. Simpkins

Frank P. Simpkins
Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Kennametal Inc. (the "Corporation") on Form 10-Q for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

/s/ Carlos M. Cardoso

Carlos M. Cardoso
President and Chief Executive Officer
Kennametal Inc.

February 9, 2007

/s/ Frank P. Simpkins

Frank P. Simpkins
Vice President and Chief Financial Officer
Kennametal Inc.

February 9, 2007

* This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.