



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2007

Commission file number 1-5318

**KENNAMETAL INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of incorporation or organization)

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

**World Headquarters**  
**1600 Technology Way**  
**P.O. Box 231**  
**Latrobe, Pennsylvania**  
(Address of principal executive offices)

**15650-0231**  
(Zip Code)

Website: [www.kennametal.com](http://www.kennametal.com)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

Title Of Each Class	Outstanding at January 31, 2008
Capital Stock, par value \$1.25 per share	77,112,697

KENNAMETAL INC.  
FORM 10-Q  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2007  
TABLE OF CONTENTS

<u>Item No.</u>		<u>Page</u>
<b><u>PART I — FINANCIAL INFORMATION</u></b>		
1.	<u>Financial Statements:</u>	
	<u>Condensed Consolidated Statements of Income (Unaudited)</u> <u>Three and Six months ended December 31, 2007 and 2006</u>	1
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>December 31, 2007 and June 30, 2007</u>	2
	<u>Condensed Consolidated Statements of Cash Flow (Unaudited)</u> <u>Six months ended December 31, 2007 and 2006</u>	3
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	4
2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	15
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
4.	<u>Controls and Procedures</u>	23
<b><u>PART II — OTHER INFORMATION</u></b>		
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
6.	<u>Exhibits</u>	24
	<u>Signatures</u>	25
	<u>EX-10.1</u>	
	<u>EX-10.2</u>	
	<u>EX-10.3</u>	
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	

---

## [Table of Contents](#)

This Form 10-Q contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify forward-looking statements by the fact they use words such as “should,” “anticipate,” “estimate,” “approximate,” “expect,” “may,” “will,” “project,” “intend,” “plan,” “believe” and other words of similar meaning and expression in connection with any discussion of future operating or financial performance or events. Forward looking statements in this Form 10-Q may concern, among other things, Kennametal’s expectations regarding our strategy, goals, plans and projections regarding our financial position, liquidity and capital resources, results of operations, market position, and product development, all of which are based on current expectations that involve inherent risks and uncertainties. Among the factors that could cause the actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties related to: global and regional economic conditions; availability and cost of the raw materials we use to manufacture our products; our ability to protect our intellectual property in foreign jurisdictions; our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; energy costs; commodity prices; competition; integrating recent acquisitions, as well as any future acquisitions, and achieving the expected savings and synergies; business divestitures; demands on management resources; future terrorist attacks or acts of war; labor relations; demand for and market acceptance of new and existing products; and implementation of restructuring plans and environmental remediation matters. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, actual outcomes could vary materially from those indicated. These and other risks are more fully described in the “Risk Factors” Section of our Annual Report on Form 10-K, in this Form 10-Q if applicable and in our other periodic filings with the Securities and Exchange Commission. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

---

## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Sales	\$ 647,423	\$ 569,321	\$ 1,262,499	\$ 1,112,132
Cost of goods sold	426,485	371,171	829,470	726,951
Gross profit	220,938	198,150	433,029	385,181
Operating expense	147,921	140,329	292,953	275,373
Loss on divestiture (Note 5)	—	—	—	1,686
Amortization of intangibles	3,626	1,955	6,571	3,895
Operating income	69,391	55,866	133,505	104,227
Interest expense	8,531	7,286	16,330	14,713
Other income, net	(993)	(625)	(2,096)	(3,631)
Income from continuing operations before income taxes and minority interest expense	61,853	49,205	119,271	93,145
Provision for income taxes	10,670	15,006	32,337	28,935
Minority interest expense	1,037	642	1,909	1,199
Income from continuing operations	50,146	33,557	85,025	63,011
Loss from discontinued operations, net of income taxes	—	(3,506)	—	(2,599)
Net income	\$ 50,146	\$ 30,051	\$ 85,025	\$ 60,412
PER SHARE DATA (Note 2)				
Basic earnings				
Continuing operations	\$ 0.65	\$ 0.44	\$ 1.10	\$ 0.82
Discontinued operations	—	(0.05)	—	(0.03)
	\$ 0.65	\$ 0.39	\$ 1.10	\$ 0.79
Diluted earnings				
Continuing operations	\$ 0.64	\$ 0.43	\$ 1.08	\$ 0.80
Discontinued operations	—	(0.05)	—	(0.03)
	\$ 0.64	\$ 0.38	\$ 1.08	\$ 0.77
Dividends per share	\$ 0.12	\$ 0.10	\$ 0.23	\$ 0.19
Basic weighted average shares outstanding	77,111	76,662	77,272	76,540
Diluted weighted average shares outstanding	78,647	78,450	78,821	78,284

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

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

(in thousands)	December 31, 2007	June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 63,473	\$ 50,433
Accounts receivable, less allowance for doubtful accounts of \$19,654 and \$17,031	440,069	466,690
Inventories	463,341	403,613
Deferred income taxes	52,723	51,837
Other current assets	43,739	43,929
Total current assets	1,063,345	1,016,502
Property, plant and equipment:		
Land and buildings	354,240	334,899
Machinery and equipment	1,290,118	1,159,462
Less accumulated depreciation	(949,613)	(880,342)
Property, plant and equipment, net	694,745	614,019
Other assets:		
Investments in affiliated companies	1,661	3,924
Goodwill	640,421	631,363
Intangible assets, less accumulated amortization of \$34,127 and \$26,332	200,177	202,927
Deferred income taxes	25,991	33,880
Other	100,316	103,612
Total other assets	968,566	975,706
Total assets	\$ 2,726,656	\$ 2,606,227
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$ 45,750	\$ 2,120
Notes payable to banks	15,215	3,310
Accounts payable	161,802	189,301
Accrued income taxes (Note 11)	17,433	49,542
Accrued expenses	104,030	104,494
Other current liabilities	128,138	138,470
Total current liabilities	472,368	487,237
Long-term debt and capital leases, less current maturities	385,991	361,399
Deferred income taxes	68,395	70,669
Accrued pension and postretirement benefits	143,515	131,760
Accrued income taxes (Note 11)	20,011	—
Other liabilities	52,803	53,071
Total liabilities	1,143,083	1,104,136
Commitments and contingencies		
Minority interest in consolidated subsidiaries	20,276	17,624
<b>SHAREOWNERS' EQUITY (Notes 2 and 16)</b>		
Preferred stock, no par value; 5,000 shares authorized; none issued	—	—
Capital stock, \$1.25 par value; 120,000 shares authorized; 83,468 and 82,974 shares issued	104,335	103,722
Additional paid-in capital	673,484	655,086
Retained earnings	877,272	812,917
Treasury shares, at cost; 6,430 and 5,002 shares held	(210,060)	(148,932)
Accumulated other comprehensive income	118,266	61,674
Total shareowners' equity	1,563,297	1,484,467
Total liabilities and shareowners' equity	\$ 2,726,656	\$ 2,606,227

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

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

Six months ended December 31 (in thousands)	2007	2006a
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 85,025	\$ 60,412
Adjustments for non-cash items:		
Depreciation	39,146	33,655
Amortization	6,571	3,895
Stock-based compensation expense	4,876	10,355
Impairment charge (Note 6)	—	3,000
Loss on divestitures (Notes 5 and 6)	—	2,531
Deferred income tax provision	11,328	1,389
Other	(2,048)	(224)
Changes in certain assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	45,519	22,789
Inventories	(39,946)	(9,308)
Accounts payable and accrued liabilities	(60,652)	(13,135)
Accrued income taxes	(24,556)	(78,722)
Other	3,671	(817)
Net cash flow provided by operating activities	68,934	35,820
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(79,559)	(44,929)
Disposals of property, plant and equipment	1,891	781
Acquisitions of business assets, net of cash acquired	361	(76,661)
Proceeds from divestitures (Notes 5 and 6)	3,000	29,420
Proceeds from sale of investments in affiliated companies	5,915	—
Other	2,949	(151)
Net cash flow used for investing activities	(65,443)	(91,540)
<b>FINANCING ACTIVITIES</b>		
Net increase in notes payable	11,503	663
Net increase in short-term revolving and other lines of credit	44,900	—
Term debt borrowings	111,592	19,345
Term debt repayments	(102,777)	(66,381)
Repurchase of capital stock	(55,391)	(24,622)
Dividend reinvestment and employee benefit and stock plans	11,917	21,256
Cash dividends paid to shareowners	(17,525)	(15,466)
Other	(319)	(393)
Net cash flow provided by (used for) financing activities	3,900	(65,598)
Effect of exchange rate changes on cash and cash equivalents	5,649	1,463
<b>CASH AND CASH EQUIVALENTS</b>		
Net increase (decrease) in cash and cash equivalents	13,040	(119,855)
Cash and cash equivalents, beginning of period	50,433	233,976
Cash and cash equivalents, end of period	\$ 63,473	\$ 114,121

<sup>a</sup> Amounts presented include cash flows from discontinued operations.

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

**KENNAMETAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

---

**1. ORGANIZATION**

Kennametal Inc. was incorporated in Pennsylvania in 1943 and maintains its world headquarters in Latrobe, Pennsylvania. Kennametal Inc. and its subsidiaries (collectively, “Kennametal” or the “Company”) is a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool, light machinery and heavy machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries. Our end users’ products include items ranging from airframes to coal, medical implants to oil wells and turbochargers to motorcycle parts. We operate two global business units consisting of Metalworking Solutions & Services Group (MSSG) and Advanced Materials Solutions Group (AMSG).

**2. BASIS OF PRESENTATION**

The condensed consolidated financial statements, which include our accounts and those of our consolidated subsidiaries, should be read in conjunction with the 2007 Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2007 was derived from the audited balance sheet included in our 2007 Annual Report on Form 10-K. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair statement of the results of the interim periods were made and all adjustments are normal, recurring adjustments. The results for the six months ended December 31, 2007 and 2006 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a “year” is to a fiscal year ended June 30. For example, a reference to 2008 is to the fiscal year ending June 30, 2008. When used in this Form 10-Q, unless the context requires otherwise, the terms “we,” “our” and “us” refer to Kennametal Inc. and its subsidiaries.

On October 23, 2007, the Board of Directors approved a two-for-one capital stock split in the form of a capital stock dividend, which was distributed after the close of trading on December 18, 2007 to all shareowners of record as of the close of business on December 4, 2007. The stated par value of each share was not changed from \$1.25. The related issuance of 41.7 million additional shares resulted in a \$52.1 million transfer from additional paid-in-capital to capital stock. All share and per share amounts as well as the balance sheet accounts for capital stock and additional paid-in capital in these condensed consolidated financial statements retroactively reflect the effect of this capital stock split.

