

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 1
TO
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (date of earliest event reported): November 17, 1997

KENNAMETAL INC.
(Exact name of registrant as specified in charter)

| | | |
|---|---------------------------------------|---|
| PENNSYLVANIA (State or other jurisdiction of incorporation) | 1-5318 (Commission File Number) | 25-0900168 (IRS Employer Identification Number) |
|---|---------------------------------------|---|

Route 981 South at Westmoreland County Airport
Latrobe, Pennsylvania 15650
(Address of Principal Executive Offices)

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

EXPLANATORY NOTE

This Current Report on Form 8-K/A amends and restates in its entirety Item 7 of the Current Report on Form 8-K of Kennametal Inc. (the "Company") dated November 17, 1997 and filed with the Securities and Exchange Commission on November 20, 1997.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Business Acquired.

The financial statements of the acquired business of Greenfield Industries, Inc. ("Greenfield") for the periods required by Rule 3-05(b) of Regulation S-X are attached hereto as Annex A.

(b) Pro Forma Financial Information.

The pro forma financial information of the Company required pursuant to Article 11 of Regulation S-X is attached hereto as Annex B.

(c) Exhibits.

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 2.1 | Agreement and Plan of Merger, dated as of October 10, 1997, among the Company, Kennametal Acquisition Corp., and Greenfield (incorporated herein by reference to Exhibit (a)(1) to the Company's Schedule 14D-1 dated October 17, 1997, as amended). |
| 10.1 | Credit Agreement, dated as of November 17, 1997, by and among the Company, as Borrower, the Lender Parties named therein, and Mellon Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit (b)(2) to the Company's Schedule 14D-1 dated October 17, 1997, as amended). |
| 10.2 | Guaranty and Suretyship Agreement, dated as of November 17, 1997, made by the Subsidiary Guarantor named therein in favor of Mellon Bank, N.A., as Collateral Agent, as supplemented by the Additional Subsidiary Guarantor Supplement, dated as of November 18, 1997, made by Greenfield (incorporated herein by reference to Exhibit (b)(3) to the Company's Schedule 14D-1, as amended, and Exhibit 10.2 of Greenfield's Current Report on Form 8-K dated November 17, 1997, respectively). |
| 10.3 | Borrower Pledge Agreement, dated as of November 17, 1997, made by the Company, as Grantor, in favor of Mellon Bank, N.A., as Collateral Agent, as supplemented by the Additional Designated Collateral Supplement, dated November 18, 1997, made by the Company (incorporated herein by reference to Exhibit (b)(4) of the Company's Schedule 14D-1, as amended, and Exhibit 10.5 of Greenfield's Current Report on Form 8-K dated November 17, 1997, respectively). |
| 10.4 | Subsidiary Pledge Agreement, dated as of November 18, 1997, made by Greenfield, as Grantor, in favor of Mellon Bank, N.A., as Collateral Agent (incorporated herein by reference to Exhibit 10.3 of Greenfield's Current Report on Form 8-K dated November 17, 1997). |
| 23.1 | Consent of Price Waterhouse LLP* |
| 99.1 | Text of Press Release, dated November 17, 1997, by the Company (incorporated herein by reference to Exhibit (a)(12) to the Company's Schedule 14D-1 dated October 17, 1997, as amended). |

* Filed herewith.

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 hereunto duly authorized.

Dated: December 31, 1997

KENNAMETAL INC.

By: /s/ RICHARD J. ORWIG

Name: Richard J. Orwig
Title: Vice President,
Chief Financial and Administrative Officer

EXHIBIT INDEX

| EXHIBIT ----- | DESCRIPTION ----- |
|------------------|--|
| 2.1 | Agreement and Plan of Merger, dated as of October 10, 1997, among the Company, Kennametal Acquisition Corp., and Greenfield (incorporated herein by reference to Exhibit (c)(1) to the Company's Schedule 14D-1 dated October 17, 1997, as amended). |
| 10.1 | Credit Agreement, dated as of November 17, 1997, by and among the Company, as Borrower, the Lender Parties named therein, and Mellon Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit (b)(2) to the Company's Schedule 14D-1 dated October 17, 1997, as amended). |
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ANNEX A

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Greenfield Industries, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Greenfield Industries, Inc. and its subsidiaries at December 31, 1995 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

Price Waterhouse LLP
St. Louis, Missouri
January 30, 1997

GREENFIELD INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEAR ENDED DECEMBER 31, | | | NINE MONTHS ENDED | |
|--|---------------------------------------|-----------|-----------|-----------------------|-----------|
| | 1994 | 1995 | 1996 | SEPTEMBER 30, 1996 | 1997 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| | (UNAUDITED) | | | | |
| Net sales..... | \$271,787 | \$420,188 | \$510,094 | \$384,089 | \$419,480 |
| Cost of sales..... | 180,974 | 288,158 | 357,203 | 266,835 | 295,167 |
| Gross profit..... | 90,813 | 132,030 | 152,891 | 117,254 | 124,313 |
| Selling, general and administrative expenses..... | 50,229 | 70,952 | 88,944 | 66,367 | 77,777 |
| Restructuring costs..... | 1,300 | -- | 4,000 | 4,000 | -- |
| Operating income..... | 39,284 | 61,078 | 59,947 | 46,887 | 46,536 |
| Interest expense..... | 3,169 | 8,223 | 11,049 | 8,729 | 9,699 |
| Dividends at 6% per annum on Company-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of the Company..... | -- | -- | 4,734 | 3,009 | 5,175 |
| Income before provision for income taxes..... | 36,115 | 52,855 | 44,164 | 35,149 | 31,662 |
| Provision for income taxes..... | 14,106 | 21,390 | 17,975 | 14,264 | 13,003 |
| Net income..... | \$ 22,009 | \$ 31,465 | \$ 26,189 | \$ 20,885 | \$ 18,659 |
| Earnings per common share: | | | | | |
| Primary..... | \$ 1.35 | \$ 1.94 | \$ 1.60 | \$ 1.28 | \$ 1.14 |
| Fully diluted(1)..... | \$ -- | \$ -- | \$ 1.59 | \$ 1.25 | \$ 1.13 |
| Weighted average common and common equivalent shares outstanding: | | | | | |
| Primary..... | 16,250 | 16,252 | 16,328 | 16,313 | 16,404 |
| Fully diluted(1)..... | -- | -- | 18,247 | 17,941 | 19,192 |
| Dividends per common share..... | \$ 0.09 | \$ 0.13 | \$ 0.17 | \$ 0.12 | \$ 0.15 |

(1) For the years ended December 31, 1994 and 1995, there was no dilutive effect.

See accompanying Notes to Consolidated Financial Statements.

GREENFIELD INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

| | DECEMBER 31, 1995 | DECEMBER 31, 1996 | SEPTEMBER 30, 1997 |
|--|--|----------------------|-----------------------|
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED) | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash..... | \$ 5,258 | \$ 1,721 | \$ -- |
| Accounts receivable, net..... | 63,618 | 83,199 | 98,100 |
| Inventories, net..... | 109,769 | 152,659 | 182,524 |
| Prepaid expenses and other..... | 4,069 | 8,034 | 5,875 |
| | ----- | ----- | ----- |
| Total current assets..... | 182,714 | 245,613 | 286,499 |
| Property, plant and equipment, net..... | 109,022 | 144,300 | 169,179 |
| Goodwill, net..... | 98,795 | 169,958 | 180,187 |
| Other assets, net..... | 7,932 | 2,773 | 2,302 |
| | ----- | ----- | ----- |
| | \$398,463 | \$562,644 | \$638,167 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of long-term debt..... | \$ 633 | \$ 513 | \$ 6,632 |
| Accounts payable..... | 24,586 | 22,392 | 31,026 |
| Accrued liabilities..... | 33,688 | 35,411 | 41,561 |
| | ----- | ----- | ----- |
| Total current liabilities..... | 58,907 | 58,316 | 79,219 |
| Long-term debt..... | 140,198 | 162,625 | 197,734 |
| Deferred taxes..... | 4,207 | 9,524 | 10,302 |
| Other long-term liabilities..... | 15,891 | 16,451 | 18,891 |
| | ----- | ----- | ----- |
| Total liabilities..... | 219,203 | 246,916 | 306,146 |
| | ----- | ----- | ----- |
| Commitments and contingencies (Note 14)..... | | | |
| Company-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of the Company..... | -- | 115,000 | 115,000 |
| | ----- | ----- | ----- |
| Stockholders' equity: | | | |
| Preferred stock, \$.01 par value, 1,500,000 shares authorized, no shares issued and outstanding..... | | | |
| Common stock, \$.01 par value, 100,000,000 shares authorized, 16,260,377, 16,374,925 and 16,445,757 shares issued and outstanding, respectively..... | 163 | 164 | 164 |
| Additional paid-in capital and other..... | 111,615 | 109,759 | 111,331 |
| Retained earnings..... | 69,014 | 92,425 | 108,622 |
| Cumulative translation adjustment..... | (1,532) | (1,620) | (3,096) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 179,260 | 200,728 | 217,021 |
| | ----- | ----- | ----- |
| | \$398,463 | \$562,644 | \$638,167 |
| | ===== | ===== | ===== |

See accompanying Notes to Consolidated Financial Statements.

