FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

Commission file number 1-5318

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

PENNSYLVANIA	25-0900168
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

WORLD HEADQUARTERS
1600 TECHNOLOGY WAY
P.O. BOX 231
LATROBE, PENNSYLVANIA 15650-0231
(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (724) 539-5000

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

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

Title Of Each Class	Outstanding at May 3, 1999
Capital Stock, par value $1.25 per share	29,947,801

KENNAMETAL INC.
FORM 10-Q
FOR QUARTER ENDED MARCH 31, 1999

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)	March 31, 1999	June 30, 1998
ASSETS		
Current assets:		
Cash and equivalents	$ 15,896	$ 18,366
Marketable equity securities available-for-sale	11,567	--
Accounts receivable, less allowance for doubtful accounts of $15,041 and $11,974	341,954	332,677
Inventories	454,278	436,472
Deferred income taxes	35,781	31,316
Total current assets	859,476	818,831
Property, plant and equipment:		
Land and buildings	236,357	222,426
Machinery and equipment	759,471	690,143
Less accumulated depreciation	(446,855)	(386,642)
Net property, plant and equipment	548,973	525,927
Other assets:		
Investments in affiliated companies	1,990	13,740
Intangible assets, less accumulated amortization of $57,479 and $39,408	686,121	706,619
Deferred income taxes	34,319	39,426
Other	43,063	34,450
Total other assets	765,493	794,235
Total assets	$ 2,173,942	$ 2,138,993
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$ 121,123	$ 78,632
Notes payable to banks	35,996	48,103
Accounts payable	106,154	115,373
Accrued payroll	23,044	30,600
Accrued vacation pay	28,921	21,523
Other current liabilities	97,729	82,838
Total current liabilities	412,967	377,069
Long-term debt and capital leases, less current maturities	824,349	840,932
Deferred income taxes	45,406	45,253
Other liabilities	96,759	98,073
Total liabilities	1,379,481	1,361,327
Minority interest in consolidated subsidiaries	53,145	42,206
SHAREHOLDERS' EQUITY		
Preferred stock, 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 32,820 shares issued	41,025	41,025
Additional paid-in capital	321,932	320,645
Retained earnings	467,178	458,805
Treasury shares, at cost; 2,872 and 2,991 shares held	(57,649)	(59,131)
Accumulated other comprehensive loss	(31,170)	(25,884)
Total shareholders' equity	741,316	735,460
Total liabilities and shareholders' equity	$ 2,173,942	$ 2,138,993

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998	Nine Months Ended March 31, 1999	Nine Months Ended March 31, 1998
OPERATIONS				
Net sales	$ 479,051	$ 496,585	$ 1,444,291	$ 1,177,425
Cost of goods sold	305,654	296,316	910,816	694,431
Gross profit	173,397	200,269	533,475	482,994
Research and development expenses	4,174	4,781	14,984	14,964
Selling, marketing and distribution expenses	100,913	93,565	301,209	241,192
General and administrative expenses	22,294	31,513	80,647	80,049
Restructuring and asset impairment charges	13,937	--	13,937	--
Amortization of intangibles	6,485	5,822	19,151	9,587
Operating income	25,594	64,588	103,547	137,202
Interest expense	17,992	20,720	53,248	40,593
Other expense	668	4,788	861	5,449
Income before income taxes and minority interest	6,934	39,080	49,438	91,160
Provision for income taxes	2,900	16,600	21,000	38,700
Minority interest	1,854	1,739	4,828	4,597
Net income	$ 2,180	$ 20,741	$ 23,610	$ 47,863
PER SHARE DATA				
Basic earnings per share	$ 0.07	$ 0.77	$ 0.79	$ 1.80
Diluted earnings per share	$ 0.07	$ 0.76	$ 0.79	$ 1.78
Dividends per share	$ 0.17	$ 0.17	$ 0.51	$ 0.51
Weighted average shares outstanding	29,912	27,011	29,882	26,528
Diluted weighted average shares outstanding	29,923	27,320	29,921	26,895

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)

	Nine Months Ended March 31, 1999	Nine Months Ended March 31, 1998
OPERATING ACTIVITIES		
Net income	$ 23,610	$ 47,863
Adjustments for noncash items:		
Depreciation and amortization	71,897	46,224
Restructuring and asset impairment charges and other charges	17,119	--
Other	6,308	6,394
Changes in certain assets and liabilities, net of effects of acquisitions:		
Accounts receivable	910	(34,729)
Inventories	(23,002)	(14,769)
Accounts payable and accrued liabilities	(81)	13,116
Other	(6,816)	(1,544)
Net cash flow from operating activities	89,945	62,555
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(83,226)	(61,156)
Disposals of property, plant and equipment	8,947	1,739
Purchase of marketable equity securities	(12,162)	--
Acquisitions, net of cash and other	(4,593)	(744,996)
Net cash used for investing activities	(91,034)	(804,413)
FINANCING ACTIVITIES		
Decrease in short-term debt	(13,637)	(89,343)
Increase in long-term debt	131,330	778,540
Decrease in long-term debt	(104,860)	(200,804)
Net proceeds from issuance and sale of common stock	--	171,439
Net proceeds from issuance and sale of subsidiary stock	--	90,430
Dividend reinvestment and employee stock plans	2,769	9,936
Cash dividends paid to shareholders	(15,237)	(13,401)
Other	(1,014)	(6,089)
Net cash flow (used for) from financing activities	(649)	740,708
Effect of exchange rate changes on cash	(732)	(1,888)
CASH AND EQUIVALENTS		
Net decrease in cash and equivalents	(2,470)	(3,038)
Cash and equivalents, beginning	18,366	21,869
Cash and equivalents, ending	$ 15,896	$ 18,831
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 51,425	$ 44,137
Income taxes paid	18,808	19,957

See accompanying notes to condensed consolidated financial statements.