**3. NEW ACCOUNTING STANDARDS**

In June 2007, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards” (EITF 06-11). EITF 06-11 requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified share-based compensation awards be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 is effective for Kennametal as of July 1, 2008 and is to be applied on a prospective basis. We are in the process of evaluating the provisions of this EITF to determine the impact of adoption on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (SFAS 159). SFAS 159 permits entities to measure many financial instruments at fair value with the changes in fair value recognized in earnings at each subsequent reporting date. SFAS 159 is effective for Kennametal as of July 1, 2008. We are in the process of evaluating the provisions of SFAS 159 to determine the impact of adoption on our consolidated financial statements.



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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures related to fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for Kennametal as of July 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. We are in the process of evaluating the impact of the provisions of SFAS 157 on our consolidated financial statements. Throughout 2008, we expect to review our current frameworks for measuring fair value as we assess the provisions of SFAS 157. As a result, some methods for fair value measurement currently utilized may change.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a method of recognition, measurement, presentation and disclosure within financial statements for uncertain tax positions that a company has taken or expects to take in a tax return. Kennametal adopted FIN 48 as of July 1, 2007. See Note 11 for additional disclosures related to the adoption of FIN 48.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer accounts for business combinations and includes guidance for the recognition, measurement and disclosure of the identifiable assets acquired, the liabilities assumed and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration and the accounting for pre-acquisition gain and loss contingencies, as well as acquisition-related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141(R) applies prospectively and is effective for the Company beginning July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51," (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for any noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure on the face of the consolidated statement of income of the amounts of consolidated net income attributable to the parent and to the noncontrolled interest. SFAS 160 is to be applied prospectively and is effective for Kennametal as of July 1, 2009, except for the presentation and disclosure requirements, which, upon adoption, will be applied retrospectively for all periods presented. We are in the process of evaluating the provisions of SFAS 160 to determine the impact of adoption on our consolidated financial statements.

**4. SUPPLEMENTAL CASH FLOW DISCLOSURES**

Six months ended December 31 (in thousands)	2007	2006
Cash paid during the period for:		
Interest	\$15,614	\$ 14,038
Income taxes	40,028	104,918
Supplemental disclosure of non-cash information:		
Contribution of stock to employees' defined contribution benefit plans	—	3,983
Change in fair value of interest rate swaps	11,573	5,993
Change in accounts payable related to purchases of property, plant and equipment	8,800	—

**KENNAMETAL INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****5. DIVESTITURE**

In 2006, we divested J&L Industrial Supply (J&L) for net consideration of \$359.2 million. During the six months ended December 31, 2006, we recognized a pre-tax loss of \$1.6 million related to a post-closing adjustment, which is included in loss on divestiture, as well as \$0.3 million of divestiture-related charges that were included in operating expense. The charges were recorded in our Corporate segment. We received \$359.2 million in net proceeds related to the sale of this business of which \$9.7 million was received during the six months ended December 31, 2006.

**6. DISCONTINUED OPERATIONS**

During 2006, our Board of Directors and management approved plans to divest our Kemmer Praezision Electronics business (Electronics) and our consumer retail product line, including industrial saw blades (CPG) as part of our strategy to exit non-core businesses. These divestitures were accounted for as discontinued operations.

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

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

**CPG** The divestiture of CPG, which was part of the MSSG segment, closed August 31, 2006 for net consideration of \$31.2 million. We have received \$31.2 million in net proceeds related to the sale of this business of which \$3.0 million and \$19.7 million were received during the six months ended December 31, 2007 and 2006, respectively. Also, for the three and six months ended December 31, 2006, we recognized a pre-tax loss of \$0.7 million and \$1.0 million related to post-closing adjustments, which is presented in discontinued operations.

The following represents the results of discontinued operations:

(in thousands)	Three Months Ended December 31, 2006	Six Months Ended December 31, 2006
Sales	\$ 2,424	\$15,034
Loss from discontinued operations before income taxes	\$(3,625)	\$(2,464)
Income tax (benefit) expense	(119)	135
Loss from discontinued operations	\$(3,506)	\$(2,599)

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

Stock options are granted to eligible employees at fair market value on the date of grant. Stock options are exercisable under specific conditions for up to 10 years from the date of grant. The aggregate number of shares authorized for issuance under the Kennametal Inc. Stock and Incentive Plan of 2002, as amended (the 2002 Plan), is 7,500,000. See Note 2 for disclosure of our recent capital stock split. Under the provisions of the 2002 Plan, participants may deliver our stock, owned by the holder for at least six months, in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. The fair value of shares delivered during the six months ended December 31, 2007 and 2006 was \$1.0 million and \$0.6 million, respectively. Stock option expense for the six months ended December 31, 2007 and 2006 was \$2.2 million and \$2.8 million, respectively. In addition to stock option grants, the 2002 Plan permits the award of restricted stock to directors, officers and key employees.

The assumptions used in our Black-Scholes valuation related to stock option grants made during the six months ended December 31, 2007 and 2006 were as follows:

	2007	2006
Risk-free interest rate	4.5%	4.9%
Expected life in years (1)	4.5	4.5
Expected volatility (2)	23.6%	22.4%
Expected dividend yield	1.4%	1.4%

- 1) Expected life is derived from historical experience.
- 2) Expected volatility is based on the historical volatility of our capital stock.

Changes in our stock options for the six months ended December 31, 2007 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, June 30, 2007	3,205,434	\$22.35		
Granted	529,614	39.18		
Exercised	401,624	23.45		
Lapsed and forfeited	83,378	26.68		
Options outstanding, December 31, 2007	3,250,046	24.90	6.9	\$42,801
Options vested and expected to vest, December 31, 2007	3,157,524	\$24.62	6.8	42,263
Options exercisable, December 31, 2007	1,785,940	\$19.73	5.5	32,379

The weighted average fair value per option granted during the six months ended December 31, 2007 and 2006 was \$9.38 and \$6.48, respectively. The fair value of options vested during the six months ended December 31, 2007 and 2006 was \$3.3 million and \$4.3 million, respectively.

The amount of cash received from the exercise of stock options during the six months ended December 31, 2007 and 2006 was \$8.3 million and \$12.0 million, respectively. The related tax benefit for the six months ended December 31, 2007 and 2006 was \$2.1 million for both periods. The total intrinsic value of options exercised during the six months ended December 31, 2007 and 2006 was \$6.5 million and \$6.4 million, respectively. As of December 31, 2007, the total unrecognized compensation cost related to options outstanding was \$6.2 million and is expected to be recognized over a weighted average period of 2.8 years.

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

Changes in our restricted stock for the six months ended December 31, 2007 were as follows:

	Shares	Weighted Average Fair Value
Unvested restricted stock, June 30, 2007	579,082	\$25.12
Granted	161,362	38.68
Vested	222,812	23.80
Forfeited	28,460	26.84
Unvested restricted stock, December 31, 2007	489,172	\$30.29

During the six months ended December 31, 2007 and 2006, compensation expense related to restricted stock awards was \$2.4 million and \$3.6 million, respectively. As of December 31, 2007, the total unrecognized compensation cost related to unvested restricted stock was \$8.5 million and is expected to be recognized over a weighted average period of 2.8 years.

On November 26, 2007, the Company adopted a long-term, one-time equity program, the Kennametal Inc. 2008 Strategic Transformational Equity Program, under the 2002 Plan (the Program). The Program will compensate participating executives for achievement of certain performance conditions during the period beginning on October 1, 2007 and ending on September 30, 2011. Each participant is awarded a maximum number of stock units, each representing a contingent right to receive one share of capital stock of the Company to the extent the unit is earned during the performance period and becomes payable under the Program. The performance conditions are based on the Company's total shareholder return (TSR), which governs 35 percent of the awarded stock units, and cumulative adjusted earnings per share (EPS), which governs 65 percent of the awarded stock units. Participants in the Program were granted awards equal to that number of stock units having a value of \$32.0 million as of the grant date of December 1, 2007. A further amount of \$5.3 million is available under the Program for additional awards that may be made to other executives. There are no voting rights or dividends associated with these stock units.

Under the Program, participants may earn up to a cumulative 35 percent of the maximum stock units awarded if certain threshold levels of the performance conditions are achieved through two interim dates of September 30, 2009 and 2010. Generally, the payment of any stock units under the Program is conditioned upon the participants being employed by the Company on the date of payment and the satisfaction of all other provisions of the Program.

The assumptions used in our valuation of the EPS-based portion of the awards granted under the Program during the six months ended December 31, 2007 were as follows:

	2007
Expected quarterly dividend per share	\$0.12
Risk-free interest rate	3.3%

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

Changes in the EPS performance stock units under the Program for the six months ended December 31, 2007 were as follows:

	Stock Units	Weighted Average Fair Value
Unvested EPS performance stock units, June 30, 2007	—	\$ —
Granted	531,426	37.45
Unvested EPS performance stock units, December 31, 2007	531,426	\$37.45

As of December 31, 2007, we assumed that 45.0 percent of the EPS performance stock units will vest.

The assumptions used in our lattice model valuation for the TSR-based portion of the awards granted under the Program during the six months ended December 31, 2007 were as follows.

	2007
Expected volatility	24.1%
Expected dividend yield	1.2%
Risk-free interest rate	3.3%

Changes in the TSR performance stock units under the Program for the six months ended December 31, 2007 were as follows:

	Stock Units	Weighted Average Fair Value
Unvested TSR performance stock units, June 30, 2007	—	\$ —
Granted	286,142	9.20
Unvested TSR performance stock units, December 31, 2007	286,142	\$9.20

During the three months ended December 31, 2007 compensation expense related to the Program's stock units was \$0.2 million. As of December 31, 2007, the total unrecognized compensation cost related to unvested stock units was \$11.1 million and is expected to be recognized over a weighted average period of 3.8 years.

**KENNAMETAL INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****8. BENEFIT PLANS**

We sponsor several defined benefit pension plans. Additionally, we provide varying levels of postretirement health care and life insurance benefits to most U.S. employees.

The table below summarizes the components of net periodic pension cost:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Service cost	\$ 2,508	\$ 2,442	\$ 5,010	\$ 4,859
Interest cost	9,986	9,593	19,934	19,092
Expected return on plan assets	(12,305)	(11,301)	(24,627)	(22,525)
Amortization of transition obligation	41	40	83	77
Amortization of prior service (credit) cost	(10)	167	(21)	333
Recognition of actuarial losses	564	1,309	1,127	2,604
Net periodic pension cost	\$ 784	\$ 2,250	\$ 1,506	\$ 4,440

The decrease in net periodic pension cost is primarily the result of an increase in plan assets and increases in discount rates used to determine our net periodic pension cost for our international plans.

During the three and six months ended December 31, 2007, the Company contributed \$1.6 million and \$3.2 million, respectively, to its various defined benefit pension plans.