GREENFIELD INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL AND OTHER | RETAINED EARNINGS | CUMULATIVE TRANSLATION ADJUSTMENT | TOTAL |
|--|-----------------|--|----------------------|---|-----------|
| | (IN THOUSANDS) | | | | |
| Balance, December 31, 1993..... | \$ 159 | \$ 107,338 | \$ 19,075 | \$ (862) | \$125,710 |
| Net income..... | -- | -- | 22,009 | -- | 22,009 |
| Exercise of stock options and tax benefits relating thereto..... | 1 | 1,288 | -- | -- | 1,289 |
| Dividends declared and paid..... | -- | -- | (1,435) | -- | (1,435) |
| Partial repayment of stock subscriptions receivable..... | -- | 128 | -- | -- | 128 |
| Cumulative translation adjustment | -- | -- | -- | 202 | 202 |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1994..... | 160 | 108,754 | 39,649 | (660) | 147,903 |
| Net income..... | -- | -- | 31,465 | -- | 31,465 |
| Exercise of stock options and tax benefits relating thereto..... | 3 | 3,520 | -- | -- | 3,523 |
| Dividends declared and paid..... | -- | -- | (2,100) | -- | (2,100) |
| Additional minimum pension liability..... | -- | (783) | -- | -- | (783) |
| Partial repayment of stock subscriptions receivable..... | -- | 124 | -- | -- | 124 |
| Cumulative translation adjustment | -- | -- | -- | (872) | (872) |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1995..... | 163 | 111,615 | 69,014 | (1,532) | 179,260 |
| Net income..... | -- | -- | 26,189 | -- | 26,189 |
| Exercise of stock options and tax benefits relating thereto..... | 1 | 1,218 | -- | -- | 1,219 |
| Dividends declared and paid..... | -- | -- | (2,778) | -- | (2,778) |
| Partial repayment of stock subscriptions receivable and other..... | -- | (115) | -- | -- | (115) |
| Executive restricted stock awards | -- | 761 | -- | -- | 761 |
| Issuance costs of mandatorily redeemable convertible preferred securities..... | -- | (4,254) | -- | -- | (4,254) |
| Additional minimum pension liability..... | -- | 534 | -- | -- | 534 |
| Cumulative translation adjustment | -- | -- | -- | (88) | (88) |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1996..... | 164 | 109,759 | 92,425 | (1,620) | 200,728 |
| Net income (unaudited)..... | -- | -- | 18,659 | -- | 18,659 |
| Exercise of stock options and tax benefits relating thereto (unaudited)..... | -- | 753 | -- | -- | 753 |
| Dividends declared and paid (unaudited)..... | -- | -- | (2,462) | -- | (2,462) |
| Partial repayment of stock subscriptions receivable (unaudited)..... | -- | 133 | -- | -- | 133 |
| Executive restricted stock awards (unaudited)..... | -- | 686 | -- | -- | 686 |
| Cumulative translation adjustment (unaudited)..... | -- | -- | -- | (1,476) | (1,476) |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, September 30, 1997 (unaudited)..... | \$ 164 | \$ 111,331 | \$108,622 | \$(3,096) | \$217,021 |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying Notes to Consolidated Financial Statements.

GREENFIELD INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31, | | | NINE MONTHS ENDED | |
|--|-------------------------|-----------|-----------|-----------------------|-----------|
| | 1994 | 1995 | 1996 | SEPTEMBER 30, 1996 | 1997 |
| | (IN THOUSANDS) | | | (UNAUDITED) | |
| Cash flows from operating activities: | | | | | |
| Net income..... | \$ 22,009 | \$ 31,465 | \$ 26,189 | \$ 20,885 | \$ 18,659 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities, excluding the effects of acquisitions: | | | | | |
| Depreciation..... | 9,305 | 11,319 | 14,259 | 10,967 | 13,423 |
| Amortization..... | 1,491 | 2,908 | 4,620 | 3,274 | 3,755 |
| Deferred income taxes..... | 3,606 | 5,759 | 8,390 | 2,514 | 3,848 |
| Tax benefits relating to stock options..... | 1,210 | 3,210 | 315 | 302 | 197 |
| Other..... | 664 | (811) | 1,356 | (821) | 1,625 |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable, net..... | (3,859) | (6,080) | (7,126) | (2,874) | (7,683) |
| Inventories..... | (1,137) | (21,452) | (22,073) | (17,242) | (19,327) |
| Prepaid expenses and other..... | 3,251 | (1,440) | (2,639) | (2,411) | 2,479 |
| Accounts payable..... | 1,244 | 3,912 | (9,513) | (17,949) | 306 |
| Accrued liabilities..... | 2,641 | (11,403) | (11,620) | (1,358) | 1,282 |
| Net cash provided by (used in) operating activities..... | 40,425 | 17,387 | 2,158 | (4,713) | 18,564 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures..... | (13,141) | (26,847) | (29,185) | (21,789) | (26,189) |
| Proceeds from the sale of fixed assets..... | 325 | 1,219 | 2,018 | 2,352 | 1,733 |
| Purchase of businesses, net of cash acquired..... | (73,639) | (24,434) | (111,183) | (96,503) | (33,725) |
| Investment in Rule..... | -- | (5,611) | -- | -- | -- |
| Net cash used in investing activities..... | (86,455) | (55,673) | (138,350) | (115,940) | (58,181) |
| Cash flows from financing activities: | | | | | |
| Proceeds from borrowings..... | 71,800 | 123,950 | 140,743 | 128,375 | 49,673 |
| Payments on borrowings..... | (25,915) | (82,148) | (117,559) | (116,660) | (7,258) |
| Net proceeds from issuance of 6% Company-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible junior subordinated debentures of the Company..... | -- | -- | 110,746 | 110,775 | -- |
| Dividends paid on common stock..... | (1,435) | (2,100) | (2,778) | (1,959) | (2,462) |
| Other..... | (26) | (299) | 1,381 | 2,571 | 650 |
| Net cash provided by financing activities..... | 44,424 | 39,403 | 132,533 | 123,102 | 40,603 |
| Effect of exchange rate changes on cash..... | (1,160) | 145 | 122 | (970) | (2,707) |
| Net (decrease) increase in cash..... | (2,766) | 1,262 | (3,537) | 1,479 | (1,721) |
| Cash at beginning of period..... | 6,762 | 3,996 | 5,258 | 5,258 | 1,721 |
| Cash at end of period..... | \$ 3,996 | \$ 5,258 | \$ 1,721 | \$ 6,737 | \$ -- |
| Supplemental disclosures of cash flow information: | | | | | |
| Cash paid during the year for: | | | | | |
| Interest..... | \$ 2,643 | \$ 7,317 | \$ 10,937 | | |
| Dividends on mandatorily redeemable convertible preferred securities..... | -- | -- | 4,734 | | |
| Income taxes..... | 7,699 | 16,797 | 18,601 | | |
| Supplemental schedule of noncash investing and financing activities: | | | | | |
| Assets obtained under capital leases..... | 241 | -- | -- | | |
| The Company purchased several companies as detailed in Note 3 in 1994, 1995 and 1996. In conjunction with the acquisitions, liabilities were assumed as follows: | | | | | |
| Fair value of assets acquired..... | \$ 56,284 | \$ 26,199 | \$ 59,370 | | |
| Fair value assigned to goodwill..... | 60,940 | 6,009 | 76,379 | | |
| Cash paid..... | (73,639) | (24,434) | (111,183) | | |
| Liabilities assumed..... | \$ 43,585 | \$ 7,774 | \$ 24,566 | | |

See accompanying Notes to Consolidated Financial Statements.

GREENFIELD INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. BUSINESS

Greenfield Industries, Inc. (Greenfield or the Company) is a global manufacturer of expendable products for material cutting, material removal and wear applications used in various industries. The Company also manufactures a limited number of products (primarily bilge pumps) for the marine industry. The Company markets its products through six product groups which are as follows: (1) industrial products, (2) engineered products, (3) energy and construction products, (4) electronics products, (5) consumer products, and (6) marine products. The majority of the Company's products are made from either high-speed steel or tungsten carbide. The Company's largest concentration of business is in North America but it sells its products throughout the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The policies utilized by the Company in the preparation of the consolidated financial statements conform to generally accepted accounting principles, and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

The significant accounting policies followed by the Company are described below.

REVENUE RECOGNITION

Revenue from the sale of the Company's products is recognized upon shipment to the customer.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

INTERIM UNAUDITED FINANCIAL INFORMATION

The interim consolidated financial information at September 30, 1997 and for the nine months ended September 30, 1996 and 1997 and related disclosures in the notes herein (including Note 18) is unaudited. However, in the opinion of management, such information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented. The interim results, however, are not necessarily indicative of the results for any future period.

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's foreign subsidiaries are maintained in their respective local currencies. The accompanying consolidated financial statements have been translated and adjusted to reflect U.S. dollars on the bases presented below.

Assets and liabilities are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Adjustments resulting from the process of translating the consolidated amounts into U.S. dollars are accumulated in a separate translation adjustment account included in stockholders' equity. Common stock and additional paid-in capital are translated at historical U.S. dollar equivalents in effect at the date of acquisition. Foreign currency transaction gains and losses are included in earnings currently. The Company recognized net foreign currency transaction gains of \$227, \$540 and \$599 for the years ended December 31, 1994, 1995 and 1996, respectively.

CASH

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash. Cash overdrafts, if any, on the Company's disbursement accounts are included in the balances outstanding under the Company's revolving credit facilities.

CONCENTRATION OF CREDIT RISK

The Company sells its products to distributors and end-users in the industrial, energy and construction, electronics, engineered products, consumer and marine markets. While most of the Company's business activity is with customers located within North America, the Company also serves customers in Europe and the Far East. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and historically such losses have been within management's expectations. At December 31, 1996, the Company had no significant concentrations of credit risk.

RELATIONSHIPS WITH SUPPLIERS

The Company purchases tungsten carbide materials from multiple suppliers, for which alternative suppliers also exist and are adequate. Although the Company purchases the majority of its domestic high-speed steel requirements from a single supplier, the Company believes that the supply of steel and the number of alternative suppliers are adequate. The Company considers its relationships with its primary suppliers to be strong.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method, for substantially all domestic inventories. For various tax and statutory reasons, inventories of the Company's foreign subsidiaries are stated at first-in, first-out (FIFO) cost. The effects on the consolidated financial position and results of operations from applying the FIFO method (versus the LIFO method) to certain inventories are immaterial. If the FIFO method (which approximates replacement cost) had been used in determining cost for all inventories, inventories would have been approximately \$5,181 and \$5,675 higher at December 31, 1995 and 1996, respectively. Inventories include the cost of materials, direct labor and manufacturing overhead. Obsolete or unsaleable inventories are reflected at their estimated net realizable values.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost and is depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Properties held under capital leases are recorded at the present value of the noncancelable lease payments over the term of the lease and are amortized over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for repairs, maintenance and renewals are charged to income as incurred. Expenditures which improve an asset or extend its estimated useful life are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

GOODWILL

The excess of the purchase price over the fair value of net assets acquired in business combinations is capitalized and amortized on a straight-line basis over the estimated period benefited. The amortization period for all acquisitions to date is 40 years. Amortization expense for the years ended December 31, 1994, 1995 and 1996 was approximately \$1,221, \$2,636 and \$4,279, respectively. Accumulated amortization at December 31, 1995 and 1996 was approximately \$7,592 and \$11,849, respectively. The carrying value of goodwill is assessed for recoverability by management based on current and anticipated conditions, including expected cash flows and operating results generated by the underlying tangible assets. Management believes that there has been no impairment at December 31, 1996.

OTHER ASSETS

Other assets are primarily comprised of debt issuance and trademark costs. At December 31, 1995, other assets also included an

investment in Rule Industries, Inc. stock as further described in Note 3. Debt issuance costs are being amortized on a straight-line basis over the life of the related obligation and trademarks are being amortized on a straight-line basis over 40 years. Amortization expense for the years ended December 31, 1994, 1995 and 1996 was approximately \$270, \$272 and \$341, respectively. Accumulated amortization at December 31, 1995 and 1996 was \$3,471 and \$3,568, respectively.