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

1. The condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the company's 1998 Annual Report. The condensed consolidated balance sheet as of June 30, 1998 has been derived from the audited balance sheet included in the company's 1998 Annual Report. These interim statements are unaudited; however, management believes that all adjustments necessary for a fair presentation have been made and all adjustments are normal, recurring adjustments. The results for the three months and nine months ended March 31, 1999 are not necessarily indicative of the results to be expected for the full fiscal year. Certain amounts in the prior years' condensed consolidated financial statements have been reclassified to conform with the current year presentation.

2. Inventories are stated at lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of domestic inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The company used the LIFO method of valuing its inventories for approximately 50 percent of total inventories at March 31, 1999. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on management's projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

3. The major classes of inventory as of the balance sheet dates were as follows (in thousands):

	March 31, 1999	June 30, 1998
Finished goods	$ 325,742	$ 302,374
Work in process and powder blends	129,580	117,428
Raw materials and supplies	36,556	53,449
Inventory at current cost	491,878	473,251
Less LIFO valuation	(37,600)	(36,779)
Total inventories	$ 454,278	$ 436,472

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

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

5. For purposes of determining the average number of dilutive shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due to the dilutive effect of unexercised stock options by 11,723 and 308,935 for the three months ended March 31, 1999 and 1998, respectively, and 38,637 and 366,916 for the nine months ended March 31, 1999 and 1998, respectively.

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

6. In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which requires the presentation of comprehensive income in a company's financial statement disclosures. Comprehensive income represents all changes in the equity of a company during the reporting period, including net income, as well as charges and credits directly to retained earnings, which are excluded from net income. The company's components of comprehensive income (loss) consist of the following (in thousands):

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998	Nine Months Ended March 31, 1999	Nine Months Ended March 31, 1998
Net income	$ 2,180	$ 20,741	$ 23,610	$ 47,863
Unrealized loss on marketable equity securities available-for-sale, net of tax	(66)	--	(66)	--
Foreign currency translation adjustments	(5,619)	(5,566)	(5,220)	(10,808)
Comprehensive income (loss)	$ (3,505)	$ 15,175	$ 18,324	$ 37,055

The components of accumulated other comprehensive loss consist of the following (in thousands):

	March 31, 1999	June 30, 1998
Foreign currency translation adjustments	$ (31,104)	$ (25,884)
Unrealized loss on marketable equity securities available-for-sale, net of tax	(66)	--
Total accumulated other comprehensive loss	$ (31,170)	$ (25,884)

7. In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The company must adopt the standard by the beginning of the first quarter of fiscal year 2000. SFAS No. 133 establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments imbedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Accounting for qualifying hedges allow a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The company is currently evaluating the effects of SFAS No. 133 and does not believe that the adoption will have a material effect on the financial statements or results of operations of the company.

8. On July 2, 1997, an initial public offering (IPO) of approximately 4.9 million shares of common stock of JLK Direct Distribution Inc. (JLK), a subsidiary of the company, was consummated at a price of $20.00 per share. JLK's operations consist of the company's wholly owned subsidiary J&L Industrial Supply (J&L) and its Full Service Supply programs. The net proceeds from the offering were approximately $90.4 million and represented approximately 20 percent of JLK's common stock. The transaction has been accounted for as a capital transaction in the consolidated financial statements. The net proceeds were used by JLK to repay $20.0 million of indebtedness related to a dividend to the company and $20.0 million related to intercompany obligations to the company incurred in 1997. The company used these proceeds to repay short-term debt. Pending other uses, the remaining net proceeds were loaned to the company, under an intercompany debt/investment and cash management agreement at a fluctuating rate of interest equal to the company's short-term borrowing costs. The remaining net proceeds of $50.4 million were used to make acquisitions in 1998. The company currently owns approximately 83 percent of the outstanding common stock of JLK due to treasury stock purchases made by JLK since the IPO.

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

9. On November 17, 1997, the company completed the acquisition of Greenfield Industries, Inc. (Greenfield) for approximately $1.0 billion, including $324.4 million in assumed Greenfield debt and convertible redeemable preferred securities and transaction costs.

The Greenfield acquisition was recorded using the purchase method of accounting and, accordingly, the results of operations of Greenfield have been included in the company's results from the date of acquisition. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized over forty years.

Additionally, the company made several other acquisitions in 1998 to expand its product offering and distribution channels. These acquisitions were accounted for using the purchase method of accounting and their results have been included in the company's results from the respective dates of acquisition. Except for Greenfield, the pro forma effects, individually and collectively, of the acquisitions in the company's consolidated financial statements would not have a material impact on the reported results.

The allocation of the purchase price to assets acquired and liabilities assumed of Greenfield is as follows (in thousands):

Working capital, other than cash	$ 171,710
Property, plant and equipment	167,798
Other assets	9,246
Other liabilities	(28,510)
Long-term debt	(318,146)
Goodwill	654,117
Net purchase price	$ 656,215

Pro forma results of operations for the acquisition of Greenfield, but excluding the effects of all other acquisitions, are based on the historical financial statements of the company and Greenfield adjusted to give effect to the acquisition of Greenfield. The pro forma results of operations assume that the acquisition of Greenfield occurred as of the first day of the company's 1998 fiscal year (July 1, 1997).

(in thousands, except per share data)	Nine Months Ended March 31, 1998
Net sales	$ 1,412,227
Net income	40,289
Basic earnings per share	1.52
Diluted earnings per share	1.50

The pro forma financial information 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 date, as specified above, or to project the company's financial condition or results of operations for any future period.

On June 26, 1998, the company sold the Marine Products division of Greenfield, which operated as Rule Industries, Inc. (Rule). The company acquired Rule as part of its acquisition of Greenfield and, for strategic reasons, chose to divest itself of this part of the business. Annual sales of the Marine Products division were approximately $25.0 million. Cash proceeds of $62.1 million were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield (see Note 10).