The table below summarizes the components of the net periodic other postretirement cost:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Service cost	\$ 133	\$ 133	\$ 266	\$ 266
Interest cost	433	420	867	840
Amortization of prior service cost	12	12	24	24
Recognition of actuarial gains	(131)	(366)	(263)	(733)
Net periodic pension cost	\$ 447	\$ 199	\$ 894	\$ 397

**9. INVENTORIES**

We used the last-in, first-out (LIFO) method of valuing inventories for approximately 50 percent of total inventories at December 31, 2007 and June 30, 2007, respectively. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

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

Inventories consisted of the following:

(in thousands)	December 31, 2007	June 30, 2007
Finished goods	\$273,021	\$234,828
Work in process and powder blends	187,276	161,815
Raw materials and supplies	80,449	72,941
Inventories at current cost	540,746	469,584
Less: LIFO valuation	(77,405)	(65,971)
Total inventories	\$463,341	\$403,613

**10. ENVIRONMENTAL MATTERS**

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

*Superfund Sites* We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites, including the Li Tungsten Superfund site in Glen Cove, New York. With respect to the Li Tungsten site, we had previously established an environmental reserve. In May 2006, we reached an agreement in principle with the U.S. Department of Justice (DOJ) with respect to this site; the DOJ informed us that it would accept a payment of \$0.9 million in full settlement for its claim against us for costs related to the Li Tungsten site and such payment was made during the six months ended December 31, 2007. The remaining amount of the established reserve was \$0.1 million and was reversed to operating expense during the period.

During 2006, we were notified by the USEPA that we have been named as a PRP at the Alternate Energy Resources Inc. site located in Augusta, Georgia. The proceedings in this matter have not yet progressed to a stage where it is possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities, or the amount of our liability alone or in relation to that of any other PRPs.

*Other Environmental Issues* Additionally, we also maintain reserves for other potential environmental issues. At December 31, 2007, the total of these accruals was \$6.3 million, and represents anticipated costs associated with the remediation of these issues. We recorded unfavorable foreign currency translation adjustments of \$0.4 million during the six months ended December 31, 2007 related to these reserves.

**11. INCOME TAXES**

The effective income tax rate for the three months ended December 31, 2007 and 2006 was 17.3 percent and 30.5 percent, respectively. The reduction in the rate from the prior year quarter was the result of stronger earnings under our pan-European business strategy, coupled with a higher mix of earnings in other lower taxed jurisdictions, and a tax benefit in the current quarter associated with a dividend reinvestment plan in China. The effect of the aforementioned items was partially offset by a favorable impact in the prior year quarter for the extension of the research, development and experimental tax credit.

The effective income tax rate for the six months ended December 31, 2007 and 2006 was 27.1 percent and 31.1 percent, respectively. The reduction in the rate from the prior year period was the result of stronger earnings under our pan-European business strategy, a higher mix of earnings in other lower tax jurisdictions, and a tax benefit in the current year period associated with a dividend reinvestment plan in China, the combined effects of which were partially offset by a non-cash income tax charge related to a German tax reform bill that was enacted in the first quarter of the current year and a favorable impact in the prior year period for the extension of the research, development and experimental tax credit.

**KENNAMETAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

---

Effective July 1, 2007, we adopted FIN 48. The adoption of FIN 48 had the following impacts on our consolidated balance sheet: a \$0.3 million increase in current deferred tax assets, a \$0.6 million increase in non-current deferred tax assets, a \$14.2 million decrease in current accrued income taxes, a \$1.7 million decrease in non-current deferred tax liabilities, a \$20.0 million increase in non-current accrued income taxes and a \$3.3 million decrease in retained earnings. As of the adoption date, we have \$20.3 million of unrecognized tax benefits. Of this amount, \$17.0 million would affect the 2008 annual effective tax rate if recorded.

Our policy is to recognize interest and penalties related to income taxes as a component of the provision for income taxes in the Condensed Consolidated Statement of Income. As of adoption, we accrued \$2.2 million of interest expense. For the three and six months ended December 31, 2007, we recognized \$0.4 and \$0.7 million, respectively, in interest expense related to uncertain tax positions.

We file income tax returns in the U.S. as well as in various states and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations by tax authorities for years prior to 2001. The Internal Revenue Service has audited all U.S. tax years prior to 2005. Various state and foreign jurisdiction tax authorities are in the process of examining our income tax returns for various tax years ranging from 2001 to 2006. At this time, we do not anticipate a material increase or decrease in the total amount of unrecognized tax benefits within the next twelve months.

**12. EARNINGS PER SHARE**

Basic earnings per share is computed using the weighted average number of shares outstanding during the period, while diluted earnings per share is calculated to reflect the potential dilution that occurs related to the issuance of capital stock under stock option grants and restricted stock awards. The difference between basic and diluted earnings per share relates solely to the effect of capital stock options and restricted stock awards.

For purposes of determining the number of diluted shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised capital stock options and restricted stock awards by 1.5 million shares and 0.9 million shares for the three months ended December 31, 2007 and 2006, respectively and 1.6 million shares and 0.9 million shares for the six months ended December 31, 2007 and 2006, respectively. Unexercised stock options to purchase our capital stock of 0.6 million shares for the three months ended December 31, 2006, and 0.7 million shares for the six months ended December 31, 2006, are not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price, and therefore their inclusion would have been anti-dilutive. See Note 2 for disclosure of our recent capital stock split.



**KENNAMETAL INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****13. COMPREHENSIVE INCOME**

Comprehensive income is as follows:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Net income	\$50,146	\$30,051	\$ 85,025	\$60,412
Unrealized gain on derivatives designated and qualified as cash flow hedges, net of tax	310	244	381	731
Reclassification of unrealized (gain) loss on expired derivatives designated and qualified as cash flow hedges, net of tax	(658)	109	(2,098)	(78)
Minimum pension liability adjustment, net of tax	—	(455)	—	(415)
Unrecognized net actuarial losses, prior service cost and transition obligation, net of tax	(85)	—	(555)	—
Reclassification of unrecognized net actuarial losses, prior service cost and transition obligation, net of tax	340	—	666	—
Foreign currency translation adjustments	24,935	24,735	58,198	24,595
Comprehensive income	\$74,988	\$54,684	\$141,617	\$85,245

**14. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

(in thousands)	June 30, 2007	Adjustments	Translation	December 31, 2007
MSSG	\$282,670	\$(10,715)	\$ 9,441	\$281,396
AMSG	348,693	6,338	3,994	359,025
Total	\$631,363	\$ (4,377)	\$13,435	\$640,421

During the six months ended December 31, 2007, we completed purchase price allocations for three 2007 acquisitions resulting in a \$10.4 million reduction in MSSG goodwill and a \$5.8 million increase in AMSG goodwill. In addition, we recorded other adjustments totaling \$0.2 million related to 2007 acquisitions.

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

(in thousands)	Estimated Useful Life	December 31, 2007		June 30, 2007	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract-based	3 — 15 years	\$ 7,173	\$ (4,247)	\$ 6,498	\$ (4,008)
Technology-based and other	4 — 20 years	40,967	(13,806)	49,305	(10,541)
Customer-related	5 — 20 years	108,817	(12,518)	97,810	(9,567)
Unpatented technology	30 years	19,575	(2,456)	19,381	(1,956)
Trademarks	3 years — Indefinite	57,772	(1,100)	56,265	(260)
Total		\$234,304	\$(34,127)	\$229,259	\$(26,332)

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

During the six months ended December 31, 2007, we completed purchase price allocations for three 2007 acquisitions and recorded the preliminary purchase price allocation for a 2008 acquisition. As a result, Technology-based and other decreased \$9.7 million, Customer-related increased \$8.3 million, Trademarks decreased \$0.8 million and Contract-based decreased \$0.3 million. During the current period, we also incurred \$6.9 million in favorable foreign currency translation adjustments.

**15. SEGMENT DATA**

We operate two reportable operating segments consisting of MSSG and AMMSG, and Corporate. We do not allocate certain corporate shared service costs, certain employee benefit costs, certain employment costs, such as performance-based bonuses and stock-based compensation expense, interest expense, other expense, income taxes or minority interest to our operating segments.

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

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b>External sales:</b>				
MSSG	\$434,733	\$373,995	\$ 842,430	\$ 731,079
AMMSG	212,690	195,326	420,069	381,053
Total external sales	\$647,423	\$569,321	\$1,262,499	\$1,112,132
<b>Intersegment sales:</b>				
MSSG	\$ 39,186	\$ 32,005	\$ 82,317	\$ 65,448
AMMSG	9,695	10,686	20,548	20,439
Total intersegment sales	\$ 48,881	\$ 42,691	\$ 102,865	\$ 85,887
<b>Total sales:</b>				
MSSG	\$473,919	\$406,000	\$ 924,747	\$ 796,527
AMMSG	222,385	206,012	440,617	401,492
Total sales	\$696,304	\$612,012	\$1,365,364	\$1,198,019
<b>Operating income:</b>				
MSSG	\$ 61,986	\$ 45,208	\$ 117,338	\$ 90,874
AMMSG	27,197	33,993	57,177	61,379
Corporate	(19,792)	(23,335)	(41,010)	(48,026)
Total operating income	\$ 69,391	\$ 55,866	\$ 133,505	\$ 104,227

**16. SUBSEQUENT EVENT**

Effective January 22, 2008, the Company's Board of Directors (the Board) resolved to restore all of the Company's treasury shares as of such date to unissued capital stock. The resolution also provided that, unless the Board resolves otherwise, any and all additional shares of capital stock acquired by the Company after such date shall automatically be restored to unissued capital stock. Such restoration of treasury shares will be recorded as a reduction to capital stock and additional paid-in capital, as applicable.

---

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

---

**RESULTS OF CONTINUING OPERATIONS**

**SALES**

Sales for the three months ended December 31, 2007 were \$647.4 million, an increase of \$78.1 million, or 13.7 percent, from \$569.3 million in the prior year quarter. The increase in sales was primarily attributed to 2 percent organic growth, 6 percent from acquisitions and 6 percent from foreign currency effects. The organic increase in sales for the quarter was primarily driven by growth in the Asia Pacific, Indian and European markets, while Latin America also had year-over-year growth. The North American market declined slightly due to lower demand in certain market sectors. Organic sales growth by sector was led by year-over-year expansion in general engineering, machine tools, distribution, highway construction, mining and engineered products, offset somewhat by declines in the automotive market as well as lower sales of energy-related products and surface finishing machines and services.

Sales for the six months ended December 31, 2007 were \$1,262.5 million, an increase of \$150.4 million, or 13.5 percent, from \$1,112.1 million in the same period a year ago. The increase in sales was primarily attributed to 3 percent organic growth, 6 percent from acquisitions and 5 percent from foreign currency effects. The organic increase in sales for the six months ended December 31, 2007 was primarily driven by growth in the European, Asia Pacific and Indian markets. Organic sales growth by sector was led by year-over-year expansion in general engineering, machine tools, distribution and highway construction, offset somewhat by declines in the automotive market and energy-related product sales.