INCOME TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under FAS 109, the deferred tax provision is determined using the liability method, whereby deferred tax assets and liabilities are recognized based upon temporary differences between the financial statement and income tax bases of assets and liabilities using presently enacted tax rates.

EARNINGS PER SHARE

Fully diluted earnings per share primarily reflect the effects of conversion of the Company's mandatorily redeemable convertible preferred securities and elimination of the related dividends, net of applicable income taxes (see Note 5). Primary earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common and common equivalent shares outstanding during the period. Options under the Company's employee and directors stock option plans are not included as common stock equivalents for earnings per share purposes since they did not have a material dilutive effect.

ENVIRONMENTAL LIABILITIES

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and that do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated.

EMPLOYEE STOCK-BASED COMPENSATION

The Company accounts for employee stock options and variable stock awards in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, the Company applies the intrinsic value method of accounting. For employee stock options accounted for using the intrinsic value method, no compensation expense is recognized because the options are granted with an exercise price equal to the market value of the stock on the date of grant. For variable stock awards accounted for using the intrinsic value method, compensation cost is estimated and recorded each period from the date of grant to the measurement date based on the market value of the stock at the end of each period.

During 1996, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123), became effective for the Company. FAS 123 prescribes the recognition of compensation expense based on the fair value of options or stock awards determined on the date of grant. However, FAS 123 allows companies to continue to apply the valuation methods set forth in APB 25. For companies that continue to apply the valuation methods set forth in APB 25, FAS 123 mandates certain pro forma disclosures as if the fair value method had been utilized. See Note 12 for additional discussion.

3. ACQUISITIONS

The following table summarizes certain information regarding the Company's acquisitions during the past three years:

| DATE | BUSINESS | NET CASH PURCHASE PRICE |
|---------------|--|----------------------------|
| ---- | ----- | ----- |
| October 1994 | Threads, Inc. and Hendersonville Industrial Tool Co., Inc. | \$ 5,272 |
| November 1994 | The Cleveland Twist Drill Company (CTD) | \$45,867 |
| November 1994 | Carbidie Corporation (Carbidie) | \$22,500 |
| January 1995 | American Mine Tool Division of Valenite, Inc. (AMT) | \$14,676 |
| June 1995 | Van Keuren, Inc. | \$ 2,500 |
| December 1995 | Cleveland Europe Limited | \$ 7,258 |
| January 1996 | Rule Industries, Inc. (Rule) | \$84,046 |
| June 1996 | Boride Products, Inc. | \$ 8,768 |
| July 1996 | Arkansas Cutting Tools, a division of Production Carbide & Steel Company | \$ 4,872 |

| | |
|---------------|-----------------------------|
| December 1996 | Bassett Rotary Tool Company |
| March 1997 | Hanita Metal Works, Ltd |

| |
|----------|
| \$13,497 |
| \$33,725 |

During the past three years, the Company has made several acquisitions which have significantly expanded its product lines. These acquisitions were each accounted for using the purchase method of accounting and financed primarily through bank borrowings, resulting in an increase in the Company's outstanding debt. Results of operations of each acquired company have been included in the Company's consolidated financial statements from the date of acquisition. The purchase price of each acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The excess of purchase price over the estimated fair value of net assets acquired was, in each instance, recorded as goodwill. Except for Rule, CTD and Carbidie, the pro forma effects, individually and collectively, of the acquisitions on the Company's consolidated results of operations and financial position are not material.

The following table sets forth pro forma information for the Company as if the acquisitions of Rule, CTD and Carbidie had taken place on January 1, 1994 and the acquisition of Rule had taken place on January 1, 1995, respectively. This information is unaudited and does not purport to represent actual revenue, net income and earnings per share had the acquisitions actually occurred on January 1, 1994 and 1995, respectively. The pro forma effects of Rule, had the acquisition taken place on January 1, 1996, are not material.

| | PRO FORMA INFORMATION FOR THE YEARS ENDED DECEMBER 31, | |
|---|--|-----------|
| | 1994 | 1995 |
| | ----- | ----- |
| Net sales..... | \$419,662 | \$484,600 |
| Net income..... | \$ 24,917 | \$ 31,479 |
| Primary earnings per common share..... | \$ 1.53 | \$ 1.94 |

In connection with a definitive merger agreement between Rule and the Company, on September 11, 1995 Greenfield exercised its option to acquire 630,000 shares of Rule common stock for approximately \$5,611, including acquisition costs. The cost of the Rule common stock is reflected as other assets on the December 31, 1995 consolidated balance sheet. On January 12, 1996, Greenfield acquired the remaining outstanding shares of Rule common stock as discussed further below.

In connection with the Company's acquisition of Rule in January 1996, the Company recorded a restructuring reserve of \$2,600 in purchase accounting primarily related to the closing of two Rule facilities (including the corporate office) and the involuntary termination of a substantial number of Rule employees. Of the \$2,600 reserve, \$1,240 related to employee severance costs, \$346 related to the closure of the two facilities, and \$1,014 related to other nonrecurring costs associated with terminating certain Rule operations. This restructuring has resulted in a reduction in personnel and the elimination of certain duplicate functions. The employee severance costs related to the reduction of approximately 62 employees from the acquisition date. Of the total \$2,600 reserve, substantially all of the costs had been paid as of December 31, 1996.

The Company, as part of the acquisition of CTD, recorded a restructuring and plant consolidation liability of \$10,480 in purchase accounting relating to the consolidation of certain facilities of CTD into existing facilities of the Company. The \$10,480 liability included \$8,430 in costs associated with plant closures, \$2,000 in severance pay and \$50 in other costs. Substantially all of these costs had been paid as of December 31, 1996.

On March 27, 1997, the Company acquired the outstanding shares of Hanita Metal Works, Ltd., an Israeli-based company, and its U.S. subsidiary Hanita Cutting Tools, Inc. (collectively, Hanita) for approximately \$20,800 (including cash acquired) and assumed indebtedness of approximately \$14,600. Hanita, with its primary manufacturing, sales and distribution operations in Israel, is a leading manufacturer of high-quality, high performance end mills and other cutting tools for the metalworking industry. Hanita also sells and distributes products around the world, including the United States. The acquisition was accounted for using the purchase method of accounting and was financed through the Company's existing unsecured credit facility. For the year ended December 31, 1996, Hanita had net sales of approximately \$27,000. The pro forma effects of the acquisition on the Company's results of operations are not material. The results of operations of Hanita are included in the Company's consolidated financial statements from the date of acquisition.

4. LONG-TERM DEBT

Long-term debt consisted of the following:

| | DECEMBER 31, | | SEPTEMBER 30, |
|---|------------------|------------------|------------------|
| | 1995 | 1996 | 1997 |
| | ----- | ----- | ----- |
| | | | (UNAUDITED) |
| SENIOR NOTES PAYABLE TO INSTITUTIONAL INVESTORS: | | | |
| Principal payable in annual installments of \$10,715 commencing October 15, 1999 with a final payment of \$10,710 on October 15, 2005; interest payable semi-annually at 7.31%; unsecured..... | \$ 75,000 | \$ 75,000 | \$ 75,000 |
| INDUSTRIAL REVENUE BONDS: | | | |
| Principal due March 1, 2015; interest payable monthly at 4.3% at December 31, 1996; secured by related property and equipment (repaid May 1997)..... | 4,178 | 5,602 | -- |
| Principal due August 1, 2015; interest payable monthly at 4.5% at December 31, 1996; secured by related property and equipment..... | 3,287 | 3,751 | 4,737 |
| Principal due April 3, 2009; interest payable monthly at 3.85% at September 30, 1997; secured by related property and equipment..... | -- | -- | 1,222 |
| NOTES PAYABLE TO BANKS: | | | |
| Principal due in annual installments of approximately \$37; interest payable semi-annually at 6.0%; secured by the mortgage on the property of Kemmer AG, an indirect, wholly-owned subsidiary..... | 1,802 | 1,334 | 1,036 |
| Principal due in varying installments through 2001; interest at rates ranging from 5.6% to 8.85%; secured by property and equipment..... | -- | 14 | 14,224 |
| Foreign currency denominated notes due in varying installments through 2001; interest at rates ranging from 2% to 16.5%; secured by property and equipment... | -- | -- | 2,445 |
| REVOLVING CREDIT FACILITIES: | | | |
| Multi-currency facility; payable in full on December 9, 2001; interest payable quarterly at LIBOR plus a specified percentage, or at a base rate as set forth within the loan agreement. The interest rate under each option is determined by the Company's ratio of total indebtedness to cash flow (6.3% to 8.3% at December 31, 1996); unsecured | | | |
| Domestic..... | -- | 60,500 | 89,600 |
| Foreign currency..... | -- | 15,930 | 15,407 |
| Domestic facility (replaced in December 1996)..... | 34,400 | -- | -- |
| Foreign currency denominated facility (replaced in December 1996)..... | 20,709 | -- | -- |
| CAPITAL LEASE OBLIGATIONS..... | 1,455 | 1,007 | 695 |
| | ----- | ----- | ----- |
| | 140,831 | 163,138 | 204,366 |
| Less current portion of long-term debt and amounts due on demand, including \$590, \$462 and \$316 of capital lease obligations at December 31, 1995, and 1996 and at September 30, 1997, respectively..... | (633) | (513) | (6,632) |
| | ----- | ----- | ----- |
| | \$140,198 | \$162,625 | \$197,734 |
| | ===== | ===== | ===== |

On April 3, 1997, the Company issued \$7,000 City of Pine Bluff, Arkansas Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Greenfield Industries, Inc. Project), Series 1997 (Arkansas Bonds) to pay for the planned equipment purchases for its facility in Pine Bluff, Arkansas. The Arkansas Bonds mature on April 3, 2009 and bear interest at 3.8% at September 30, 1997. The proceeds from the Arkansas Bonds are held in trust until needed for the equipment purchases. Approximately \$1,222 has been received from the Arkansas Bonds as of September 30, 1997.

During December 1996, the Company replaced its existing foreign and domestic unsecured revolving credit facilities. The new agreement provides for a \$130,000 multi-currency unsecured revolving facility and a \$50,000 U.S. dollar acquisition facility. The multi-currency revolving facility provides for loans of up to DM 30,000 and Sterling 15,000. The facility requires commitment fees of 0.20% or 0.25% per annum (as determined by the Company's ratio of total indebtedness to cash flow) payable quarterly on any unused portion of the multi-currency facility. As of December 31, 1996 and September 30, 1997, interest on borrowings under the

multi-currency facility ranged from 6.3% to 8.3% per annum and from 4.0% to 8.2% per annum, respectively. At December 31, 1996 and September 30, 1997, there was \$53,570 and \$24,993, respectively, available under the multi-currency facility and \$50,000 available under the acquisition facility.