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

10. In connection with the acquisition of Greenfield, the company entered into a $1.4 billion Bank Credit Agreement (Agreement). Subject to certain conditions, the Agreement permitted term loans of up to $500.0 million and revolving credit loans of up to $900.0 million for working capital, capital expenditures and general corporate purposes. Interest payable under the term loan and revolving credit loans are currently based on LIBOR plus 1.125%. The Agreement also includes a commitment fee on the revolving credit loans of 0.25% of the unused balance.

    The Agreement also contains various restrictive and affirmative covenants requiring the maintenance of certain financial ratios. The term loan is subject to mandatory amortization, which commenced on November 30, 1998 and matures on August 31, 2002. The revolving credit loan also matures on August 31, 2002. During fiscal 1998, the term loan was permanently reduced with the net proceeds received in connection with the issuance of company stock and from the sale of certain assets (see Notes 9 and 11).

11. On March 20, 1998, the company sold 3.45 million shares of common stock resulting in net proceeds of $171.4 million. The proceeds were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield (see Note 10).

12. On January 18, 1999, the company entered into a business cooperation agreement with Toshiba Tungaloy Co., Ltd. (TT) to enhance the global business prospects for metalcutting tools of both companies. The agreement includes various joint activities in areas such as product development, research and development, private labeling, cross-licensing, and sales and marketing. As part of the agreement, the company purchased approximately 4.9% of the outstanding shares of TT in a private transaction from TT's largest shareholder, Toshiba Corporation, for approximately $15.9 million, including the costs of the transaction. In order to enter into this agreement, the company purchased the shares at a predetermined price. In accordance with accounting rules, the company realized a one-time charge of approximately $3.8 million in the March 1999 quarter due to the difference between the cost ($15.9 million) and the fair market value of the securities on the date the securities were purchased ($12.1 million). Due to the provisions of this agreement, the company was not able to record this difference as an asset. This charge has been recorded as a component of selling, marketing and distribution expenses.

    The investment is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The unrealized gain or loss on this investment is recorded as a component of accumulated other comprehensive loss, net of tax. The gross unrealized loss on this investment for the three and nine months ended March 31, 1999 is $0.1 million.

13. In March 1999, the company's management completed restructuring plans, including several programs to reduce costs, improve operations and enhance customer satisfaction. The costs accrued for these plans were based on management estimates using the latest information available at the time that the accrual was established. The components of the charges are as follows (in thousands):

	Total Charge	Asset Write-Downs & Other Non-Cash Adjustments	Initial Restructuring Liability
Product rationalization	$ 6,900	$ 6,900	$ --
Plant closure	4,200	2,000	2,200
Impairment of international operations	5,800	5,800	--
Voluntary early retirement program	3,937	2,419	1,518
Total	$ 20,837	$ 17,119	$ 3,718

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

The product rationalization charge represents a write-down of certain product lines that are being discontinued as part of a program to streamline and optimize the company's global metalworking product offering. This charge is net of salvage value and has been recorded as a component of cost of goods sold. Estimated salvage values were based on estimates of proceeds to be realized through the sale of this inventory outside the normal course of business.

The program will result in a reduction in the number of products offered from 58,000 to 38,000 and is an extension of the company's initiative to reduce the number of its North American warehouses. By streamlining the product offering, the company anticipates it will improve customer service and inventory turnover, allow for more efficient operations, thereby reducing costs and improving capacity utilization, and eliminate redundancy in its product offering. Sales of these products represent less than 5 percent of global metalworking sales. The company is proactively converting customers from these older, less competitive products to newer products.

The company also initiated plans to close a drill manufacturing plant in Solon, Ohio. The manufacturing of products made at this plant will be relocated to other existing plants in the United States. The closure will eliminate excess capacity at other plant locations and unnecessary overhead at this plant. The company will decommission the existing plant and sell the property in the near future. The charge consists of employee termination benefits for 155 hourly and salaried employees, which is substantially all employees at this plant, and the write-down of assets included in property, plant and equipment, net of salvage value.

The costs resulting from the relocation of employees, hiring and training new employees and other costs resulting from the temporary duplication of certain operations have not been included in this charge and will be included in operating expenses as incurred. The costs related to these items are estimated to be approximately $2.7 million and will be incurred through fiscal 2000.

An asset impairment charge was recorded to write-down, to fair market value, an investment in and net receivables from certain international operations in emerging markets as a result of changing market conditions in the regions these operations serve. In the March 1999 quarter, the company completed a study to evaluate the majority of these operations, the markets for these products, and the current economic situation in these regions, and to provide recommendations for solving operational concerns. As a result of this study and continued economic deterioration in these regions, the company determined that the carrying amount of its investment in and net receivables from these operations would not be recoverable.

A voluntary early retirement benefit program was offered to and accepted by 34 domestic employees. In exchange for their retirement, the company will provide those employees pension and health benefits that would have been earned by the employees through their normal retirement date. As a result of providing these additional pension benefits, approximately $2.4 million of the total cost was funded through the company's overfunded pension plan. There are no tax benefits associated with this cost as the company may only deduct actual cash payments made to the pension plan.

The charges for the plant closure, the write-down of the investment in and net receivables from certain international operations, and the voluntary early retirement benefit program are recorded as the restructuring and asset impairment charges.

The costs charged against the restructuring cost accrual as of March 31, 1999 were as follows (in thousands):

	Beginning Accrual	Cash Expenditures	Adjustments	Ending Accrual
Plant closure	$ 2,200	$ --	$ --	$ 2,200
Voluntary early retirement program	1,518	--	--	1,518
Total	$ 3,718	$ --	$ --	$ 3,718

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

RESULTS OF OPERATIONS

SALES AND EARNINGS

During the quarter ended March 31, 1999, consolidated sales were $479.1 million, a decline of 4 percent from $496.6 million in the same quarter last year. Excluding acquisitions, sales were 10 percent lower due to reduced industrial demand of the company's metalworking products in North America.