**GROSS PROFIT**

Gross profit for the three months ended December 31, 2007 increased \$22.7 million to \$220.9 million from \$198.2 million in the prior year quarter. This 11.5 percent increase was primarily due to organic sales growth, the impact of favorable foreign currency effects of \$13.6 million, the effect of acquisitions and the effect of price increases, partially offset by higher raw material costs, particularly products containing steel and cobalt. The prior year quarter also included costs related to a plant closure of \$2.6 million.

Gross profit margin for the three months ended December 31, 2007 was 34.1 percent, down 70 basis points from 34.8 percent in the prior year quarter. The change from the prior year quarter was primarily due to higher raw material costs as well as less favorable sales mix and lower operating performance in surface finishing machines and services. The prior year quarter margin included a 50 basis point impact from the costs related to the above-mentioned plant closure.

Gross profit for the six months ended December 31, 2007 increased \$47.8 million to \$433.0 million from \$385.2 million in the prior year quarter. This 12.4 percent increase was primarily due to organic sales growth, the impact of acquisitions, favorable foreign currency effects of \$20.7 million and the effects of price increases, partially offset by higher raw material costs, particularly products containing steel and cobalt. The prior year period also included costs related to a plant closure of \$2.6 million.

Gross profit margin for the six months ended December 31, 2007 was 34.3 percent, a decrease of 30 basis points from 34.6 percent in the prior year period. The change from the prior year was primarily due to higher raw material costs and a less favorable sales mix. The prior year period margin included a 30 basis point impact from the costs related to the above-mentioned plant closure.

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

OPERATING EXPENSE

Operating expense for the three months ended December 31, 2007 was \$147.9 million, an increase of \$7.6 million, or 5.4 percent, compared to \$140.3 million in the prior year quarter. The increase in operating expense was primarily attributed to unfavorable foreign currency effects of \$7.9 million and the impact of acquisitions, partially offset by lower employment costs of \$6.3 million.

Operating expense for the six months ended December 31, 2007 was \$293.0 million, an increase of \$17.6 million, or 6.4 percent, compared to \$275.4 million in the prior year quarter. The increase in operating expense was primarily attributed to unfavorable foreign currency effects of \$12.4 million and the impact of acquisitions, partially offset by lower employment costs of \$6.6 million.

LOSS ON DIVESTITURE

Loss on divestiture of \$1.6 million for the six months ended December 31, 2006 was the result of a post-closing adjustment related to our 2006 divestiture of J&L.

AMORTIZATION OF INTANGIBLES

Amortization expense was \$3.6 million for the three months ended December 31, 2007, an increase of \$1.6 million from \$2.0 million in the prior year quarter. Amortization expense was \$6.6 million for the six months ended December 31, 2007, an increase of \$2.7 million from \$3.9 million in the prior year period. The increases were due to the impact of acquisitions.

INTEREST EXPENSE

Interest expense for the three months ended December 31, 2007 increased \$1.2 million, or 17.1 percent, to \$8.5 million from \$7.3 million in the prior year quarter. This increase was due to an increase in average domestic borrowings of \$115.2 million, offset in part by the effect of lower average interest rates on domestic borrowings of 6.6 percent, compared to 7.0 percent in the prior year quarter.

Interest expense for the six months ended December 31, 2007 increased \$1.6 million, or 11.0 percent, to \$16.3 million from \$14.7 million in the prior year quarter. This increase was due to an increase in average domestic borrowings of \$96.5 million, offset in part by the effect of lower average interest rates on domestic borrowings of 6.7 percent, compared to 7.0 percent in the prior year quarter.

OTHER INCOME, NET

Other income, net for the three months ended December 31, 2007 increased \$0.4 million to \$1.0 million from \$0.6 million in the prior year quarter. This change was driven by more favorable foreign currency transaction results of \$1.3 million.

Other income, net for the six months ended December 31, 2007 decreased \$1.5 million to \$2.1 million from \$3.6 million in the prior year quarter. This change was mainly driven by a \$1.8 million reduction of interest income due to lower cash and cash equivalents as a result of the acquisitions made in 2007, partially offset by more favorable foreign currency transaction results of \$0.9 million.

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

The effective income tax rate for the three months ended December 31, 2007 and 2006 was 17.3 percent and 30.5 percent, respectively. The reduction in the rate from the prior year quarter was the result of stronger earnings under our pan-European business strategy, coupled with a higher mix of earnings in other lower taxed jurisdictions, and a tax benefit in the current quarter associated with a dividend reinvestment plan in China. The effect of the aforementioned items was partially offset by a favorable impact in the prior year quarter for the extension of the research, development and experimental tax credit.

The effective income tax rate for the six months ended December 31, 2007 and 2006 was 27.1 percent and 31.1 percent, respectively. The reduction in the rate from the prior year period was the result of stronger earnings under our pan-European business strategy, a higher mix of earnings in other lower tax jurisdictions, and a tax benefit in the current year period associated with a dividend reinvestment plan in China, the combined effects of which were partially offset by a non-cash income tax charge related to a German tax reform bill that was enacted in the first quarter of the current year and a favorable impact in the prior year period for the extension of the research, development and experimental tax credit.

Effective July 1, 2007, we adopted FIN 48. The adoption of FIN 48 had the following impacts on our consolidated balance sheet: a \$0.3 million increase in current deferred tax assets, a \$0.6 million increase in non-current deferred tax assets, a \$14.2 million decrease in current accrued income taxes, a \$1.7 million decrease in non-current deferred tax liabilities, a \$20.0 million increase in non-current accrued income taxes and a \$3.3 million decrease in retained earnings. As of the adoption date, we have \$20.3 million of unrecognized tax benefits. Of this amount, \$17.0 million would affect the 2008 annual effective tax rate if recorded.

Our policy is to recognize interest and penalties related to income taxes as a component of the provision for income taxes in the Condensed Consolidated Statement of Income. As of adoption, we accrued \$2.2 million of interest expense. For the three and six months ended December 31, 2007, we recognized \$0.4 and \$0.7 million, respectively, in interest expense related to uncertain tax positions.

We file income tax returns in the U.S. as well as in various states and foreign jurisdictions. With few exceptions, we are no longer subject to income tax examinations by tax authorities for years prior to 2001. The Internal Revenue Service has audited all U.S. tax years prior to 2005. Various state and foreign jurisdiction tax authorities are in the process of examining our income tax returns for various tax years ranging from 2001 to 2006. At this time, we do not anticipate a material increase or decrease in the total amount of unrecognized tax benefits within the next twelve months.

**BUSINESS SEGMENT REVIEW**

Our operations are organized into two reportable operating segments consisting of Metalworking Solutions & Services Group (MSSG) and Advanced Materials Solutions Group (AMSG), and Corporate. The presentation of segment information reflects the manner in which we organize segments for making operating decisions and assessing performance.

**METALWORKING SOLUTIONS & SERVICES GROUP**

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
External sales	\$434,733	\$373,995	\$842,430	\$731,079
Intersegment sales	39,186	32,005	82,317	65,448
Operating income	61,986	45,208	117,338	90,874

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

For the three months ended December 31, 2007, MSSG external sales increased \$60.7 million, or 16.2 percent, from the prior year quarter. This was the result of 4 percent organic growth, 7 percent from favorable foreign currency effects and 5 percent from acquisitions. Organic sales growth was driven by growth in India, Asia Pacific, Latin America and Europe of 15 percent, 11 percent, 9 percent and 6 percent, respectively, while North America declined 2 percent. By sector, organic sales growth was driven by gains in general engineering, machine tool and distribution, offset by a weaker automotive market.

For the three months ended December 31, 2007, operating income increased \$16.8 million, or 37.1 percent, from the prior year quarter. Operating margin on total sales of 13.1 percent for the current quarter increased 200 basis points compared to 11.1 percent in the prior year quarter, and benefited from organic sales growth, favorable foreign currency effects and the impact of acquisitions. The prior year quarter operating margin also included \$2.6 million of plant closure costs.

For the six months ended December 31, 2007, MSSG external sales increased \$111.4 million, or 15.2 percent, from the prior year period. This was the result of 5 percent organic growth, 6 percent from favorable foreign currency effects and 4 percent from acquisitions. Organic sales growth was driven by growth in Asia Pacific, Europe, India and Latin America of 14 percent, 9 percent, 7 percent and 6 percent, respectively, while North American organic sales were flat. By sector, organic sales growth was driven by gains in general engineering, machine tool, aerospace and distribution.

For the six months ended December 31, 2007, operating income increased \$26.5 million, or 29.1 percent, from the prior year period. Operating margin on total sales of 12.7 percent for the current year period increased 130 basis points compared to 11.4 percent in the prior year period, and benefited primarily from organic sales growth, favorable foreign currency effects and the impact of acquisitions. The prior year period operating margin also included \$2.6 million of plant closure costs.

**ADVANCED MATERIALS SOLUTIONS GROUP**

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
External sales	\$212,690	\$195,326	\$420,069	\$381,053
Intersegment sales	9,695	10,686	20,548	20,439
Operating income	27,197	33,993	57,177	61,379

For the three months ended December 31, 2007, AMSG external sales increased \$17.4 million, or 8.9 percent, from the prior year quarter. Of the year-over-year increase in sales, 7 percent came from acquisitions and 5 percent came from favorable foreign currency effects. Organic sales declined by 3 percent as a result of lower sales of energy-related products and surface finishing machines and services, offset partially by higher highway construction, mining and engineered products sales.

For the three months ended December 31, 2007, operating income decreased \$6.8 million, or 20.0 percent, from the prior year quarter. Operating margin on total sales of 12.2 percent for the current quarter decreased 430 basis points compared to 16.5 percent in the prior year quarter. This decrease was primarily due to higher raw material costs and a less favorable sales mix as well as lower operating performance in surface finishing machines and services.

For the six months ended December 31, 2007, AMSG external sales increased \$39.0 million, or 10.2 percent, from the prior year period. Of the year-over-year increase in sales, 7 percent came from acquisitions and 3 percent came from favorable foreign currency effects. Organic sales remained at the prior year level as a result of lower sales of energy-related products, offset by higher highway construction, mining and engineered products sales.

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

For the six months ended December 31, 2007, operating income decreased \$4.2 million, or 6.9 percent, from the prior year period. Operating margin on total sales of 13.0 percent for the current period decreased 230 basis points compared to 15.3 percent in the prior year period. This decrease was primarily due to higher raw material costs and a less favorable sales mix.