On October 23, 1995, the Company completed the private placement of \$75,000 of senior unsecured notes (Notes) with various institutional investors. The Notes, bearing interest payable quarterly at 7.31%, are due in 2005 with equal payments beginning in 1999. The proceeds from the Notes were used to refinance existing indebtedness and for general corporate purposes.

On August 16, 1995, the Company, through CTD, issued \$7,200 in City of Solon, Ohio Industrial Development Revenue Bonds (The Cleveland Twist Drill Company Project) Series 1995 (Ohio Bonds) to pay for the construction of a new manufacturing facility in Solon, Ohio. The Ohio Bonds mature on August 1, 2015 and bear interest at 4.5% at December 31, 1996. The proceeds from the Ohio Bonds are held in trust until needed for the construction. Approximately \$3,751 has been received from the Ohio Bonds as of December 31, 1996.

On March 31, 1995, the Company, in conjunction with the South Carolina Jobs-Economic Development Authority, issued \$7,200 in Tax-Exempt Adjustable Mode Economic Development Revenue Bonds (South Carolina Bonds) to pay for the expansion of its facility in Clemson, South Carolina. The South Carolina Bonds mature on March 1, 2015 and bear interest at 4.3% at December 31, 1996. The proceeds from the South Carolina Bonds are held in trust until needed for the expansion. Approximately \$5,602 has been received from the South Carolina Bonds as of December 31, 1996. The South Carolina Bonds were repaid in May 1997.

On March 15, 1995, the Company amended its existing \$20,000 unsecured foreign credit facility. The amended agreement provided for a DM 21 million unsecured credit facility and a Sterling 4.5 million unsecured credit facility. In connection with the acquisition of Cleveland Europe Limited, during December 1995, the Company amended the unsecured foreign credit facility, increasing the Sterling Facility to Sterling 9.5 million. As discussed above, this foreign revolving credit facility was replaced in December 1996.

During November 1994, the Company amended its existing unsecured credit facility. The amended agreement provided for a \$110,000 domestic revolving facility and a \$20,000 acquisition facility. The facility required commitment fees of 0.25% or 0.375% per annum (as determined by the Company's ratio of total indebtedness to cash flow) payable quarterly on any unused portion of the domestic and foreign revolving credit facilities. As discussed above, the domestic revolving facility and the acquisition facility were replaced in December 1996.

The financing agreements contain provisions which limit additional borrowings and capital expenditures, require maintenance of certain debt to capital and debt to cash flow ratios and net worth levels. At December 31, 1995 and 1996, and at September 30, 1997, the Company was in compliance with such provisions.

At December 31, 1996, the minimum principal payments of long-term debt, excluding capital lease obligations, for the five subsequent fiscal years are as follows:

| | NOTES PAYABLE | INDUSTRIAL REVENUE BONDS | REVOLVING CREDIT FACILITY | TOTAL |
|-----------------|------------------|--------------------------------|---------------------------------|------------|
| | ----- | ----- | ----- | ----- |
| 1997..... | \$ 51 | \$ -- | \$ -- | \$ 51 |
| 1998..... | 37 | -- | -- | 37 |
| 1999..... | 10,752 | -- | -- | 10,752 |
| 2000..... | 10,752 | -- | -- | 10,752 |
| 2001..... | 10,752 | -- | 76,430 | 87,182 |
| 2002 and | 44,004 | 9,353 | -- | 53,357 |
| thereafter..... | ----- | ----- | ----- | ----- |
| | \$ 76,348 | \$9,353 | \$ 76,430 | \$ 162,131 |
| | ===== | ===== | ===== | ===== |

The book value of long-term debt at December 31, 1996 approximates fair value.

5. MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES

On April 24, 1996, the Company completed a private placement to institutional investors of \$115,000 of 6% Convertible Preferred Securities (liquidation preference of \$50 per Convertible Preferred Security). The placement was made through the Company's

wholly-owned subsidiary, Greenfield Capital Trust (Trust), a newly-formed Delaware business trust. The securities represent undivided beneficial ownership interests in the Trust. The sole asset of the Trust is the \$118,557 aggregate principal amount of the 6% Convertible Junior Subordinated Deferrable Interest Debentures Due 2016 which were acquired with the proceeds from the private placement of the Convertible Preferred Securities and the offering and sale of Common Securities to the Company. The Company's obligations under the Convertible Junior Subordinated Debentures, the Indenture pursuant to which they were issued, the Amended and Restated Declaration of Trust of the Trust and the Guarantee of Greenfield, taken together, constitute a full and unconditional guarantee by Greenfield of amounts due on the Convertible Preferred Securities. The Convertible Preferred Securities are convertible at the option of the holders at any time into the common stock of Greenfield at an effective conversion price of \$41.25 per share and are redeemable at Greenfield's option after April 15, 1999. The net proceeds of the offering of approximately \$110,746 were used by Greenfield to retire indebtedness. A registration statement relating to resales of such Convertible Preferred Securities was declared effective by the Securities and Exchange Commission on September 26, 1996.

Upon consummation of the merger described in Note 18, the effective conversion price of the Convertible Preferred Securities was adjusted to approximately \$36.05.

6. LEASE COMMITMENTS

The Company leases certain of its equipment under noncancelable lease agreements. These agreements extend for a period of up to 42 months and contain purchase or renewal options on a month-to-month basis. The leases are reflected in the consolidated financial statements as capitalized leases in accordance with the requirements of Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

In addition, the Company has manufacturing facilities, office space and certain equipment leased under noncancelable operating leases having remaining terms of up to 14 years. Minimum lease payments under long-term capital and operating leases at December 31, 1996 are as follows:

| | CAPITAL LEASES | OPERATING LEASES |
|---|-------------------|---------------------|
| | ----- | ----- |
| 1997..... | \$ 494 | \$ 4,989 |
| 1998..... | 274 | 5,359 |
| 1999..... | 141 | 2,638 |
| 2000..... | 246 | 2,285 |
| 2001..... | -- | 1,881 |
| 2002 and thereafter..... | -- | 10,283 |
| | ----- | ----- |
| Total minimum lease payments..... | 1,155 | \$ 27,435 |
| | | ===== |
| Less amount representing interest..... | (148) | |
| | ----- | |
| Present value of net minimum lease payments, including current portion of \$462..... | \$ 1,007 | |
| | ===== | |

Rental expense incurred on the operating leases in 1994, 1995 and 1996 approximated \$2,291, \$2,840 and \$6,070, respectively.

7. INCOME TAXES

Income (loss) before provision (benefit) for income taxes for the years ended December 31 was taxed under the following jurisdictions:

| | 1994 | 1995 | 1996 |
|------------|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Domestic.. | \$ 36,594 | \$ 45,213 | \$ 34,694 |
| Foreign.. | (479) | 7,642 | 9,470 |
| | ----- | ----- | ----- |
| Total.... | \$ 36,115 | \$ 52,855 | \$ 44,164 |
| | ===== | ===== | ===== |

The provision (benefit) for income taxes charged to operations was as follows:

| | 1994 | 1995 | 1996 |
|--|-----------|----------|-----------|
| | ----- | ----- | ----- |
| Current tax provision (benefit): | | | |
| U.S. federal..... | \$ 7,940 | \$10,383 | \$ 8,587 |
| State and local..... | 1,660 | 2,101 | 1,471 |
| Foreign..... | 900 | 3,147 | (473) |
| | ----- | ----- | ----- |
| Total current provision..... | 10,500 | 15,631 | 9,585 |
| | ===== | ===== | ===== |
| Deferred tax provision (benefit): | | | |
| U.S. federal..... | 4,504 | 4,637 | 3,820 |
| State and local..... | 602 | 785 | 695 |
| Foreign..... | (1,500) | 337 | 3,875 |
| | ----- | ----- | ----- |
| Total deferred provision..... | 3,606 | 5,759 | 8,390 |
| | ----- | ----- | ----- |
| Total provision for income taxes..... | \$ 14,106 | \$21,390 | \$ 17,975 |
| | ===== | ===== | ===== |

Deferred tax liabilities (assets) are comprised of the following at December 31:

| | 1995 | 1996 |
|---|-----------|-----------|
| | ----- | ----- |
| Depreciation..... | \$ 14,226 | \$ 18,705 |
| LIFO inventory..... | 7,424 | 7,300 |
| Foreign deferred tax liabilities, primarily related to depreciation..... | 2,334 | 3,437 |
| Other..... | 105 | 135 |
| | ----- | ----- |
| Gross deferred tax liabilities..... | 24,089 | 29,577 |
| | ----- | ----- |
| Property, plant and equipment basis differences..... | (1,547) | (2,253) |
| Restructuring costs..... | (2,517) | (2,093) |
| Inventory reserves and costing capitalization..... | (1,772) | (4,174) |
| Retiree health..... | (3,490) | (3,578) |
| Pension..... | (2,309) | (2,301) |
| Workers' compensation reserves..... | (651) | (726) |
| Environmental reserves..... | (998) | (1,053) |
| Other accruals..... | (2,331) | (3,266) |
| Foreign deferred tax assets, primarily loss carryforwards and other reserves..... | (3,708) | (936) |
| Other..... | (866) | (1,327) |
| | ----- | ----- |
| Gross deferred tax assets..... | (20,189) | (21,707) |
| | ----- | ----- |
| Deferred tax assets valuation allowance..... | 975 | 975 |
| | ----- | ----- |
| Net deferred tax liability..... | \$ 4,875 | \$ 8,845 |
| | ===== | ===== |

The deferred tax asset valuation allowance at December 31, 1996 primarily represents excess deductible temporary differences over taxable temporary differences for foreign operations and potential nonrealization of certain other deferred tax assets. The tax benefits, if any, from the future recognition of certain deductible temporary differences present at the date of the acquisition of CTD and Rule, but not recognized at that time, will be applied to reduce goodwill.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

| | 1994 | 1995 | 1996 |
|---|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Statutory U.S. rate..... | \$ 12,640 | \$ 18,499 | \$ 15,457 |
| Increase (decrease) in rate resulting from: | | | |
| Foreign taxes, net..... | (432) | 809 | 172 |
| State/local taxes, net..... | 1,471 | 1,876 | 1,532 |
| Nondeductible goodwill amortization | 282 | 957 | 1,258 |
| Other..... | 145 | (751) | (444) |
| | ----- | ----- | ----- |
| Effective tax rate..... | \$ 14,106 | \$ 21,390 | \$ 17,975 |
| | ===== | ===== | ===== |

8. RESTRUCTURING COSTS

The results of operations for the year ended December 31, 1996 included restructuring costs of \$4,000 (approximately \$2,400 net of related tax benefits, or \$0.15 per common share), on a primary basis. These costs were primarily related to employee severance and certain other nonrecurring charges resulting from the effects of the reorganization of the Company's business groups. The restructuring costs included the costs associated with the combination or elimination of certain functions or operations which were identified as redundant. The \$4,000 restructuring charge recorded in the third quarter included \$2,727 for employee-related costs consisting primarily of severance costs, \$585 for the noncash write-down of plant assets where operations have been or will be terminated, and \$688 for other nonrecurring severance costs for personnel that have been terminated or will be terminated in future periods. The employee severance costs relate to the reduction of approximately 42 employees as of December 31, 1996 and future reductions of approximately 28 employees. Of the total \$4,000 charge, approximately \$777 had been incurred through December

31, 1996. The remaining accrual primarily relates to employee severance costs and costs associated with the closure of two facilities.