Net income for the quarter ended March 31, 1999, was $2.2 million, or $0.07 per share, as compared with net income of $20.7 million, or $0.76 per share in the same quarter last year. The results for the quarter ended March 31, 1999 were reduced by approximately $24.6 million, or $0.51 per share, including $20.8 million, or $0.44 per share, related to special charges for operational improvement programs, and $3.8 million, or $0.07 per share, related to a one-time charge incurred in the acquisition of 4.9 percent of Toshiba Tungaloy stock.

Excluding these charges for the March 1999 quarter, net income was primarily affected by lower sales in traditional Kennametal markets and a less favorable sales mix. This was partially offset by significant cost control and cost-reduction actions.

During the nine-month period ended March 31, 1999, consolidated sales were $1,444.3 million, up 23 percent from $1,177.4 million last year. Net income was $23.6 million or $0.79 per share, compared to $47.9 million or $1.78 per share last year.

The following table presents the Company's sales (in thousands):

	Three Months Ended March 31,			Nine Months Ended March 31,		
	1999	1998	% Change	1999	1998	% Change
Sales(1):						
Metalworking:						
North America	$ 91,335	$ 109,076	(16)%	$ 276,236	$ 309,732	(11)%
Europe	74,989	69,590	8	220,452	190,411	16
Asia Pacific	10,171	8,711	17	29,048	32,235	(10)
Industrial Products	81,109	95,167	(15)	258,026	128,128	101
JLK/Industrial Supply	134,172	107,332	25	393,454	291,249	35
Engineered Products & Other	43,240	61,630	(30)	133,577	98,351	36
Mining and Construction	44,035	45,079	(2)	133,498	127,319	5
Net sales	$ 479,051	$ 496,585	(4)%	$ 1,444,291	$ 1,177,425	23%
By Geographic Area:						
Within the United States	$ 318,392	$ 335,434	(4)%	$ 970,593	$ 784,611	24%
International	160,659	161,151	--	473,698	392,814	21
Net sales	$ 479,051	$ 496,585	(4)%	$ 1,444,291	$ 1,177,425	23%

(1) Certain amounts in prior period sales have been reclassified to conform to the current year presentation.

METALWORKING

During the March 1999 quarter, sales in the North America Metalworking market decreased 16 percent from the previous year due to reduced demand by customers in most markets, except for the automotive market. The metalworking market continues to be adversely affected by reduced demand in the oil field services, agriculture and construction equipment, light engineering and several other sectors. Sales of Kennametal traditional metalcutting products sold through all sales channels in North America decreased 12 percent during the quarter.

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

Sales in the Europe Metalworking market grew 8 percent over the same quarter of a year ago due to acquisitions, favorable foreign currency translation effects and improved demand in the automotive and aerospace markets. Sales to most other sectors were down. Favorable foreign currency translation effects were 4 percent during the quarter. The acquisition-related sales were a result of the company's July 1, 1998 purchase of an increased ownership of affiliated companies in Italy.

In the Asia Pacific Metalworking market, sales rose 12 percent on a local currency basis during the quarter. Sales were positively affected by increased global demand in the automotive market. Favorable foreign currency translation effects were 5 percent of the increase in sales in this market.

For the nine-month period ended March 31, 1999, sales in the North America Metalworking market decreased 11 percent and sales in the Europe Metalworking market increased 16 percent due to the factors mentioned above. Sales in the Asia Pacific Metalworking market decreased 10 percent due to weak economic conditions across most Asia Pacific countries.

INDUSTRIAL PRODUCTS

Sales of Industrial Products declined 15 percent due to reduced industrial demand in North America, partially offset by increased demand of industrial products sold in consumer markets as a result of new sales programs.

For the nine-month period ended March 31, 1999, sales of Industrial Products increased due to the inclusion of five additional months of sales related to the acquisition of Greenfield. On a comparable basis, demand for Greenfield Industrial Products declined 11 percent from a year ago due to the factors mentioned above.

JLK/INDUSTRIAL SUPPLY

Sales at JLK rose 25 percent primarily because of acquisitions. Excluding the effects of acquisitions, sales at JLK declined 4 percent primarily due to continued weakness in the oil field services and other markets. This was partially offset by higher sales from the addition of new Full Service Supply programs. Full Service Supply was awarded new contracts covering 10 plant sites in the United States during this quarter.

For the nine-month period ended March 31, 1999, sales in the Industrial Supply market increased 35 percent due to the factors mentioned above.

ENGINEERED PRODUCTS & OTHER

Sales in the Engineered Products & Other markets declined 30 percent during the quarter due to continued weak market conditions in the oil field services industry and in electronic circuit board manufacturing. Sales were also affected by the divestiture of the marine products business. Excluding this divestiture, sales of Engineered Products & Other declined 22 percent.

For the nine-month period ended March 31, 1999, sales of Engineered Products & Other increased due to the inclusion of five additional months of sales related to the acquisition of Greenfield, partially offset by the divestiture of the marine products business in June 1998. On a comparable basis, demand for Engineered Products & Other declined 19 percent from a year ago due to the factors mentioned above.

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

MINING AND CONSTRUCTION

During the March 1999 quarter, sales in the Mining and Construction market declined 2 percent from a year ago as a result of weaker demand for mining tools and metallurgical powders used in the oil field services industry. This was partially offset by increased sales of construction tools due to a strong start to the construction season.

For the nine-month period ended March 31, 1999, sales in the Mining and Construction market increased 5 percent due to the Greenfield acquisition, partially offset by the factors mentioned above.

GROSS PROFIT MARGIN

The gross profit margin for the March 1999 quarter was 36.2 percent as compared with 40.3 percent in the prior year. The gross margin in the current year was affected by a $6.9 million charge related to the implementation of a new program to streamline and optimize the global metalworking product offering. Excluding this charge, the gross margin would have been 37.6 percent. The gross profit margin was affected by an unfavorable sales mix, lower production levels and costs associated with plant consolidations and rearrangements.