**CORPORATE**

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Operating loss	\$(19,792)	\$(23,335)	\$(41,010)	\$(48,026)

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

For the three months ended December 31, 2007, operating loss decreased \$3.5 million, or 15.2 percent, compared to the prior year quarter, primarily due to lower employment costs of \$3.1 million and reduced pension and other postretirement benefit expense of \$1.0 million, partially offset by higher professional fees of \$0.5 million.

For the six months ended December 31, 2007, operating loss decreased \$7.0 million, or 14.6 percent, compared to the prior year period, primarily due to lower employment costs of \$4.4 million and reduced pension and other postretirement benefit expense of \$2.0 million, offset in-part by higher professional fees of \$0.5 million. The prior year period also included a \$1.6 million unfavorable post-closing adjustment related to the J&L divestiture.

**LIQUIDITY AND CAPITAL RESOURCES**

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

*Cash Flow Provided by Operating Activities*

Cash flow from operations is our primary source of financing for capital expenditures and internal growth. During the six months ended December 31, 2007, cash flow provided by operating activities was \$68.9 million, compared to \$35.8 million for the prior year period. Cash flow provided by operating activities for the current year period consists of net income and non-cash items totaling \$144.9 million offset somewhat by changes in certain assets and liabilities netting to \$76.0 million. Contributing to these changes were a decrease in accounts payable and accrued liabilities of \$60.7 million partially driven by a \$15.1 million payment of 2007 performance-based bonuses, an increase in inventories of \$39.9 million due to higher raw material prices and initiatives to increase service levels, and a decrease in accounts receivable of \$45.5 million.

Cash flow provided by operating activities for the six months ended December 31, 2006 consisted of net income and non-cash items totaling \$115.0 million offset somewhat by changes in certain assets and liabilities netting to \$79.2 million. Contributing to these changes were a decrease in accrued income taxes of \$78.7 million primarily due to tax payments related to the gain on divestiture of J&L and cash repatriated during 2006 under the American Jobs Creation Act (AJCA).

*Cash Flow Used for Investing Activities*

Cash flow used for investing activities was \$65.4 million for the six months ended December 31, 2007, a decrease of \$26.1 million, compared to \$91.5 million in the prior year quarter. During the six months ended December 31, 2007, cash used for investing activities included \$79.6 million used for purchases of property, plant and equipment, which consisted primarily of equipment upgrades and geographical expansion, partially offset by proceeds from the sale of investments in affiliated companies of \$5.9 million and proceeds from divestitures of \$3.0 million.

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

During the six months ended December 31, 2006, cash used for investing activities includes \$44.9 million used for purchases of property, plant and equipment, which consisted primarily of equipment upgrades, and \$76.7 million used for the acquisition of business assets, partially offset by proceeds from divestitures of \$29.4 million.

*Cash Flow Provided by / Used for Financing Activities*

During the six months ended December 31, 2007, cash flow provided by financing activities was \$3.9 million, an increase of \$69.5 million, compared to cash flow used for financing activities of \$65.6 million in the prior year period. During the current year period, cash flow provided by financing activities includes a \$65.2 million net increase in borrowings and \$11.9 million of dividend reinvestment and the effect of employee benefit and stock plans, mostly offset by \$55.4 million for the repurchase of capital stock and \$17.5 million of cash dividends paid to shareowners.

During the six months ended December 31, 2006, cash used for financing activities includes a \$46.4 million net decrease in borrowings, \$24.6 million for the repurchase of capital stock and \$15.5 million of cash dividends paid to shareowners offset by \$21.3 million of dividend reinvestment and the effects of employee benefit and stock plans.

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

There have been no material changes in our contractual obligations and commitments since June 30, 2007 except for liabilities from uncertain tax positions resulting from the adoption of FIN 48, which is discussed in Note 11 to the condensed consolidated financial statements.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company is party to a three-year securitization program, which permits us to securitize up to \$10.0 million of accounts receivable. As of December 31, 2007, the Company had no securitized accounts receivable.

**FINANCIAL CONDITION**

Total assets were \$2,726.7 million at December 31, 2007, compared to \$2,606.2 million at June 30, 2007. Working capital increased \$61.7 million to \$591.0 million at December 31, 2007 from \$529.3 million at June 30, 2007. This increase in working capital was primarily driven by an increase in inventory of \$59.7 million, a decrease in accrued income taxes of \$32.1 million partially due to the impact of adoption of FIN 48, a decrease in accounts payable of \$27.5 million and an increase in cash and cash equivalents of \$13.0, partially offset by an increase in notes payable and current debt of \$55.5 million and a decrease in accounts receivable of \$26.6 million. Property, plant and equipment, net increased \$80.7 million to \$694.7 million at December 31, 2007 from \$614.0 million at June 30, 2007 primarily due to capital expenditures of \$79.6 million partially offset by depreciation expense of \$39.1 million.

Total liabilities of \$1,143.1 million at December 31, 2007 increased \$39.0 from \$1,104.1 million at June 30, 2007. Changes during the six months ended December 31, 2007 included an \$80.1 million increase in total debt and an \$11.8 increase in accrued pension and other postretirement benefits, offset by a decrease in accrued income taxes of \$32.1 million due primarily to the impact of the adoption of FIN 48, and a decrease in accounts payable of \$27.5 million.

Shareowners' equity increased \$78.8 million to \$1,563.3 million as of December 31, 2007 from \$1,484.5 million as of June 30, 2007. The increase was primarily a result of net income of \$85.1 million, foreign currency translation adjustments of \$58.2 million and the effect of employee benefit and stock plans of \$11.9 million, partially offset by repurchases of capital stock of \$55.4 million and cash dividends paid to shareowners of \$17.5 million.



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

**ENVIRONMENTAL MATTERS**

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

*Superfund Sites* We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites, including the Li Tungsten Superfund site in Glen Cove, New York. With respect to the Li Tungsten site, we had previously established an environmental reserve. In May 2006, we reached an agreement in principle with the U.S. Department of Justice (DOJ) with respect to this site; the DOJ informed us that it would accept a payment of \$0.9 million in full settlement for its claim against us for costs related to the Li Tungsten site and such payment was made during the six months ended December 31, 2007. The remaining amount of the established reserve was \$0.1 million and was reversed to operating expense during the period.

During 2006, we were notified by the USEPA that we have been named as a PRP at the Alternate Energy Resources Inc. site located in Augusta, Georgia. The proceedings in this matter have not yet progressed to a stage where it is possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities, or the amount of our liability alone or in relation to that of any other PRPs.

*Other Environmental Issues* Additionally, we also maintain reserves for other potential environmental issues. At December 31, 2007, the total of these accruals was \$6.3 million, and represents anticipated costs associated with the remediation of these issues. We recorded unfavorable foreign currency translation adjustments of \$0.4 million during the six months ended December 31, 2007 related to these reserves.

**DISCUSSION OF CRITICAL ACCOUNTING POLICIES**

Effective July 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). See Note 11 in our condensed consolidated financial statements for additional disclosures related to the adoption of FIN 48.

There have been no other material changes to our critical accounting policies since June 30, 2007.

**NEW ACCOUNTING STANDARDS**

In June 2007, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11). EITF 06-11 requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified share-based compensation awards be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 is effective for Kennametal on July 1, 2008 and is to be applied on a prospective basis. We are in the process of evaluating the provisions of this EITF to determine the impact of adoption on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to measure many financial instruments at fair value with the changes in fair value recognized in earnings at each subsequent reporting date. SFAS 159 is effective for Kennametal as of July 1, 2008. We are in the process of evaluating the provisions of SFAS 159 to determine the impact of adoption on our consolidated financial statements.

**KENNAMETAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

---

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures related to fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for Kennametal as of July 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. We are in the process of evaluating the impact of the provisions of SFAS 157 on our consolidated financial statements. Throughout 2008, we expect to review our current frameworks for measuring fair value as we assess the provisions of SFAS 157. As a result, some methods for fair value measurement currently utilized may change.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a method of recognition, measurement, presentation and disclosure within financial statements for uncertain tax positions that a company has taken or expects to take in a tax return. Kennametal adopted FIN 48 as of July 1, 2007. See Note 11 for additional disclosures related to the adoption of FIN 48.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer accounts for business combinations and includes guidance for the recognition, measurement and disclosure of the identifiable assets acquired, the liabilities assumed and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration and the accounting for pre-acquisition gain and loss contingencies, as well as acquisition-related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141(R) applies prospectively and is effective for the Company beginning July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51," (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for any noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure on the face of the consolidated statement of income of the amounts of consolidated net income attributable to the parent and to the noncontrolled interest. SFAS 160 is to be applied prospectively and is effective for Kennametal as of July 1, 2009, except for the presentation and disclosure requirements, which, upon adoption, will be applied retrospectively for all periods presented. We are in the process of evaluating the provisions of SFAS 160 to determine the impact of adoption on our consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

---

We have experienced certain changes in our exposure to market risk from June 30, 2007. The fair value of our interest rate swap agreements was an asset of \$0.8 million as of December 31, 2007 and a liability of \$10.8 million as of June 30, 2007. We recorded the gain on these contracts as a corresponding decrease to long-term debt, as the instruments are accounted for as a fair value hedge of our long-term debt. The \$11.6 million change in the recorded value of these agreements was non-cash and was the result of marking these instruments to market.

There have been no other material changes to our market risk exposure since June 30, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this quarterly report on Form 10-Q, the Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company's disclosure controls were designed to provide a reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance at December 31, 2007 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act was (i) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2007	51,442	\$23.51	48,200	5.2 million
November 1 through November 30, 2007	823,894	39.48	809,072	4.4 million
December 1 through December 31, 2007	146,200	38.10	142,928	4.3 million
Total	1,021,536	\$38.48	1,000,200	

(1) During the three months ended December 31, 2007, employees delivered 5,078 shares of stock to Kennametal, upon vesting, to satisfy tax-withholding requirements and 10,668 shares of Kennametal stock as payment for the exercise price of stock options. Also during the three months ended December 31, 2007, 5,590 shares were purchased on the open market on behalf of Kennametal to fund the Company's dividend reinvestment program. See Note 2 in our condensed consolidated financial statements for information concerning our recent capital stock split.

(2) On October 24, 2006, Kennametal's Board of Directors authorized a share repurchase program, under which Kennametal is authorized to repurchase up to 6.6 million shares of its capital stock. This repurchase program does not have a specified expiration date. See Note 2 in our condensed consolidated financial statements for information concerning our recent capital stock split.