During 1994, the Company recorded restructuring costs of \$1,300 relating to the consolidation of the plant in Switzerland into a

plant in Germany. The \$1,300 charge is comprised of \$700 in costs associated with plant closures and relocation of machinery and equipment, \$500 in severance costs related to approximately 35 administrative staff and plant personnel at the closed Swiss facility and \$100 in other costs. The Company substantially completed the restructuring by the end of 1994.

The Company continues to evaluate its operations with an intent to streamline operations, improve productivity and reduce costs and may implement additional rationalization programs in the future.

9. RETIREMENT PLANS

The Company offers substantially all of its domestic employees a retirement savings plan under Section 401(k) of the Internal Revenue Code. Employees may elect to enter a written salary deferral agreement under which a maximum of 15% of their salaries may be contributed to the plan, subject to aggregate limits required under the Internal Revenue Code. The Company is required to make a mandatory contribution of 2% of qualified employee earnings. In addition, the Company will match a percentage of the employees' contribution up to a specified maximum percentage of their salaries and may make a discretionary contribution from profits upon resolution of its Board of Directors. For the years ended December 31, 1994, 1995 and 1996, the Company made contributions to the defined contribution plans of approximately \$2,448, \$3,406 and \$3,923, respectively.

CTD, Carbidie and AMT had defined benefit pension plans covering substantially all domestic employees with the exception of AMT non-union employees when they were acquired by the Company. All of these plans were frozen in 1995, and benefits were frozen at 1995 levels. In addition, Rule had a defined benefit pension plan for certain employees for which the benefits had been frozen prior to the Company's acquisition of Rule in January 1996. The Company's funding policy with respect to such plans is to contribute annually the minimum amount required under ERISA. Plan assets include marketable equity securities, U.S. government securities, federal agency obligations, corporate debt instruments, money market funds and other fixed income securities.

In connection with the CTD and Carbidie acquisitions in 1994, the Company recorded an aggregate net liability of \$6,051 in purchase accounting representing the excess of the estimated projected benefit obligation (PBO) over the fair value of plan assets. During 1996, the Company recorded a net liability of \$700 in purchase accounting for the excess of the PBO over the fair value of the plan assets in connection with the Rule acquisition.

The following tables set forth the defined benefit pension plans' net periodic pension costs for the years ended December 31, 1995 and 1996 and the plans' net funded status, amounts recorded in the consolidated balance sheet, and other summary information at December 31, 1995 and 1996:

| FOR THE YEARS ENDED DECEMBER 31, | 1995 | 1996 |
|---|---------|---------|
| ----- | ----- | ----- |
| NET PERIODIC PENSION COST: | | |
| Service cost..... | \$ 502 | \$ 30 |
| Interest cost..... | 2,334 | 2,297 |
| Other..... | 583 | (732) |
| Less: Actual return on plan assets..... | (2,842) | (1,560) |
| Net periodic pension cost..... | \$ 577 | \$ 35 |
| | ===== | ===== |

| DECEMBER 31, | 1995 | 1996 |
|--|-----------|-----------|
| ----- | ----- | ----- |
| NET PENSION LIABILITY: | | |
| Vested accumulated benefit obligation..... | \$ 30,288 | \$ 32,226 |
| | ===== | ===== |
| Nonvested accumulated benefit obligation.. | \$ 1,622 | \$ 751 |
| | ===== | ===== |
| PBO..... | \$ 31,910 | \$ 33,228 |
| Fair value of plan assets..... | (27,361) | (29,570) |
| Unrecognized prior service cost..... | -- | (30) |
| Unrecognized net loss..... | (519) | (29) |
| Additional minimum pension liability..... | 783 | 279 |
| | ----- | ----- |
| Net pension liability..... | \$ 4,813 | \$ 3,878 |
| | ===== | ===== |

| | | |
|--|------|------|
| Discount rate used to determine the PBO... | 7.5% | 8.0% |
| Assumed long-term rate of return on plan assets..... | 9.0% | 9.0% |

10. POSTRETIREMENT BENEFITS

Under Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the Company is required to recognize the cost of providing health care and other benefits to retirees over the term of the

employees' service. Prior to the acquisitions of CTD and Carbidie, the Company provided no postretirement benefits other than those related to the 401(k) plans described in Note 9. CTD and a certain other subsidiary provides health care insurance benefits to certain of its retired employees. All of these plans were frozen in 1995, and benefits were frozen at 1995 levels. In connection with the CTD acquisition in 1994, the Company recorded a liability of \$11,939 in purchase accounting representing the estimated discounted present value of the expected future retiree benefits attributed to employees' service rendered in periods prior to Greenfield's acquisition.

The following tables set forth the plans' net periodic postretirement benefit cost for the years ended December 31, 1995 and 1996, the accumulated postretirement benefit obligation (APBO) at December 31, 1995 and 1996 and other summary information:

| FOR THE YEARS ENDED DECEMBER 31, | 1995 | 1996 |
|---|-----------|-----------|
| ----- | | |
| NET PERIODIC POSTRETIREMENT BENEFIT COST: | | |
| Service cost..... | \$ 55 | \$ -- |
| Interest cost..... | 873 | 765 |
| | ----- | ----- |
| Net periodic postretirement benefit cost..... | \$ 928 | \$ 765 |
| | ===== | ===== |
| | | |
| DECEMBER 31, | 1995 | 1996 |
| ----- | | |
| ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION: | | |
| APBO (consisting solely of retirees and dependents)..... | \$ 11,692 | \$ 9,653 |
| Unrecognized net gain (loss)..... | (3) | 754 |
| | ----- | ----- |
| Net APBO..... | \$ 11,689 | \$ 10,407 |
| | ===== | ===== |
| Discount rate used in measuring the APBO..... | 7.5% | 8.0% |
| Assumed health care cost trend rate used in measuring the APBO..... | 8.5% | 8.5% |

The assumed health care cost trend rate used in measuring the APBO for 1995 and 1996 decreased gradually to 6% (until 2002 and thereafter). If the assumed health care cost trend rates were increased by 1%, the APBO for 1995 and 1996 would have increased approximately \$558 and \$434, respectively.

There are no plan assets and the Company expects to continue to fund these benefit costs on a pay-as-you-go basis. During 1995 and 1996, the Company made payments of approximately \$1,018 and \$1,400, respectively, related to these benefits.

11. 1993 EXECUTIVE STOCK OPTIONS

In 1993, the Company established the 1993-1 Executive Stock Option Plan (1993-1 Plan) and granted to certain officers of Rogers Tool Works, Inc., a wholly-owned subsidiary of the Company (RTW), non-qualified stock options to purchase an aggregate of 438,258 shares of common stock at a price of \$0.51 per share, subject to adjustment, in exchange for the cancellation of RTW shares held by these officers. In addition, the Company canceled the promissory notes of each of these officers issued to finance the purchase of their RTW shares. The exercise price with respect to the options granted was determined to preserve the original purchase price per share of the RTW shares cancelled. The options became exercisable as to 25% of the shares issuable thereunder on January 26, 1994, and as to a cumulative 35%, 50% and 100% of the shares issuable thereunder on each succeeding six-month anniversary thereof. As of December 31, 1995 all of the options had been exercised. During the years ended December 31, 1994 and 1995, 153,367 and 284,891 shares, respectively, were issued in connection with the 1993-1 Plan.

In 1993, the Company also adopted the 1993-2 Executive Stock Option Plan (1993-2 Plan) pursuant to which nonqualified stock options were granted to certain existing shareholders prior to the initial public offering to acquire an aggregate 453,350 shares of the Company's common stock, subject to adjustment, by tendering existing common stock in payment thereof. The exercise price of all options was the current market price on the date of exercise and all options were exercised only by exchanging shares of previously owned common stock. The grant and exercise of options under the 1993-2 Plan did not result in any increase in the beneficial ownership of common stock by the plan participants from the number of shares owned immediately after the initial public offering. Under the terms of the 1993-2 Plan, the options were exercised immediately after

the initial public offering and the shares of common stock issued thereunder became freely transferable by each participant as to 25% of the shares issuable to such participants on January 31, 1994 and as to a cumulative 35%, 50% and 100% of the shares issuable to such participant on each succeeding six-month anniversary thereof. The shares tendered in exercise of options granted under the 1993-2 Plan were issued under promissory notes due in 1998 through 2002. The notes are reflected in stock subscriptions receivable, included in additional paid-in capital and other, in the accompanying consolidated financial statements.

12. STOCK OPTION AND STOCK INCENTIVE PLANS

STOCK OPTION PLANS

The Company has three stock options plans: the Employee Stock Option Plan (Employee Plan), the 1995 Directors Non-Qualified Stock Option Plan (Directors Plan) and the 1993 Directors Non-Qualified Stock Option Plan (1993 Directors Plan).

The Employee Plan provides for the granting of options to purchase up to 1,000,000 shares of common stock to the Company's executive officers and key employees at prices equal to the fair market value of the stock on the date of grant. The Employee Plan was amended effective May 6, 1997, to, among other things, increase the number of options to purchase shares of common stock from 1,000,000 to 2,000,000. Options outstanding at December 31, 1996 entitle the holders to purchase common stock at prices ranging between \$16.00 and \$37.00 per share, subject to adjustment. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of such date. The right to exercise the options expires ten years from the date of grant, or earlier if an option holder ceases to be employed by the Company.