For the nine-month period ended March 31, 1999, the gross profit margin was 36.9 percent, compared with 41.0 percent last year due to lower-margin sales from acquired companies and the factors mentioned above.

OPERATING EXPENSES

For the March 1999 quarter, operating expenses as a percentage of sales were 26.6 percent compared to 26.2 percent last year. Operating expenses for the current quarter include a charge of $3.8 million that the company recorded on its purchase of 4.9 percent of Toshiba Tungaloy stock due to the difference between the cost and the fair market value of the securities on the date the securities were purchased. Excluding the effect of this charge, the operating expense ratio would have been 25.8 percent. Operating expenses decreased significantly due to the company's on-going efforts to control costs.

For the nine-month period ended March 31, 1999, the operating expenses as a percentage of sales were 27.5 percent, compared with 28.6 percent last year. On an absolute dollar basis, the increase in operating expenses is attributable to acquisitions, the JLK expansion program, including costs to relocate JLK's office and warehouse in the United Kingdom, the charge recorded on the purchase of Toshiba Tungaloy stock, facility rationalizations and other programs. These increases were partially offset by cost-reduction actions implemented in November 1998 and continued cost control. Additionally, amortization of intangibles increased approximately $9.6 million related primarily to the acquisition of Greenfield and other companies.

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

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

In March 1999, the company's management completed restructuring plans, including several programs to reduce costs, improve operations and enhance customer satisfaction. The costs accrued for these plans were based on management estimates using the latest information available at the time that the accrual was established. The components of the charges are as follows (in thousands):

	Total Charge	Asset Write-Downs & Other Non-Cash Adjustments	Initial Restructuring Liability
Product rationalization	$ 6,900	$ 6,900	$ --
Plant closure	4,200	2,000	2,200
Impairment of international operations	5,800	5,800	--
Voluntary early retirement program	3,937	2,419	1,518
Total	$ 20,837	$ 17,119	$ 3,718

The product rationalization charge represents a write-down of certain product lines that are being discontinued as part of a program to streamline and optimize the company's global metalworking product offering. This charge is net of salvage value and has been recorded as a component of cost of goods sold. Estimated salvage values were based on estimates of proceeds to be realized through the sale of this inventory outside the normal course of business.

The program will result in a reduction in the number of products offered from 58,000 to 38,000 and is an extension of the company's initiative to reduce the number of its North American warehouses. By streamlining the product offering, the company anticipates it will improve customer service and inventory turnover, allow for more efficient operations, thereby reducing costs and improving capacity utilization, and eliminate redundancy in its product offering. Sales of these products represent less than 5 percent of global metalworking sales. The company is proactively converting customers from these older, less competitive products to newer products.

The company also initiated plans to close a drill manufacturing plant in Solon, Ohio. The manufacturing of products made at this plant will be relocated to other existing plants in the United States. The closure will eliminate excess capacity at other plant locations and unnecessary overhead at this plant. The company will decommission the existing plant and sell the property in the near future. The charge consists of employee termination benefits for 155 hourly and salaried employees, which is substantially all employees at this plant, and the write-down of assets included in property, plant and equipment, net of salvage value.

The costs resulting from the relocation of employees, hiring and training new employees and other costs resulting from the temporary duplication of certain operations have not been included in this charge and will be included in operating expenses as incurred. The costs related to these items are estimated to be approximately $2.7 million and will be incurred through fiscal 2000.

An asset impairment charge was recorded to write-down, to fair market value, an investment in and net receivables from certain international operations in emerging markets as a result of changing market conditions in the regions these operations serve. In the March 1999 quarter, the company completed a study to evaluate the majority of these operations, the markets for these products, and the current economic situation in these regions, and to provide recommendations for solving operational concerns. As a result of this study and continued economic deterioration in these regions, the company determined that the carrying amount of its investment in and net receivables from these operations would not be recoverable.

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

A voluntary early retirement benefit program was offered to and accepted by 34 domestic employees. In exchange for their retirement, the company will provide those employees pension and health benefits that would have been earned by the employees through their normal retirement date. As a result of providing these additional pension benefits, approximately $2.4 million of the total cost was funded through the company's overfunded pension plan. There are no tax benefits associated with this cost as the company may only deduct actual cash payments made to the pension plan.

The charges for the plant closure, the write-down of the investment in and net receivables from certain international operations, and the voluntary early retirement benefit program are recorded as the restructuring and asset impairment charges.

The costs charged against the restructuring cost accrual as of March 31, 1999 were as follows (in thousands):

	Beginning Accrual	Cash Expenditures	Adjustments	Ending Accrual
Plant closure	$ 2,200	$ --	$ --	$ 2,200
Voluntary early retirement program	1,518	--	--	1,518
Total	$ 3,718	$ --	$ --	$ 3,718

INTEREST EXPENSE

Interest expense in the March 1999 quarter declined to $18.0 million as a result of lower borrowing rates coupled with lower average borrowings during the quarter. For the nine-month period ended March 31, 1999, interest expense was $53.2 million, compared with $40.6 million last year due to higher average borrowings in fiscal 1999.

OTHER EXPENSE

Other expense for the three and nine months ended March 31, 1998 included the write-off of deferred financing costs related to the cancelled January 1998 debt and equity offerings. These costs, which totaled $4.6 million, included the termination of a treasury lock hedge that amounted to $3.5 million and the write-off of other related offering expenses of $1.1 million.

INCOME TAXES

The effective tax rate for the March 1999 quarter was 41.8 percent compared to an effective tax rate of 42.5 percent in the third quarter of a year ago. For the nine-month periods ended March 31, 1999 and 1998, the effective tax rate was 42.5 percent.

LIQUIDITY AND CAPITAL RESOURCES

The company's cash flow from operations is the primary source of financing for capital expenditures and internal growth. During the nine months ended March 31, 1999, the Company generated $89.9 million in cash from operations. The increase in cash provided by operations compared to the same period a year ago resulted primarily from higher noncash items and lower working capital requirements, offset in part by lower net income.