**ITEM 6. EXHIBITS**

**(10) Material Contracts**

- |         |  |                 |
|---------|--|-----------------|
| (10.1)* | Kennametal Inc. Stock and Incentive Plan of 2002 (as amended on October 23, 2007)                | Filed herewith. |
| (10.2)* | Kennametal Inc. 2008 Strategic Transformational Equity Program                                   | Filed herewith. |
| (10.3)* | Form of Award Agreement under the Kennametal Inc. 2008 Strategic Transformational Equity Program | Filed herewith. |

**(31) Rule 13a-14a/15d-14(a) Certifications**

- |        |   |                 |
|--------|---|-----------------|
| (31.1) | Certification executed by Carlos M. Cardoso, Chairman, President and Chief Executive Officer of Kennametal Inc. | Filed herewith. |
| (31.2) | Certification executed by Frank P. Simpkins, Vice President and Chief Financial Officer of Kennametal Inc.      | Filed herewith. |

**(32) Section 1350 Certifications**

- |        |  |                 |
|--------|--|-----------------|
| (32.1) | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Carlos M. Cardoso, Chairman, President and Chief Executive Officer of Kennametal Inc., and Frank P. Simpkins, Vice President and Chief Financial Officer of Kennametal Inc. | Filed herewith. |
|--------|--|-----------------|

---

\* Denotes management contract or compensatory plan or arrangement.

**SIGNATURES**

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

**KENNAMETAL INC.**

Date: February 7, 2008

By: /s/ Wayne D. Moser

\_\_\_\_\_  
Wayne D. Moser

Vice President Finance and Corporate Controller

**Kennametal Inc.**  
**STOCK AND INCENTIVE PLAN OF 2002**  
**(as amended on October 23, 2007)**

**Section 1. Establishment.** There is hereby established the Kennametal Inc. Stock and Incentive Plan of 2002 (hereinafter called the "Plan") pursuant to which Eligible Individuals who are or will be mainly responsible for its continued growth and development and future financial success may be granted Awards in order to secure to the Company the advantage of the incentive and sense of proprietorship inherent in stock ownership by such persons, to further align such person's interests with those of the shareowners, to reward such persons for services previously performed and/or as an added inducement to continue to provide service to the Company.

**Section 2. Certain Definitions.** As used herein or, unless otherwise specified, in any document with respect to an Award, the following definitions shall apply:

- (a) "Affiliate" of a person means a person controlling, controlled by, or under common control with such person where control means the power to direct the policies and practices of such person.
  - (b) "Award" means any Incentive Bonus Award, Option, Performance Share Award, Performance Unit Award, Restricted Stock Award, Restricted Unit Award, SAR, Share Award or Stock Unit Award granted under the Plan.
  - (c) "Board" means the Board of Directors of the Company.
  - (d) "Business Combination" shall mean a merger or consolidation of the Company with another corporation or entity, other than a corporation or entity which is an Affiliate.
  - (e) "Capital Stock" means the Capital Stock, par value \$1.25 per share, of the Company as adjusted pursuant to Section 10 of this Plan.
  - (f) "Change in Control" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Exchange Act as in effect on the date thereof or, if Item 6(e) is no longer in effect, any regulations issued which serve similar purposes; provided that, without limitation, such a Change in Control shall be deemed to have occurred if: (i) a Business Combination shall have occurred, or (ii) the Company shall sell all or substantially all of its operating properties and assets to another person, group of associated persons or corporation, excluding any Affiliate of the Company, if any, or (iii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes a beneficial owner, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities coupled with or followed by the election as directors of the Company of
-

persons who were not directors at the time of such acquisition if such person shall elect a majority of the Board.

(g) “Code” means the Internal Revenue Code of 1986, as amended.

(h) “Committee” means a committee of the Board.

(i) “Company” means Kennametal Inc., a Pennsylvania corporation.

(j) “Consultant” means any person, including an advisor, who is engaged by the Company or any Parent or Subsidiary of the Company to render services and is compensated for such services.

(k) “Continuous Status as an Employee” means the absence of any interruption or termination of the employment relationship by the Employee with the Company or any Parent or Subsidiary of the Company. Continuous Status as an Employee shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Plan Administrator; or (iv) transfers between locations of the Company or between the Company, its Parents, its Subsidiaries or its successor.

(l) “Disability” means disability as determined by the Company’s disability policy as in effect from time to time or as determined by the Plan Administrator consistent therewith.

(m) “Eligible Individual” means any Employee or Consultant.

(n) “Employee” means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company or any prospective employee who shall have received an offer of employment from the Company or any Parent or Subsidiary of the Company. The payment of a director’s fee by the Company shall not be sufficient to constitute “employment” by the Company.

(o) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(p) “Fair Market Value” means, as of any date, the value of the Capital Stock determined as follows:

(i) If the Capital Stock is listed on any established stock exchange, system or market, its Fair Market Value shall be the mean between the highest and lowest sales prices for the Capital Stock as quoted on such exchange, system or market for the last trading day prior to the time of determination as reported in the Wall Street Journal or such other source as the Plan Administrator deems reliable and;

(ii) In the absence of an established market for the Capital Stock, the Fair Market Value thereof shall be determined in good faith by the Plan Administrator.

(q) “Grantee” means an Eligible Individual who has been granted an Award.

(r) "Incentive Bonus Award" means the opportunity to earn a future cash payment tied to the level of achievement with respect to one or more Qualifying Performance Criteria for a performance period as established by the Plan Administrator.

(s) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(t) "Non-Employee Director" means a member of the Board who is not an employee of the Company or any Parent or Subsidiary of the Company.

(u) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(v) "Option" means a right to purchase Shares granted pursuant to the Plan.

(w) "Optionee" means a Participant who holds an Option or SAR.

(x) "Original Option Period" means the initial period or periods for which an Option or SAR may be exercised as determined by the Plan Administrator at the time of the Award or, if no such determination is made, a period of 10 years from the date of grant of the Award.

(y) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) "Participant" means any person who has an Award under the Plan including any person (including any estate) to whom an Award has been assigned or transferred in accordance with the Plan.

(aa) "Performance Share Award" means a grant of a right to receive Shares or Stock Units contingent on the achievement of performance or other objectives during a specified period.

(bb) "Performance Unit Award" means a grant of a right to receive a designated dollar value amount of Shares or Stock Units contingent on the achievement of performance or other objectives during a specified period.

(cc) "Plan" means this Stock and Incentive Plan of 2002.

(dd) "Plan Administrator" means the Board and/or any Committee appointed by the Board to administer the Plan; provided, however, that the Board, in its sole discretion, may, notwithstanding the appointment of any Committee to administer the Plan, exercise any authority under this Plan.

(ee) "Prior Stock Plans" means the Kennametal Inc. Stock Option and Incentive Plan of 1988, the Kennametal Inc. Stock Option and Incentive Plan of 1992, the Kennametal Inc. Stock Option and Incentive Plan of 1996, the Kennametal Inc. 1999 Stock Plan, and the Kennametal Inc. Stock Option and Incentive Plan of 1999.



(ff) “Qualifying Performance Criteria” means any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured over a period of time including any portion of a year, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified in the Award: (a) cash flow, (b) earnings (including earnings before interest, taxes, depreciation, and amortization or some variation thereof), (c) stock price, (d) return on equity, (e) total stockholder return, (f) return on capital, (g) return on assets or net assets, (h) revenue, (i) income or net income, (j) operating income or net operating income, (k) operating profit or net operating profit, (l) operating margin or profit margin, (m) return on operating revenue, and (n) market share. To the extent consistent with Section 162(m) of the Code and unless otherwise determined by the Committee at the time an Award is granted or as otherwise provided in an applicable Award agreement, the Plan Administrator shall appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary non-recurring items as described in management’s discussion and analysis of financial condition and results of operations or the financial statements and notes thereto appearing in the Company’s annual report to shareowners for the applicable year.

(gg) “Restricted Stock Award” means a grant of Shares subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Grantee, or achievement of performance or other objectives, as determined by the Plan Administrator.

(hh) “Restricted Unit Award” means a grant of Stock Units subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Plan Administrator.

(ii) “Retirement” means, in the case of an Employee, the termination of employment with the Company or any Subsidiary or Parent of the Company at a time when the Employee is eligible to receive immediately payable retirement benefits under a then existing retirement plan and, in the case of a Non-Employee Director, means retirement from service on the Board.

(jj) “SAR” means a stock appreciation right, which is the right to receive a payment in cash, Shares or Stock Units equal to the amount of appreciation, if any, in the Fair Market Value of a Share from the date of the grant of the right to the date of its payment.

(kk) “Share” means a share of Capital Stock.

(ll) “Share Award” means a grant of Shares without a risk of forfeiture and without other restrictions.

(mm) "Stock Unit" means the right to receive a Share at a future point in time.

(nn) "Stock Unit Award" means the grant of a Stock Unit without a risk of forfeiture and without other restrictions.

(oo) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

**Section 3. Administration.**

(a) The Plan shall be administered by the Plan Administrator.

(b) Subject to the provisions of this Plan and, in the case of a Committee, the specific duties delegated to or limitations imposed upon such Committee by the Board, the Plan Administrator shall have the authority, in its discretion:

(i) to establish, amend and rescind rules and regulations relating to the Plan;

(ii) to select the Eligible Individuals to whom Awards may from time to time be granted hereunder;

(iii) to determine the amount and type of Awards, including any combination thereof, to be granted to any Eligible Individual;

(iv) subject to Section 3(c) hereof, to grant Awards to Eligible Individuals and, in connection therewith, to determine the terms and conditions, not inconsistent with the terms of this Plan, of any such Award including, but not limited to, the number of Shares or Stock Units that may be issued or amount of cash that may be paid pursuant to the Award, the exercise or purchase price of any Share or Stock Unit, the circumstances under which Awards or any cash, Shares or Stock Units relating thereto are issued, retained, become exercisable or vested, are no longer subject to forfeiture or are terminated, forfeited or expire, based in each case on such factors as the Plan Administrator shall determine, in its sole discretion;

(v) to determine the Fair Market Value of the Capital Stock, in accordance with this Plan;

(vi) to establish, verify the extent of satisfaction of, or adjust any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award;

(vii) to approve forms of agreement for use under the Plan;

(viii) to determine whether and under what circumstances an Award may be settled in cash instead of Shares or Stock Units;

(ix) to determine whether, to what extent and under what circumstances Shares and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the participant (including providing for and determining the amount, if any, of any deemed earnings on any deferred amount during any deferral period);

(x) to determine whether and to what extent an adjustment is required under Section 10 of this Plan;

(xi) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and

(xii) to make all other determinations deemed necessary or advisable for the administration of this Plan.