The Directors Plan provides for the granting of options to purchase up to 125,000 shares of common stock to the Company's Directors who are not employees of the Company at prices equal to the fair market value of the stock on the date of grant. Options are granted to each eligible Director on the date such person is first elected to the board of directors of the Company and on each subsequent re-election date. The Directors Plan was approved in May 1996 by the stockholders. Options outstanding at December 31, 1996 entitle the holders to purchase common stock at a price of \$37.00 per share, subject to adjustment. Options granted upon re-election shall become exercisable in full on the first anniversary of such date. All other options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary date of the date of grant, commencing on the second anniversary of such date. The right to exercise the options expires ten years from the date of grant, or earlier, if an option holder ceases to be a Director of the Company.

The 1993 Directors Plan provides for the granting of options to purchase up to 100,000 shares of common stock to the Company's Directors who are not employees of the Company at prices equal to the fair market value of the stock on the date of grant. Options are granted to each eligible Director on the date such person is first elected to the board of directors of the Company. Options outstanding at December 31, 1996 entitle the holders to purchase common stock at prices ranging between \$15.50 and \$25.75 per share, subject to adjustment. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of such date. The right to exercise the options expires ten years from the date of grant, or earlier if an option holder ceases to be a Director of the Company. Subsequent to the May 1996 approval of the Directors Plan, no further grants will be issued under the 1993 Directors Plan.

A summary of the status of the Company's stock option plans as of December 31, 1994, 1995 and 1996, and changes during the years then ended are presented below:

| | 1994 | | 1995 | | 1996 | |
|-------------------------------------|---------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
| | SHARES | WEIGHTED-AVERAGE EXERCISE PRICE | SHARES | WEIGHTED-AVERAGE EXERCISE PRICE | SHARES | WEIGHTED-AVERAGE EXERCISE PRICE |
| Outstanding at beginning of year... | 368,500 | \$ 15.98 | 578,500 | \$ 18.76 | 788,175 | \$ 21.95 |
| Granted..... | 217,500 | \$ 23.36 | 244,300 | \$ 29.07 | 255,400 | \$ 28.58 |
| Exercised..... | -- | -- | (10,375) | \$ 16.07 | (55,000) | \$ 16.53 |
| Forfeited..... | (7,500) | \$ 16.18 | (24,250) | \$ 19.93 | (34,175) | \$ 27.21 |
| Outstanding at end of year..... | 578,500 | \$ 18.76 | 788,175 | \$ 21.95 | 954,400 | \$ 23.85 |
| Exercisable at end of year..... | -- | -- | 77,125 | \$ 15.98 | 158,875 | \$ 18.12 |

The following table summarizes information for options currently outstanding and exercisable at December 31, 1996:

| RANGE OF EXERCISE PRICES | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|--------------------------|---------------------|-------------------------------------|---------------------------------|---------------------|---------------------------------|
| | NUMBER OUTSTANDING | WEIGHTED REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
| \$14-21 | 308,000 | 7 | \$ 16.24 | 118,015 | \$ 16.13 |
| \$22-29 | 360,150 | 9 | \$ 25.23 | 40,860 | \$ 23.85 |
| \$30-37 | 286,250 | 9 | \$ 30.31 | -- | |
| | ----- | | | ----- | |
| \$14-37 | 954,400 | 8 | \$ 23.85 | 158,875 | \$ 18.12 |
| | ===== | | | ===== | |

In connection with the resignation of a member of the Company's Board of Directors, in 1994 the Company exchanged options for 10,000 shares of common stock previously granted to the Director with a warrant to purchase 10,000 shares of common stock at an exercise price equal to the exercise price of the options.

STOCK INCENTIVE PLANS

The Company has two stock incentive plans: the 1995 Equity Incentive Plan (Incentive Plan) and the 1995 Restricted Stock Bonus Plan (Ownership Plan). Both plans were approved in May 1996 by the stockholders of the Company.

The Incentive Plan provides for the granting of up to 273,000 shares of common stock to certain senior executives of the Company in time-lapse restricted stock, performance contingent restricted stock and performance shares. Time-lapse restricted stock vests in one-third increments over a three-year period commencing four years after the date of the award. Performance contingent restricted stock is earned when the price for the Company's stock reaches certain predetermined levels, and then vests over a three- or five-year period. Performance shares are earned based on attainment of a predetermined four-year cumulative earnings per share level. Attainment of between 50% and 200% of the predetermined objective will entitle the participants to receive restricted performance shares of between 50% and 200% of the target award, which then vest over a three-year period. No performance shares are earned if less than 50% of the performance objective is obtained.

The Ownership Plan provides for the issuance of up to 250,000 shares of common stock to certain employees, by allowing such employees to elect to defer up to 50% of their annual cash bonus and receive, in lieu thereof, shares of the Company's common stock. The Company will increase the employees' deferred bonus by either 20% or 35% (depending on the employees' selection of 3 or 5 years, respectively, for the restriction period).

Shares issued under these plans are restricted and are subject to forfeiture upon termination of employment. During the period that the shares are restricted, award holders have the right to vote and to receive dividends on such shares.

A summary of stock earned and issued pursuant to the Incentive Plan and Ownership Plan for the year ended December 31, 1996 follows:

| | SHARES | MARKET VALUE OF DATE EARNED | VESTING PERIOD |
|--|--------|-----------------------------|---------------------|
| | ----- | ----- | ----- |
| Incentive Plan | | | |
| Time-lapse Restricted Stock... | 26,000 | \$ 30.50 | Nov 1999-Nov 2001 |
| Time-lapse Restricted Stock... | 8,000 | \$ 31.625 | July 2000-July 2002 |
| Performance Contingent Restricted Stock..... | 7,700 | \$ 37.75 | Nov 2000 |
| | ----- | | |
| | 41,700 | | |
| Ownership Plan..... | 17,848 | \$ 30.50 | Feb 1997-Feb 2001 |
| | ----- | | |
| Total restricted shares earned and issued in 1996..... | 59,548 | | |
| | ===== | | |

The Company awarded up to 273,000 shares of restricted stock to certain senior executives under the Incentive Plan, subject to the attainment of certain

performance levels, as discussed above. The weighted average fair value of the shares on the grant date was \$30.73. The Company applies APB 25 and related interpretations in accounting for stock awards under the Incentive and Ownership Plans. Under APB 25, the Company recorded \$1,500 of compensation expense during 1996 attributable to these awards, which is included in selling, general and administrative expenses in the 1996 consolidated statement of operations.

Shares which have been issued but which remain restricted are recorded as deferred compensation, a reduction to additional paid-in capital. The increase in additional paid-in capital of \$761 during 1996 represents the issuance of executive stock awards and is net of this deferred compensation. As the shares vest and become unrestricted, the deferred compensation will be recorded as compensation expense and additional paid-in capital will increase.

PRO FORMA DISCLOSURES

The Company applies APB 25 and related interpretations in accounting for its stock option plans. Accordingly, except for the Incentive and Ownership Plans as described above, no compensation cost has been recognized for the stock options because the options were granted with an exercise price equal to the stock price on the date of grant. Had compensation costs for the Company's stock option plans been determined based on the fair value of the options on the grant dates consistent with the methodology prescribed by FAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below. Due to the adoption of the methodology prescribed by FAS 123, the pro forma results shown below only reflect the impact of options and stock awards granted in 1995 and 1996. Because future options and stock awards may be granted, the pro forma impact for 1995 and 1996 is not necessarily indicative of the impact in future years.

| | | 1995 | 1996 |
|----------------------------|-------------|----------|----------|
| | | ----- | ----- |
| Net income | As reported | \$31,465 | \$26,189 |
| | Pro forma | \$31,336 | \$25,614 |
| Primary earnings per share | As reported | \$ 1.94 | \$ 1.60 |
| | Pro forma | \$ 1.90 | \$ 1.55 |

The fair value of the options granted (which is amortized over the option vesting period in determining the pro forma impact), is estimated on the date of grant using the Black-Scholes multiple option-pricing model with the following weighted average assumptions:

| | 1995 | 1996 |
|-----------------------------------|-------------|-------------|
| | ----- | ----- |
| Expected life of options | 5 years | 5 years |
| Risk-free interest rates | 5.69--7.76% | 5.39--6.69% |
| Expected volatility of stock..... | 29% | 32% |
| Expected dividend yield. | 0.5% | 0.5% |

The weighted average fair value of options granted during the years ended December 31, 1995 and 1996 was \$10.34 and \$10.84 per share, respectively.

13. RELATED PARTIES

Harbour Group Investments, L.P. (HGI, L.P.) was the Company's principal stockholder prior to HGI, L.P.'s sale of substantially all of its shares in a secondary stock offering in March 1994. Under terms of a corporate development consulting and advisory services agreement, the Company incurred fees totaling \$1,109, \$445 and \$580 in 1994, 1995 and 1996, respectively, payable to an affiliate of HGI, L.P. related to corporate development services provided in identifying, negotiating and consummating certain acquisitions.

Under terms of a management consulting and advisory services agreement, Harbour Group, Ltd. (HGL), an affiliate of HGI, L.P., charges the Company for direct management and administrative services provided to the Company based on HGL's approximate costs for such services. These charges totaled approximately \$250, \$182 and \$53 for the years ended December 31, 1994, 1995 and 1996, respectively, and are reflected in selling, general and administrative expenses in the accompanying consolidated financial statements.

At December 31, 1995 and 1996, a member of HGL management owned 80,000 shares of the Company's common stock partially financed with promissory notes totaling \$101 due in 1998 through 2003. The notes are reflected in stock subscriptions receivable, included in additional paid-in capital and other, in the accompanying consolidated financial statements.

14. COMMITMENTS AND CONTINGENCIES

The Company is involved in certain claims and legal proceedings in which monetary damages are sought. The Company is vigorously contesting these claims. However, resolution of these claims is not expected to occur quickly and their ultimate outcome presently cannot be predicted. It is the opinion of management that any liability of the Company for claims or proceedings will not materially affect its financial position.

In connection with the acquisition of CTD, the Company recorded a liability of \$2,600 in purchase accounting for certain estimated environmental clean-up costs to be incurred relative to acquired CTD facilities. This estimated potential liability, which is included in other accrued liabilities, has not been reduced for any expected proceeds from other potentially responsible third parties.

At December 31, 1996, the liability balance was approximately \$2,200.