Net cash used for investing activities was $91.0 million. Compared to the prior year, the decrease in net cash used for investing activities was due to reduced acquisition activity offset by increased expenditures to upgrade machinery and equipment and to acquire additional client-server information systems. The company also purchased approximately 4.9% of the outstanding shares of Toshiba Tungaloy in fiscal 1999.

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

Net cash used for financing activities was $0.6 million. The decrease in net cash from financing activities was a result of lower borrowings compared to fiscal 1998, which included the financing of the Greenfield acquisition. The company also received net proceeds from the issuance and sale of its common stock and from the sale of the common stock of the company's JLK subsidiary in fiscal 1998.

On January 18, 1999, the company entered into a business cooperation agreement with Toshiba Tungaloy Co., Ltd. (TT) to enhance the global business prospects for metalcutting tools of both companies. The agreement includes various joint activities in areas such as product development, research and development, private labeling, cross-licensing, and sales and marketing. As part of the agreement and as is customary in Japan as a sign of good faith, the company purchased approximately 4.9% of the outstanding shares of TT in a private transaction from TT's largest shareholder, Toshiba Corporation, for approximately $15.9 million, including the costs of the transaction. In order to enter into this agreement, the company purchased the shares at a predetermined price. In accordance with accounting rules, the company realized a one-time charge of approximately $3.8 million in the March 1999 quarter due to the difference between the cost ($15.9 million) and the fair market value of the securities on the date the securities were purchased ($12.1 million). Due to the provisions of this agreement, the company was not able to record this difference as an asset. This charge has been recorded as a component of selling, marketing and distribution expenses. This transaction was financed through the borrowing of Japanese yen under a new credit line.

The intentions of the companies are to make the business cooperation agreement successful and to develop a strong working relationship that will benefit both companies in the future. The company will periodically evaluate the progress made under this agreement and its current ownership position in TT to ensure both are aligned with the company's operational and financial goals.

FINANCIAL CONDITION

Total assets were $2.2 billion at March 31, 1999, up 1.6 percent from $2.1 billion at June 30, 1998. Net working capital was $446.5 million, an increase of 1.1 percent from $441.8 million at June 30, 1998. The ratio of current assets to current liabilities was 2.1 as of March 31, 1999 and 2.2 as of June 30, 1998. The total debt-to-total-capital ratio was 55.3 percent as of March 31, 1999 and 55.4 percent as of June 30, 1998.

YEAR 2000

Management believes that the company has substantially mitigated its exposure relative to year 2000 issues for both information and non-information technology systems. The company initiated a program beginning in 1996 to assess the exposure to the year 2000 issue, and to prepare its computer systems, computer applications and other systems for the year 2000. A management committee actively monitors the status of the readiness program of each of the company's business units. The company has currently completed more than 85 percent of the tasks identified to remediate the year 2000 exposure, with the majority of the remaining tasks targeted for June 1999 completion. The information systems being utilized by the company that were not year 2000 compliant were either replaced with a compliant system, or are in the process of being modified to become compliant.

Year 2000 exposure related to information systems has been substantially mitigated throughout key metalworking and mining and construction operations through the implementation of SAP R3 for most business processes. In efforts to manage other business processes on year 2000 compliant information systems, the company is implementing Manugistics to manage inventory and replenishment and the Human Resources module of SAP. These systems are to be fully implemented by June 30, 1999.

The company is in the process of modifying existing non-compliant business systems in the industrial product and engineered product operations to ensure these operations are supported by a year 2000 compliant information system. These modifications are expected to be completed and tested by June 1999. Management intends to implement SAP R3 in these operations in the future.

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

At JLK, HK Systems' Enterprise Information System currently is being implemented in two phases and will address the year 2000 issue. The initial phase of this implementation is expected to be tested and completed by June 1999. The second phase is expected to be implemented in late 1999 and completed thereafter. Due to the timing of the completion of the second phase, the company currently is modifying the existing non-compliant systems to ensure the remainder of these operations are supported by a year 2000 compliant information system. These modifications are expected to be completed by August 1999. Management has determined that sufficient internal resources are available and adequate time exists to implement these procedures.

The company also has substantially completed an assessment of the impact of this issue on its non-information technology systems, including the company's personal computers, embedded technology in manufacturing and processing equipment and tooling, and other non-information technology items, and has determined that the majority of these systems are year 2000 compliant. The company has identified a few non-information systems, critical to the manufacturing operations, as non-year 2000 compliant and is currently replacing these systems with year 2000 compliant systems. The company is currently taking action to remedy these other non-compliant systems through replacement of or modification to the existing systems. Such remedies will be tested for year 2000 compliance prior to June 30, 1999. Other systems that have been identified as not year 2000 compliant are not considered "mission critical" systems to the overall manufacturing operations, however, management expects to remedy these systems by June 1999. Contingency plans include shifting production processes to year 2000 compliant manufacturing operations. The company does not anticipate employing this contingency plan.

The company estimates the total year 2000 expenditures to be approximately $45.0 to $50.0 million, half of which are for computer hardware to replace non-compliant computer systems and the other half to replace non-compliant computer software, including software implementation and employee training. Expenditures to rectify non-compliant personal computers and various non-information technology items are estimated to be an additional $5.0 million. These costs include both internal and external personnel costs related to the assessment and remediation processes, as well as the cost of purchasing certain hardware and software. There can be no guarantee that these estimates will be achieved and actual results could differ from those planned.

Cash flows from operations have provided, and should continue to provide, funding for these expenditures. The majority of these costs were incurred in 1997 and 1996. Total expenditures expected to be incurred in fiscal 1999 and fiscal 2000 are estimated to be approximately $12.0 and $5.0 million, respectively, related to the year 2000 issues. Expenditures incurred in fiscal 1999 to date approximate $10.2 million, over half of which relate to computer hardware and software licenses.