(c) Notwithstanding anything contained in this Plan, the Plan Administrator may not:

(i) grant any Option or SAR in substitution for an outstanding Option or SAR except as provided in Section 10(b);

(ii) reduce the exercise price of an outstanding Option or SAR, whether through amendment, cancellation or replacement of such Option or SAR, unless such reduction is approved by the shareowners of the Company;

(iii) grant a Restricted Stock Award or Restricted Unit Award with a risk of forfeiture or restriction that lapses earlier than at the rate of one-third of the Shares subject to the Award on each of the first, second and third anniversary of the date of grant; provided, however, that the Plan Administrator may grant a Restricted Stock Award or Restricted Unit Award with a risk of forfeiture or restriction that lapses upon the later to occur of (x) the date of achievement of one or more performance criteria and (y) the one year anniversary of the date of grant of the Award;

(iv) grant a Performance Share Award or Performance Unit Award that vests earlier than the later to occur of (x) the date of achievement of one or more performance criteria and (y) the one year anniversary of the date of the Award;

(v) lapse or waive restrictions applicable to any Restricted Stock Award, Restricted Unit Award, Performance Share Award, or Performance Unit Award; or

(vi) grant any Share Award or Stock Unit Award to any officer or director of the Company except in lieu of salary or cash bonus.

(d) The limitations of Section 3(c) shall not apply to Awards for up to ten percent of the Shares under the Plan granted by a Committee composed entirely of "independent directors" (under all definitions of independence then applicable to the Company).

(e) Except as specifically provided in this Plan, no action of the Plan Administrator shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto.

(f) All decisions, determinations and interpretations of the Plan Administrator shall be final and binding on all Participants.

**Section 4. Shares Subject to the Plan.**

(a) The aggregate number of Shares which may be issued pursuant to the Plan shall be 3,750,000 plus Shares added to the Plan from the Prior Stock Plans pursuant to Sections 4(d) and 4(e) hereof.

(b) Upon shareowner approval of this Plan, no further grants or awards of any kind shall be made by the Company under its Prior Stock Plans.

(c) The number of Shares which may be issued under the Plan and covered by outstanding Awards is subject to adjustment as provided in Section 10.

(d) To the extent that Options granted under the Plan or under the Prior Stock Plans shall expire or terminate without being exercised or Shares awarded under the Plan or under the Prior Stock Plans shall be forfeited, such Shares shall remain available or be added to and shall increase the number of Shares available for purposes of the Plan.

(e) Shares delivered in payment of the purchase price in connection with the exercise of Options or Shares delivered or withheld to pay tax withholding obligations or otherwise under the Plan or under the Prior Stock Plans shall be added to and shall increase the number of Shares available for purposes of the Plan.

(f) The aggregate number of Shares that may be issued pursuant to Incentive Stock Options shall be limited to 3,750,000. Notwithstanding anything to the contrary in this Plan, the foregoing limitation shall be subject to adjustment under Section 10, but only to the extent that such adjustment will not affect the status of any Award intended to qualify as an Incentive Stock Option. The foregoing limitation shall not apply to the extent that it is no longer required in order for Options to qualify as Incentive Stock Options.

(g) The aggregate number of Shares issuable under all Awards granted under this Plan during any fiscal year to any one Eligible Individual shall not exceed 500,000. Notwithstanding anything to the contrary in this Plan, the foregoing limitation shall be subject to adjustment under Section 10, but only to the extent that such adjustment will not affect the status of any Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code. The foregoing limitation shall not apply to the extent that it is no longer required in order for compensation in connection with grants under this Plan to be treated as "performance-based compensation" under Section 162(m) of the Code.

(h) Capital Stock to be issued under the Plan may be either authorized and unissued Shares or Shares held in treasury by the Company.

**Section 5. Terms of Options and SARs.** Each Option and SAR granted under the Plan shall be evidenced by a written document (including an electronic version thereof) and shall be subject to the following terms and conditions:

(a) Subject to adjustment as provided in Section 10 of this Plan, the price at which a Share covered by an Option may be purchased shall not be less than the Fair Market Value thereof at the time the Option is granted. If required by the Code, if an Optionee owns (or is deemed to own under applicable provisions of the Code and rules and regulations promulgated thereunder) more than ten percent (10%) of the combined voting power of all classes of the stock of the Company (or any Parent or Subsidiary of the Company) and an Option granted to such Optionee is intended to qualify as an Incentive Stock Option, the price at which a Share covered by an Option may be purchased shall be not less than 110% of the Fair Market Value thereof at the time the Option is granted.

(b) The aggregate Fair Market Value of Shares with respect to which Incentive Stock Options are first exercisable by the Optionee in any calendar year (under all plans of the Company and its Subsidiaries and Parent) shall not exceed the limitations, if any, imposed by the Code.

(c) If any Option designated as an Incentive Stock Option, either alone or in conjunction with any other Option or Options, exceeds the foregoing limitation, or does not otherwise qualify for treatment as an Incentive Stock Option, all or the portion of such Option in excess of such limitation shall automatically be reclassified (in whole Share increments and without fractional Share portions) as a Nonstatutory Stock Option, with later granted Options being so reclassified first.

(d) Except as otherwise provided by the Plan Administrator, during the lifetime of the Optionee the Option or SAR may be exercised only by the Optionee and the Option or SAR shall not be transferable by the Optionee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. After the death of the Optionee, the Option or SAR may be transferred to the Company upon such terms and conditions, if any, as the Plan Administrator and the personal representative or other person entitled to the Option may agree within the period specified in this Section 5.

(e) An Option or SAR may be exercised in whole at any time, or in part from time to time, within the Original Option Period; *provided, however,* that, unless otherwise provided by the Plan Administrator:

(i) If the Optionee is an Employee who shall cease to be employed by the Company or any Subsidiary or Parent of the Company by reason of death, Disability or Retirement, the Option or SAR may be exercised only within three years after termination of employment and within the Original Option Period;

(ii) If the Optionee is an Employee who shall cease to be employed by the Company or any Subsidiary or Parent of the Company by reason of termination of the Optionee for cause, the Option or SAR shall forthwith terminate and the Optionee shall

not be permitted to exercise the Option or SAR following the Optionee's termination of employment;

(iii) If the Optionee is an Employee who shall cease to be employed by the Company or any Subsidiary or Parent of the Company by reason of the Optionee's voluntary termination or a termination of the Optionee other than for cause, the Option or SAR may be exercised only within the three months after the termination of employment and within the Original Option Period;

(iv) If the Optionee is a Non-Employee Director who shall cease to serve on the Board, the Option or SAR may be exercised only within three months after the cessation of Board service and within the Original Option Period or, if such cessation was due to death, Disability or Retirement, within three years after cessation of Board service and within the Original Option Period, unless such cessation of service as a Non-Employee Director was the result of removal for cause, in which case the Option or SAR shall forthwith terminate;

(v) Notwithstanding anything to the contrary contained in this Plan, each Option or SAR held by an Employee who is terminated by the Company or any Subsidiary or Parent of the Company for any reason during the two-year period following a Change in Control or a Non-Employee Director who is removed from the Board for any reason during the two-year period following a Change in Control shall immediately vest and may be exercised at any time within the three-month period after the termination of employment or cessation of Board service regardless of the Original Option Period;

(vi) If the Optionee shall die, the Option or SAR may be exercised by the Optionee's personal representative or persons entitled thereto under the Optionee's will or the laws of descent and distribution;

(vii) Except as provided in Sections 5(e)(v), (ix) and (x), the Option or SAR may not be exercised for more Shares (subject to adjustment as provided in Section 10) after the termination of the Optionee's employment, cessation of service as a Non-Employee Director or the Optionee's death (as the case may be) than the Optionee was entitled to purchase thereunder at the time of such Optionee's termination of employment, cessation of service as a Non-Employee Director or the Optionee's death;

(viii) To the extent provided by the Code, if an Optionee owns (or is deemed to own under applicable provisions of the Code and rules and regulations promulgated thereunder) more than 10% of the combined voting power of all classes of stock of the Company (or any Parent or Subsidiary of the Company) at the time an Option is granted to such Optionee and such Option is intended to qualify as an Incentive Stock Option, the Option, if not exercised within five years from the date of grant or any other period proscribed by the Code, will cease to be an Incentive Stock Option;

(ix) If the Optionee is an Employee who shall cease to be employed by the Company or any Subsidiary or Parent of the Company or is a Non-Employee Director who shall cease to serve on the Board by reason of death or Disability, as the case may

be, all Options and SARs held by the Optionee shall automatically vest and become exercisable in full as of the date that the Optionee's employment with the Company or any Subsidiary or Parent of the Company or service on the Board ceased; and

(x) In the event that an Optionee ceases to be employed by the Company or any Subsidiary or Parent of the Company or to serve on the Board, as the case may be, as a result of such Optionee's Retirement, all Options and SARs held by the Optionee which are not vested on the date of Retirement shall continue to vest and become exercisable in accordance with their original vesting schedule during the two-year period following such Optionee's Retirement. Any Options or SARs which remain unvested on the second anniversary of such Optionee's Retirement shall forthwith terminate on such date. In the event of the death or Disability of such Optionee during the two-year period following Retirement, all Options or SARs held by the Optionee shall automatically vest and become exercisable in full.

(f) Except as otherwise provided by the Plan Administrator, the purchase price of each Share purchased pursuant to an Option shall be paid in full at the time of each exercise (the "Payment Date") of the Option (i) in cash; (ii) by delivering to the Company a notice of exercise with an irrevocable direction to a registered broker-dealer under the Securities Exchange Act of 1934, as amended, to sell a sufficient portion of the Shares and deliver the sale proceeds directly to the Company to pay the exercise price; (iii) through the delivery to the Company (by attestation of Share ownership or as otherwise provided by the Plan Administrator) of previously-owned Shares having an aggregate fair market value equal to the price of the Shares being purchased pursuant to the Option; provided, however, that Shares delivered in payment of the Option price must have been purchased in the open market or held by the Participant for at least six (6) months in order to be utilized to pay the purchase price of the Option or must meet such other conditions as established by the Plan Administrator; or (iv) through any combination of the payment procedures set forth in subsections (i)-(iii) of this Section 5(f).

(g) Exercise of an Option or SAR in any manner shall result in a decrease in the number of Shares which thereafter may be available under the Option or SAR by the number of Shares as to which the Option or SAR is exercised. In addition, in the event of an Option granted in tandem with an SAR, the exercise of the Option in any manner shall result in a decrease in the number of Shares which thereafter may be available under the SAR by the number of Shares as to which the Option is exercised, and the exercise of the SAR in any manner shall result in a decrease in the number of Shares which thereafter may be available under the Option by the number of Shares as to which the SAR is exercised.

(h) The Plan Administrator, in its discretion, may authorize the issuance of "stock retention Options" under this Plan which provide, upon the exercise of an Option granted under this Plan or under any other stock plan (a "prior Option") and payment of the purchase price using previously-owned Shares, for the automatic issuance of a new Option under this Plan for up to the number of Shares equal to the number of previously-owned Shares delivered in payment of the exercise price of the prior Option, with an exercise price equal to the current Fair Market Value and for a term equal to the term of the prior Option.