15. SEGMENT INFORMATION

Worldwide operations data, as required by Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise," are listed below. Profitability of the Company's foreign operations by geographic area was determined based on ultimate sales to unaffiliated customers. Income from operations was included in the geographic area of the entity transacting the final sale. Intercompany sales have been eliminated in consolidation.

| | FOR THE YEARS ENDED DECEMBER 31, | | | |
|----------------|---|------------------------------|------------------------|-------------------------|
| | NET SALES TO UNAFFILIATED CUSTOMERS | INCOME FROM OPERATIONS | IDENTIFIABLE ASSETS | CAPITAL EXPENDITURES |
| 1994 | | | | |
| North America. | \$240,809 | \$ 38,223 | \$289,610 | \$ 12,345 |
| Europe..... | 30,978 | 1,061 | 30,325 | 1,037 |
| | ----- | ----- | ----- | ----- |
| | \$271,787 | \$ 39,284 | \$319,935 | \$ 13,382 |
| | ===== | ===== | ===== | ===== |
| 1995 | | | | |
| North America. | \$377,314 | \$ 52,112 | \$352,532 | \$ 26,177 |
| Europe..... | 42,874 | 8,966 | 45,931 | 670 |
| | ----- | ----- | ----- | ----- |
| | \$420,188 | \$ 61,078 | \$398,463 | \$ 26,847 |
| | ===== | ===== | ===== | ===== |
| 1996 | | | | |
| North America. | \$451,383 | \$ 50,463 | \$514,163 | \$ 27,175 |
| Europe..... | 58,711 | 9,484 | 48,481 | 2,010 |
| | ----- | ----- | ----- | ----- |
| | \$510,094 | \$ 59,947 | \$562,644 | \$ 29,185 |
| | ===== | ===== | ===== | ===== |

Export revenues included in the North American net sales to unaffiliated customers were as follows:

| FOR THE YEARS ENDED DECEMBER 31, | 1994 | 1995 | 1996 |
|----------------------------------|-----------|----------|-----------|
| Geographic Areas: | | | |
| Far East..... | \$ 9,113 | \$19,837 | \$ 20,091 |
| Canada/Latin America..... | 6,521 | 5,749 | 10,534 |
| Europe..... | 3,572 | 7,601 | 15,340 |
| Other..... | 36 | 665 | 1,343 |
| | ----- | ----- | ----- |
| | \$ 19,242 | \$33,852 | \$ 47,308 |
| | ===== | ===== | ===== |

16. SUPPLEMENTAL BALANCE SHEET INFORMATION

| | DECEMBER 31, | | SEPTEMBER 30, |
|--|--------------|-----------|---------------|
| | 1995 | 1996 | 1997 |
| ACCOUNTS RECEIVABLE: | | | |
| Trade receivables..... | \$ 66,242 | \$ 86,962 | \$102,792 |
| Allowance for doubtful accounts and customer rebates..... | (2,624) | (3,763) | (4,692) |
| | ----- | ----- | ----- |
| | \$ 63,618 | \$ 83,199 | \$ 98,100 |
| | ===== | ===== | ===== |
| INVENTORIES: | | | |
| Raw materials and component parts..... | \$ 28,248 | \$ 49,500 | \$ 68,988 |
| Work in process..... | 31,648 | 38,055 | 43,060 |
| Finished goods..... | 49,873 | 65,104 | 70,476 |
| | ----- | ----- | ----- |
| | \$109,769 | \$152,659 | \$182,524 |
| | ===== | ===== | ===== |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Machinery and equipment..... | \$108,077 | \$143,664 | \$172,781 |

| | | | |
|--|-----------|-----------|-----------|
| Buildings..... | 20,531 | 33,125 | 37,985 |
| Land and land improvements..... | 2,445 | 4,159 | 4,095 |
| Property held under capital leases..... | 4,579 | 4,496 | 4,496 |
| | ----- | ----- | ----- |
| Total property, plant and equipment at cost..... | 135,632 | 185,444 | 219,357 |
| Less accumulated depreciation and amortization, including \$3,241 and \$3,715, respectively, related to property held under capital leases..... | (46,833) | (59,902) | (71,931) |
| | ----- | ----- | ----- |
| Construction in progress..... | 88,799 | 125,542 | 147,426 |
| Property held for sale..... | 18,558 | 17,338 | 20,231 |
| | ----- | ----- | ----- |
| | 1,665 | 1,420 | 1,522 |
| | ----- | ----- | ----- |
| | \$109,022 | \$144,300 | \$169,179 |
| | ===== | ===== | ===== |
| ACCRUED LIABILITIES: | | | |
| Employee compensation and benefits..... | \$ 18,676 | \$ 19,151 | \$ 22,566 |
| Restructuring costs..... | 4,919 | 3,371 | 2,363 |
| Interest..... | 1,544 | 1,656 | 3,395 |
| Other..... | 8,549 | 11,233 | 13,237 |
| | ----- | ----- | ----- |
| | \$ 33,688 | \$ 35,411 | \$ 41,561 |
| | ===== | ===== | ===== |

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1994, 1995 and 1996 appears below (in thousands, except per share data):

| | NET SALES | | |
|---------------------|-----------|-----------|-----------|
| | 1994 | 1995 | 1996 |
| First quarter..... | \$ 62,631 | \$106,419 | \$132,698 |
| Second quarter..... | 62,213 | 104,799 | 130,021 |
| Third quarter..... | 65,679 | 104,147 | 121,370 |
| Fourth quarter..... | 81,264 | 104,823 | 126,005 |
| | ----- | ----- | ----- |
| | \$271,787 | \$420,188 | \$510,094 |
| | ===== | ===== | ===== |

| | GROSS PROFIT | | |
|---------------------|--------------|-----------|-----------|
| | 1994 | 1995 | 1996 |
| First quarter..... | \$ 20,802 | \$ 34,007 | \$ 40,570 |
| Second quarter..... | 21,451 | 31,469 | 41,685 |
| Third quarter..... | 22,051 | 32,683 | 34,999 |
| Fourth quarter..... | 26,509 | 33,871 | 35,637 |
| | ----- | ----- | ----- |
| | \$ 90,813 | \$132,030 | \$152,891 |
| | ===== | ===== | ===== |

| | NET INCOME | | |
|---------------------|------------|----------|----------|
| | 1994 | 1995 | 1996 |
| First quarter..... | \$ 5,040 | \$ 7,055 | \$ 8,569 |
| Second quarter..... | 4,798 | 7,915 | 8,357 |
| Third quarter..... | 5,975 | 8,085 | 3,959 |
| Fourth quarter..... | 6,196 | 8,410 | 5,304 |
| | ----- | ----- | ----- |
| | \$22,009 | \$31,465 | \$26,189 |
| | ===== | ===== | ===== |

| | PRIMARY EARNINGS PER SHARE | | |
|---------------------|----------------------------|---------|---------|
| | 1994 | 1995 | 1996 |
| First quarter..... | \$.31 | \$.43 | \$.53 |
| Second quarter..... | .29 | .49 | .51 |
| Third quarter..... | .37 | .50 | .24 |
| Fourth quarter..... | .38 | .52 | .32 |
| | ----- | ----- | ----- |
| | \$ 1.35 | \$ 1.94 | \$ 1.60 |
| | ===== | ===== | ===== |

18. SUBSEQUENT EVENTS (UNAUDITED)

On October 10, 1997, the Company entered into a definitive merger agreement with Kennametal Inc. (Kennametal), whereby Kennametal Acquisition Corp. (a wholly-owned subsidiary of Kennametal) commenced a tender offer on October 17, 1997 for all of the outstanding shares of the Company for \$38 per share. The tender offer expired on November 14, 1997 and approximately 98% of the Company's shares were tendered. The merger was completed on November 18, 1997. Under the terms of the merger agreement, all outstanding options to acquire shares of the Company were cancelled in exchange for a payment equal to the difference between \$38 per share and the strike price.

In the fourth quarter of 1997, pursuant to a plan approved by the Company's board of directors, the Company recorded a \$11.5 million charge for nonrecurring expenses primarily related to the restructuring of the Company's South Deerfield, Massachusetts operations. These costs primarily included write-downs of inventory and machinery and equipment to estimated net realizable values, severance costs and other miscellaneous expenses relative to the Company's decision to discontinue the manufacture and sale of certain low margin product lines. The restructuring will result in a reduction in personnel, thereby eliminating excessive costs and redundancies in future periods. The Company expects to record additional nonrecurring expenses of approximately \$2.0 million in 1998 related to the rearrangement of the remaining operations at its South Deerfield, Massachusetts facility.

ANNEX B

The following Pro Forma Condensed Consolidated Statements of Income and the Pro Forma Condensed Consolidated Balance Sheet are based on the historical financial statements of the Company and Greenfield. The Pro Forma Condensed Consolidated Statements of Income for the year ended June 30, 1997, and for the three months ended September 30, 1997, assume that the acquisition of Greenfield occurred as of the first day of the Company's 1997 fiscal year (July 1, 1996). Since Greenfield has a fiscal year-end of December 31, the historical information included in the Pro Forma Condensed Consolidated Statement of Income for the year ended June 30, 1997 has been derived from Greenfield's operating results for the twelve months ended June 30, 1997. The Pro Forma Condensed Consolidated Balance Sheet gives effect to the acquisition of Greenfield as if it had occurred on September 30, 1997.

The pro forma financial information reflects the purchase method of accounting for the acquisition of Greenfield, and accordingly is based on estimated purchase accounting adjustments that are subject to further revision depending upon completion of appraisals or other studies of the fair value of Greenfield's assets and liabilities. Final purchase accounting adjustments will differ from the pro forma adjustments presented herein and described in the accompanying notes due to the results of operations of Greenfield from September 30, 1997 to the date of closing (November 18, 1997).