Management believes the most significant impact of the year 2000 issue could be an interrupted supply of goods and services from the company's vendors. The company has an ongoing effort to gain assurances and certifications of suppliers' readiness programs. To date, the results of this effort indicate that the company's suppliers should be able to provide the company with sufficient goods and services in the year 2000. To mitigate this risk, the company is modestly increasing safety stock of critical materials and supplies. The company will continue to expand its efforts to ensure that major third-party businesses and public and private providers of infrastructure services, such as utilities, communications services and transportation, also will be prepared for the year 2000, and will address any failures on their part to become year 2000 compliant. Contingency plans may include purchasing raw materials and supplies from alternate certified vendors and a further increase of safety stock of critical materials and supplies. The company does not anticipate employing this contingency plan.

There can be no guarantee that the efforts of the company or of third parties, whose systems the company relies upon, will completely mitigate a year 2000 problem that could have a material adverse affect on the company's operations or financial results. While such problems could affect important operations of the company and its subsidiaries, either directly or indirectly, in a significant manner,

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

the company cannot at present estimate either the likelihood or the potential cost of such failures. However, the company will continue to aggressively pursue all the year 2000 remediation activities discussed herein.

CONVERSION TO THE EURO CURRENCY

On January 1, 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency, the Euro. The company conducts business in member countries. The transition period for the introduction of the Euro will be between January 1, 1999 and June 30, 2002. The company has been addressing the issues involved with the introduction of the Euro. Where considered necessary, the company's current business systems support this new currency, and therefore, the company has the ability to perform transactions denominated in the Euro. Other than the costs associated with the new systems as part of the year 2000 remediation, there were no additional costs incurred by the company as a result of this conversion.

Currently, the company has different price structures for goods being sold in the member countries due to, among other things, historical differences in volatility in the currencies of those individual countries. Price structure harmonization has occurred over the past several years and is expected to continue as these member countries become a unified common market. This harmonization has not significantly affected the past financial results of the company nor is it expected to have a significant impact in the future on the company's financial results.

Further, the company's competitors will have to address the Euro conversion as those companies currently have manufacturing facilities and distribution networks in member countries. Management believes the conversion to the Euro will not significantly impact any existing material contracts, nor should it have any adverse tax or accounting consequences. Accordingly, conversion to the Euro is not expected to have a material effect on the company's operations or financial results.

OUTLOOK

In looking ahead to the remainder of fiscal 1999, management expects the short-term outlook for demand for the company's products to be unchanged, though the company will remain focused on controlling costs and improving the balance sheet. As a whole, the company's end markets in North America appear to have stabilized. The company remains cautious about the European economy for the remainder of fiscal 1999. The company's results will continue to benefit from the cost-reduction actions and additional cost reduction programs announced this quarter.

This Form 10-Q contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results may differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the extent that the economic conditions in the United States and Europe, and to a lesser extent Asia Pacific, are not sustained, risks associated with integrating businesses, demands on management resources, risks associated with international markets such as currency exchange rates and competition, the effect of third party or company failures to achieve timely remediation of year 2000 issues, and the effect of the conversion to the Euro on the company's operations. The company undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Effective July 1, 1999, the company's Board of Directors has elected Markos I. Tambakeras president and chief executive officer to succeed Robert L. McGeehan who will retire June 30, 1999. Tambakeras has been president of the Industrial Control Business of Honeywell Inc. since 1997.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(10) Material Contracts

10.1 Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 31, 1999. Filed herewith.

(27) Financial Data Schedule for nine months ended March 31, 1999, submitted to the Securities and Exchange Commission in electronic format. Filed herewith.

(b) Reports on Form 8-K

A report on Form 8-K was filed on March 23, 1999 regarding the announcement that Kennametal President and CEO Robert L. McGeehan will retire from the company effective July 1, 1999.

SIGNATURES

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

KENNAMETAL INC.

Date: May 13, 1999

By: /s/ FRANK P. SIMPKINS

Frank P. Simpkins
Corporate Controller and
Chief Accounting Officer

EXHIBIT 10.1

AMENDMENT TO TRANSACTION DOCUMENTS

This Amendment, dated as of March 31, 1999, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), the Lenders parties to the Credit Agreement referred to below, and MELLON BANK, N.A., as Administrative Agent under such Credit Agreement.

RECITALS:

A. The Borrower has entered into a Credit Agreement, dated as of November 17, 1997, by and among the Borrower, the Lenders parties thereto from time to time, and Mellon Bank, N.A., as Administrative Agent (as amended by an Amendment to Transaction Documents, dated as of November 26, 1997, an Amendment to Transaction Documents, dated as of December 19, 1997, an Amendment to Transaction Documents, dated as of March 19, 1998 and an Amendment to Transaction Documents, dated as of December 15, 1998, the "Credit Agreement"); and

B. The parties hereto desire to amend further the Credit Agreement as set forth herein.

NOW THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

SECTION 1. AMENDMENTS RELATING TO PROPOSED RECEIVABLES SECURITIZATION PROGRAM.

(a) Section 2.07(b)(ii) is hereby deleted in its entirety and replaced with the following:

(ii) ASSET SALES. "Reduction Event" shall include the following (each, a "Reduction Event Asset Sale"): any sale, lease or other disposition (including without limitation (x) any such transaction effected by way of merger or consolidation, and (y) any sale-leaseback transaction whether or not involving a capitalized lease) by the Borrower or any of its Subsidiaries of any property (including without limitation any capital stock or other equity interest held by the Borrower or such Subsidiary), but excluding (A) any disposition to the Borrower or to a Subsidiary of the Borrower, (B) any sale, transfer or other disposition in the ordinary course of business of inventory or of obsolete equipment or equipment which has been replaced by upgraded equipment (it being understood that dispositions of equipment which has become redundant as a result of the Acquisition or any other acquisition of a business shall not be deemed to be in the ordinary course), (C) any sale, lease or other disposition (or series of related sales, leases or other dispositions), other than an Asset Securitization Transfer, the Net Proceeds of which do not exceed $5,000,000, (D) any leases of tangible personal property entered into in the ordinary course of business, (E) any sale, transfer or other disposition of temporary cash investments in the ordinary course of business, (F) any sale, transfer or other disposition of any property (other than an Asset Securitization Transfer) if the Borrower notifies the Administrative Agent promptly after the receipt of the Net Proceeds thereof that such proceeds will be used by the Borrower and its Subsidiaries to purchase similar properties within twelve months after the date of such notice, but only to the extent such proceeds are actually so used, (G) any sale, transfer or other disposition of any Margin Stock for fair value on or before the Merger Date (provided, that if the proceeds thereof are not applied to the Loan Obligations, they will be held as cash or cash equivalent investments), (H) any disposition in a Reduction Event described in Section 2.07(b)(iii), (I) any leases or subleases of unoccupied space, (J) any factoring of trade receivables originated by a Foreign Subsidiary; provided, that the aggregate amount of all transactions described in this clause (J) from and after the date hereof shall not exceed $25,000,000 (or the equivalent in any currency at any time), and (K) any Asset Securitization Transfer representing the reinvestment of cash collections from accounts or notes receivable or interests therein which have been previously the subject of an Asset Securitization Transfer, but only to the extent of such reinvestment of cash collections. The "Reduction Event Application Amount" corresponding to the foregoing Reduction Event shall be 100% of the Net Proceeds thereof. The "Reduction Event Date" corresponding to the foregoing Reduction Event shall be five Business Days after the Borrower or its Subsidiaries receives Net Proceeds from such event.

(b) Section 6.13(a) of the Credit Agreement is hereby amended by adding before clause (x) the following new clause (w): "(w) a Subsidiary which is an Asset Securitization SPE,".

(c) Section 7.03 of the Credit Agreement is hereby amended by deleting the word "and" at the end of Section 7.03(k), redesignating Section 7.03(l) as Section 7.03(m), and adding a new Section 7.03(l) as follows:

(l) Liens (contingent or otherwise) customarily granted in connection with an Asset Securitization Program; and

(d) Section 7.09 is amended by deleting the word "and" following clause (f) thereof, replacing the period at the end of clause (g) with a semicolon, and adding the following new clause (h):

(h) with respect the foregoing clause (x), restrictions relating to accounts or notes receivable or interests therein or any related collateral which are the subject of an Asset Securitization Program, and with respect to the foregoing clause (y), restrictions imposed on a Subsidiary of the Borrower serving as an Asset Securitization SPE.

(e) Annex A to the Credit Agreement, Section 1.01, is amended by adding the following new definitions in their appropriate places in alphabetical order:

"Asset Securitization Program" means a program of Asset Securitization Transfers each of which, at the time of such Asset Securitization Transfer, is either (i) to the Borrower or a consolidated Subsidiary of the Borrower or (ii) qualifies as a sale under GAAP for purposes of the consolidated financial statements of the Borrower.

"Asset Securitization SPE" means a limited-purpose Subsidiary of the Borrower which serves as a special purpose entity to which the Borrower or any Subsidiary of the Borrower from time to time makes Asset Securitization Transfers in connection with an Asset Securitization Program.

"Asset Securitization Transfer" means a sale, transfer or other disposition of accounts or notes receivable, or of interests therein, pursuant to an Asset Securitization Program.

(f) In Annex A to the Credit Agreement, Section 1.01, the definition of "Net Proceeds" is amended by deleting the phrase "(b) if such Reduction Event is a Reduction Event Asset Sale," and replacing it with the phrase "(b) if such Reduction Event is a Reduction Event Asset Sale (other than an Asset Securitization Transfer),".

SECTION 2. EFFECTIVENESS AND EFFECT, ETC. This Amendment shall become effective when Mellon Bank, N.A., as Administrative Agent, shall have received counterparts hereof duly executed by the Borrower and the Administrative Agent and consents hereto duly executed by the Required Lenders (as defined in the Credit Agreement). The Credit Agreement, as amended by the Amendment to Transaction Documents dated as of November 26, 1997, the Amendment to Transaction Documents dated as of December 19, 1997, the Amendment to Transaction Documents dated as of March 19, 1998, the Amendment to Transaction Documents dated as of December 15, 1998, and as further amended hereby, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Except to the extent expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy under the Credit Agreement or constitute a waiver of any provision of the Credit Agreement.

SECTION 3. MISCELLANEOUS. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same document. Section and other headings herein are for reference purposes only and shall not affect the interpretation of this Amendment in any respect. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to choice of law principles. This Amendment is a requested amendment within the meaning of Section 10.06(a)(ii) of the Credit Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

KENNAMETAL INC.

By: /s/ James E. Morrison

Name: James E. Morrison
Title: Vice President and Treasurer

MELLON BANK, N.A.,
individually and as Administrative Agent

By: /s/ Peter K. Lee

Name: Peter K. Lee
Title: Vice President

LENDER CONSENT AND ACKNOWLEDGMENT

The undersigned, a "Lender" under that certain Credit Agreement, dated as of November 17, 1997, by and among Kennametal Inc., a Pennsylvania corporation (the "Borrower"), the Lenders parties thereto from time to time, and Mellon Bank, N.A., as Administrative Agent (as amended, the "Credit Agreement"), hereby (a) acknowledges receipt of a counterpart of the Amendment to Transaction Documents, dated as of March 31, 1999, by and among the Borrower, the Lenders parties to the Credit Agreement and Mellon Bank, N.A., as Administrative Agent, and (b) pursuant to Section 10.03 of the Credit Agreement, consents and agrees to such Amendment to Transaction Documents and directs the Administrative Agent to enter into it.

____, as Lender

By_______________________________________
Name:
Title:

Date:______________________

This schedule contains summary financial information extracted from the March 31, 1999 Condensed Consolidated Financial Statements (unaudited) and is qualified in its entirety by reference to such financial statements.

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JUN-30-1999
JUL-01-1998
MAR-31-1999
15,896
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