The pro forma financial information reflects certain assumptions described above and in the Notes to Pro Forma Condensed Consolidated Statements of Income and Pro Forma Condensed Consolidated Balance Sheet which follow. The pro forma financial information, including notes thereto, should be read in conjunction with the consolidated financial statements of the Company and of Greenfield, and the related notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The pro forma financial information is provided for informational purposes only and does not purport to present what the Company's results of operations would actually have been if the acquisition of Greenfield had occurred on the assumed dates, as specified above, or to project the Company's financial condition or results of operations for any future period.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED JUNE 30, 1997

| | HISTORICAL KENNAMETAL ----- | HISTORICAL GREENFIELD ----- | ACQUISITION PRO FORMA ADJUSTMENTS ----- | PRO FORMA AS ADJUSTED ----- |
|--|--|-----------------------------------|--|-----------------------------------|
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED) | | | |
| INCOME STATEMENT DATA: | | | | |
| Net sales..... | \$1,156,343 | \$527,019 | \$ -- | \$1,683,362 |
| Cost of goods sold..... | 668,415 | 373,133 | 2,000(a) | 1,043,548 |
| | ----- | ----- | ----- | ----- |
| Gross profit..... | 487,928 | 153,886 | (2,000) | 639,814 |
| Operating expenses..... | 357,996 | 92,421 | -- | 450,417 |
| Amortization of intangibles | 2,907 | 4,946 | 10,557(b) | 18,410 |
| | ----- | ----- | ----- | ----- |
| Operating income..... | 127,025 | 56,519 | (12,557) | 170,987 |
| Interest expense..... | 10,393 | 10,916 | 64,922(c) | 86,231 |
| Other income..... | 1,531 | -- | -- | 1,531 |
| Dividends on Greenfield-obligated mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of Greenfield..... | -- | 6,900 | (6,900)(d) | -- |
| | ----- | ----- | ----- | ----- |
| Income before income taxes and minority interest..... | 118,163 | 38,703 | (70,579) | 86,287 |
| Provision for income taxes... | 44,900 | 15,876 | (26,261)(e) | 34,515 |
| Minority interest..... | 1,231 | -- | -- | 1,231 |
| | ----- | ----- | ----- | ----- |
| Net income..... | \$ 72,032 | \$ 22,827 | \$(44,318) | \$ 50,541 |
| | ===== | ===== | ===== | ===== |
| PER SHARE DATA: | | | | |
| Net income..... | \$ 2.71 | | | \$ 1.90 |
| | ===== | | | ===== |
| Weighted average shares outstanding..... | 26,575 | | | 26,575 |
| | ===== | | | ===== |

See accompanying Notes to Pro Forma Condensed Consolidated Statement of Income.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED JUNE 30, 1997

- (a) Represents additional depreciation expense related to excess purchase price assigned to property, plant and equipment.
- (b) Represents amortization of excess purchase price allocated to goodwill over 40 years of approximately \$15.5 million less the elimination of historical Greenfield goodwill amortization of approximately \$4.9 million.
- (c) Reflects (i) an increase in interest expense of approximately \$69.1 million associated with borrowings under the New Bank Credit Facility, (ii) the elimination of historical interest expense of approximately \$17.3 million as a result of repayment of outstanding indebtedness of Kennametal and Greenfield and (iii) the amortization of deferred financing costs of approximately \$13.1 million.
- (d) Reflects the elimination of historical dividends of approximately \$6.9 million as a result of repayment of Greenfield-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of Greenfield.
- (e) Represents an adjustment to the total provision for income taxes to reflect a statutory tax rate of 40%.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 1997

| | HISTORICAL KENNAMETAL ----- | HISTORICAL GREENFIELD ----- | ACQUISITION PRO FORMA ADJUSTMENTS ----- | PRO FORMA AS ADJUSTED ----- |
|---|--|-----------------------------------|--|-----------------------------------|
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED) | | | |
| INCOME STATEMENT DATA: | | | | |
| Net sales..... | \$ 310,792 | \$ 139,836 | \$ -- | \$ 450,628 |
| Cost of goods sold..... | 178,569 | 98,773 | 500(a) | 277,842 |
| | ----- | ----- | ----- | ----- |
| Gross profit..... | 132,223 | 41,063 | (500) | 172,786 |
| Operating expenses..... | 98,518 | 25,769 | -- | 124,287 |
| Amortization of intangibles | 1,052 | 1,263 | 2,721(b) | 5,036 |
| | ----- | ----- | ----- | ----- |
| Operating income..... | 32,653 | 14,031 | (3,221) | 43,463 |
| Interest expense..... | 1,180 | 3,670 | 12,955(c) | 17,805 |
| Other (expense)..... | (440) | -- | -- | (440) |
| Dividends on Greenfield-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of Greenfield..... | -- | 1,725 | (1,725)(d) | -- |
| | ----- | ----- | ----- | ----- |
| Income before income taxes and minority interest..... | 31,033 | 8,636 | (14,451) | 25,218 |
| Provision for income taxes. | 12,100 | 3,541 | (5,554)(e) | 10,087 |
| Minority interest..... | 1,385 | -- | -- | 1,385 |
| | ----- | ----- | ----- | ----- |
| Net income..... | \$ 17,548 | \$ 5,095 | \$ (8,897) | \$ 13,746 |
| | ===== | ===== | ===== | ===== |
| PER SHARE DATA: | | | | |
| Net income..... | \$ 0.67 | | | \$ 0.53 |
| | ===== | | | ===== |
| Weighted average shares outstanding..... | 26,171 | | | 26,171 |
| | ===== | | | ===== |

See accompanying Notes to Pro Forma Condensed Consolidated Statement of Income.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 1997

- (a) Represents additional depreciation expense related to excess purchase price assigned to property, plant and equipment.
- (b) Represents amortization of excess purchase price allocated to goodwill over 40 years of approximately \$3.9 million less the elimination of historical Greenfield goodwill amortization of approximately \$1.2 million.
- (c) Reflects: (i) an increase in interest expense of approximately \$17.3 million associated with borrowings under the New Bank Credit Facility; and (ii) the elimination of historical interest expense of approximately \$4.3 million as a result of repayment of outstanding indebtedness of Kennametal and Greenfield.
- (d) Reflects the elimination of historical dividends of approximately \$1.7 million as a result of repayment of Greenfield-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of Greenfield.
- (e) Represents an adjustment to the total provision for income taxes to reflect a statutory tax rate of 40%.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 1997

| | HISTORICAL KENNAMETAL ----- | HISTORICAL GREENFIELD ----- | ACQUISITION PRO FORMA ADJUSTMENTS ----- (IN THOUSANDS) (UNAUDITED) | PRO FORMA AS ADJUSTED ----- |
|---|-----------------------------------|-----------------------------------|---|-----------------------------------|
| ASSETS | | | | |
| Cash and equivalents..... | \$ 45,409 | \$ -- | \$ -- | \$ 45,409 |
| Accounts receivable, net of allowance..... | 202,144 | 98,100 | -- | 300,244 |
| Inventories..... | 214,068 | 182,524 | 5,700 (a) | 396,292 |
| | -- | -- | (6,000) (b) | -- |
| Other current assets..... | 24,949 | 5,875 | -- | 30,824 |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 486,570 | 286,499 | (300) | 772,769 |
| Net property, plant and equipment..... | 310,563 | 169,179 | 20,000 (a) | 497,242 |
| | -- | -- | (2,500) (b) | -- |
| Intangible assets..... | 57,691 | 180,187 | 439,952 (a) | 677,830 |
| Other assets..... | 64,765 | 2,302 | 13,100 (c) | 80,167 |
| | ----- | ----- | ----- | ----- |
| Total assets..... | \$ 919,589 | \$638,167 | \$ 470,252 | \$2,028,008 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' | | | | |
| EQUITY | | | | |
| Short-term debt..... | \$ 60,794 | \$ 6,632 | \$ (30,357) (d) | \$ 37,069 |
| Accounts payable..... | 61,306 | 31,026 | -- | 92,332 |
| Other current liabilities..... | 106,035 | 41,561 | 3,000 (b) | 150,596 |
| | ----- | ----- | ----- | ----- |
| Total current liabilities... | 228,135 | 79,219 | (27,357) | 279,997 |
| Term debt and capital leases, less current maturities..... | 40,464 | 197,734 | (200,000) (d) | 38,198 |
| New Bank Credit Facility..... | -- | -- | 1,023,950 (d) | 1,023,950 |
| Other liabilities..... | 76,759 | 29,193 | 5,680 (a) | 111,632 |
| | ----- | ----- | ----- | ----- |
| Total liabilities..... | 345,358 | 306,146 | 802,273 | 1,453,777 |
| Minority interest in consolidated subsidiaries... | 44,162 | -- | -- | 44,162 |
| Greenfield-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of Greenfield..... | -- | 115,000 | (115,000) (d) | -- |
| Shareholders' equity..... | 530,069 | 217,021 | (217,021) (a) | 530,069 |
| | ----- | ----- | ----- | ----- |
| Total liabilities and shareholders' equity..... | \$ 919,589 | \$638,167 | \$ 470,252 | \$2,028,008 |
| | ===== | ===== | ===== | ===== |

See accompanying Notes to Pro Forma Condensed Consolidated Balance Sheet.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 1997

- (a) The preliminary allocation of the estimated purchase price to assets acquired and liabilities assumed as of September 30, 1997 is as follows:

| | |
|--|------------|
| Purchase price | \$ 624,960 |
| Buy-out of stock options and warrants .. | 16,333 |
| Estimated acquisition costs | 24,200 |
| | ----- |
| Total purchase price | \$ 665,493 |
| | ===== |
| Net book value of assets acquired | \$ 217,021 |
| Less: goodwill of Greenfield | (180,187) |
| Adjustments to fair value: | |
| Inventories, eliminate LIFO | |
| reserve..... | 5,700 |
| Property, plant and equipment | 20,000 |
| Net deferred income tax | |
| liabilities..... | (5,680) |
| Impact of restructuring of | |
| Greenfield..... | (11,500) |
| | |
| Goodwill..... | 620,139 |
| | ----- |
| | \$ 665,493 |
| | ===== |

- (b) Reflects the costs related to the restructuring of Greenfield's South Deerfield, Massachusetts operations. In November 1997, Greenfield recorded an \$11.5 million charge for non-recurring expenses primarily related to the restructuring of its South Deerfield operations. These costs primarily included inventory and machinery and equipment reserves, severance costs and other miscellaneous expenses relative to Greenfield's decision to discontinue the manufacture and sale of certain low-margin product lines. The restructuring will result in a reduction in personnel, thereby eliminating excessive costs and redundancies in future periods. Greenfield also expects to record additional non-recurring expenses of approximately \$2.0 million in 1998 related to the restructuring of its South Deerfield operations. These amounts are not included in the restructuring charge.

The components of the restructuring charge are recorded as follows:

| | |
|---|----------|
| Inventory write-down..... | \$ 6,000 |
| Property, plant and equipment write-down..... | 2,500 |
| Severance costs and other current liabilities.... | 3,000 |
| | ----- |
| Impact of restructuring of Greenfield..... | \$11,500 |
| | ===== |

- (c) Represents payment of estimated deferred financing costs of approximately \$13.1 million to establish the New Bank Credit Facility.
- (d) Reflects borrowings under the New Bank Credit Facility of approximately \$1,024.0 million to: (i) acquire Greenfield (approximately \$665.5 million); (ii) repay approximately \$230.4 million of certain debt of Greenfield and Kennametal; (iii) repay \$115.0 million of outstanding indebtedness of Greenfield-obligated, mandatorily redeemable convertible preferred securities of subsidiary Greenfield Capital Trust holding solely convertible subordinated debentures of Greenfield; and (iv) pay transaction fees of approximately \$13.1 million related to the New Bank Credit Facility.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Form 8-K/A of Kennametal Inc. dated November 17, 1997 of our report dated January 30, 1997, relating to the consolidated financial statements of Greenfield Industries, Inc. as of December 31, 1996 and 1995 and for each of the three years in the period ended December 31, 1996, which appears in such Form 8-K/A.

PRICE WATERHOUSE LLP

St. Louis, Missouri
December 31, 1997