(i) The Plan Administrator may include such other terms and conditions of Options or SARs not inconsistent with the foregoing as the Plan Administrator shall approve. Without limiting the generality of the foregoing sentence, the Plan Administrator shall be authorized to determine that Options or SARs shall be exercisable in one or more installments during the term of the Option or SAR as determined by the Plan Administrator.

**Section 6. Performance Share Awards, Performance Unit Awards, Restricted Stock Awards, Restricted Unit Awards, Share Awards and Stock Unit Awards.**

(a) Subject to the terms of this Plan, including Section 3(c) hereof, Performance Share Awards, Performance Unit Awards, Restricted Stock Awards, Restricted Unit Awards, Share Awards or Stock Unit Awards may be issued by the Plan Administrator to Eligible Individuals, either alone, in addition to, or in tandem with other Awards granted under the Plan and/or cash awards made outside of this Plan. Such Awards shall be evidenced by a written document (including an electronic version thereof) containing any provisions regarding (i) the number of Shares or Stock Units subject to such Award or a formula for determining such, (ii) the purchase price of the Shares or Stock Units, if any, and the means of payment for the Shares or Stock Units, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Shares or Stock Units granted, issued, retainable and/or vested, (iv) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Shares or Stock Units as may be determined from time to time by the Plan Administrator, including continued employment or service, (v) restrictions on the transferability of the Shares or Stock Units and (vi) such further terms and conditions in each case not inconsistent with this Plan as may be determined from time to time by the Plan Administrator.

(b) The grant, issuance, retention and/or vesting of Shares or Stock Units pursuant to any Performance Share Award, Performance Unit Award, Restricted Stock Award or Restricted Unit Award shall occur at such time and in such installments as determined by the Plan Administrator or under criteria established by the Plan Administrator and consistent with this Plan, including Section 3(c) hereof. The Plan Administrator shall have the right to make the timing of the grant and/or the issuance, ability to retain and/or vesting of Shares or Stock Units subject to continued employment, passage of time and/or such performance criteria as deemed appropriate by the Plan Administrator and consistent with this Plan, including Section 3(c) hereof. Notwithstanding anything to the contrary herein, the performance criteria for any Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Plan Administrator and specified at the time the Award is granted.

(c) Notwithstanding the foregoing, no single Share Award or Stock Unit Award to any one Grantee in any fiscal year shall be for more than 200 Shares.

(d) With respect to any Performance Share Award, Performance Unit Award, Restricted Stock Award or Restricted Unit Award:

(i) If, prior to a Change in Control, the designated goals have not been achieved within the designated period or the Grantee ceases to be employed by the Company or ceases to serve on the Board for any reason other than death, Disability or



Retirement prior to the lapse of any restrictions or vesting of the Award, the Grantee shall forfeit such Award;

(ii) Unless otherwise provided by the Plan Administrator at the time an Award is granted or in the applicable Award agreement, in the event that a Grantee ceases to be an Employee or to serve on the Board as a result of such Grantee's death, Disability or Retirement, all outstanding Awards held by such Grantee shall automatically vest and all restrictions shall lapse as of the date of such Grantee's death, Disability or Retirement;

(iii) Notwithstanding anything to the contrary contained in this Plan, each Award held by an Employee who is terminated by the Company or any Subsidiary or Parent of the Company for any reason during the two-year period following a Change in Control or a Non-Employee Director who is removed from the Board for any reason during the two-year period following a Change in Control shall automatically vest and all restrictions shall lapse as of the date of such Grantee's termination of employment or cessation of Board service; and

(iv) During the lifetime of the Grantee, the Award shall not be transferable otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order.

(e) Except as otherwise provided by the Plan Administrator, a Grantee who has received a Restricted Stock Award shall have all rights of a shareowner in such Shares including, but not limited to, the right to vote and receive dividends with respect thereto from and after the date of grant of such Award; *provided, however*, that Shares awarded pursuant to the Plan which have not vested or which contain restrictions or conditions may not be sold or otherwise transferred by the Grantee and stock certificates representing such Shares may bear a restrictive legend to that effect.

#### **Section 7. Incentive Bonus Awards.**

(a) Each Incentive Bonus Award will confer upon the Employee the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period established by the Plan Administrator.

(b) Each Incentive Bonus Award shall be evidenced by a document containing provisions regarding (a) the target and maximum amount payable to the Employee, (b) the performance criteria and level of achievement versus these criteria that shall determine the amount of such payment, (c) the term of the performance period as to which performance shall be measured for determining the amount of any payment, (d) the timing of any payment earned by virtue of performance, (e) restrictions on the alienation or transfer of the bonus prior to actual payment, (f) forfeiture provisions and (g) such further terms and conditions, in each case not inconsistent with this Plan as may be determined from time to time by the Plan Administrator. The maximum amount payable as a bonus may be a multiple of the target amount payable, but the maximum amount payable pursuant to that portion of an Incentive Bonus Award granted under this Plan for any fiscal year to any Employee that is intended to

satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall not exceed \$2,000,000.

(c) The Plan Administrator shall establish the performance criteria and level of achievement versus these criteria that shall determine the target and maximum amount payable under an Incentive Bonus Award, which criteria may be based on financial performance and/or personal performance evaluations. The Plan Administrator may specify the percentage of the target incentive bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Notwithstanding anything to the contrary herein, the performance criteria for any portion of an Incentive Bonus Award that is intended by the Plan Administrator to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Plan Administrator and specified at the time the Incentive Bonus Award is granted. The Plan Administrator shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any incentive bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

(d) The Plan Administrator shall determine the timing of payment of any incentive bonus. The Plan Administrator may provide for or, subject to such terms and conditions as the Plan Administrator may specify, may permit an election for the payment of any incentive bonus to be deferred to a specified date or event. An Incentive Bonus Award may be payable in Shares, Stock Units or in cash or other property, including any Award permitted under this Plan.

(e) Notwithstanding satisfaction of any performance goals, the amount paid under an Incentive Bonus Award on account of either financial performance or personal performance evaluations may be reduced by the Plan Administrator on the basis of such further considerations as the Plan Administrator shall determine.

#### **Section 8. Non-Employee Director Awards.**

Notwithstanding anything to the contrary contained in this Plan, each Non-Employee Director shall only be entitled to receive the following Awards under this Plan, effective as of January 1, 2006:

(a) Each Non-Employee Director shall receive a Nonstatutory Stock Option to purchase up to 5,000 shares, as determined by the Board, at Fair Market Value, such Option to Vest as to exercisability in 3 equal, annual installments and to have a term of ten (10) years.

(b) Each Non-Employee Director shall receive a Restricted Stock Award for Shares with a Fair Market Value of up to \$40,000, as determined by the Board, rounded to the nearest whole Share. Such Awards shall vest and the restrictions on transfer shall lapse as to one- third of the Shares subject to the Award on each anniversary of the date of grant provided that the Non-Employee Director continues to serve on the Board.

(c) Each new Non-Employee Director shall receive, as of the first date of service on the Board, a Nonstatutory Stock Option to purchase twice the number of Shares provided in the Nonstatutory Stock Option most recently granted to the Non-Employee Directors (other than the lead director) and a Restricted Stock Award based on the number of Shares provided in the Restricted Stock Award most recently granted to the Non-Employee Directors (other than the lead director) but pro rated for the amount of the fiscal year remaining as of the first date of service.

**Section 9. Tax Withholding.**

(a) Whenever Shares are to be issued under the Plan, the Company shall have the right to require the Grantee to remit to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements prior to the delivery of any certificate for such Shares; *provided, however*, that in the case of a Grantee who receives an Award of Shares under the Plan which is not fully vested, the Grantee shall remit such amount on the first business day following the Tax Date. The "Tax Date" for purposes of this Section 9 shall be the date on which the amount of tax to be withheld is determined. If an Optionee makes a disposition of Shares acquired upon the exercise of an Incentive Stock Option within the applicable disqualifying period, the Optionee shall promptly notify the Company and the Company shall have the right to require the Optionee to pay to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements.

(b) A Participant who is obligated to pay the Company an amount required to be withheld under applicable tax withholding requirements may pay such amount (i) in cash; (ii) in the discretion of the Plan Administrator, through the withholding by the Company of Shares otherwise deliverable to the Participant or through the delivery by the Participant to the Company of previously-owned Shares in each case having an aggregate Fair Market Value on the Tax Date equal to the tax obligation; or (iii) in the discretion of the Plan Administrator, through a combination of the foregoing.

**Section 10. Adjustment of Number and Price of Shares.**

(a) In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, reverse stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the Plan Administrator shall make an equitable adjustment to the shares to be issued under the Plan and to outstanding Awards to preserve the benefits or potential benefits of the Awards. Action by the Plan Administrator may include: (i) adjustment of the number and kind of securities which may be delivered under the Plan; (ii) adjustment of the number and kind of securities subject to outstanding Awards; (iii) adjustment of the exercise price of outstanding Options and SARs; (iv) adjustment of the share limitations contained in this Plan; and (v) any other adjustments that the Plan Administrator determines to be equitable. Any such adjustment shall be effective and binding for all purposes of the Plan and on each outstanding Award.

(b) Without limiting the foregoing, in the event that, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation,

the Board shall authorize the issuance or assumption of an Option in a transaction to which Section 424(a) of the Code applies, then, notwithstanding any other provision of the Plan, the Plan Administrator may grant an Option upon such terms and conditions as it may deem appropriate for the purpose of assumption of the old Option, or substitution of a new Option for the old Option, in conformity with the provisions of Code Section 424(a) and the rules and regulations thereunder, as they may be amended from time to time.

(c) No adjustment or substitution provided for in this Section 10 shall require the Company to issue or to sell a fractional share and the total adjustment or substitution with respect to each Award agreement shall be limited accordingly.

(d) Without limiting the foregoing, and notwithstanding anything to the contrary contained in the Plan or any document with respect to any Award, in the event of a Business Combination under the terms of which the holders of Capital Stock of the Company will receive upon consummation thereof cash for each share of Capital Stock of the Company surrendered pursuant to such Business Combination (the "Cash Purchase Price"), the Plan Administrator may provide that all outstanding Awards representing the right to purchase or receive Shares shall terminate upon consummation of the Business Combination and each such Award, including each Option and SAR, shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (i) the Cash Purchase Price multiplied by the number of Shares subject to such Award held by such Grantee exceeds (ii) the aggregate purchase or exercise price, if any, thereof.

**Section 11. Change in Control.** Unless the Board shall determine by resolution prior to a Change in Control, in the event of a Change in Control, the following provisions shall apply to Awards previously granted under the Plan, notwithstanding any provision herein or in any agreement to the contrary:

(a) All Options which provide for exercise in one or more installments shall become immediately exercisable in full immediately prior to the Change in Control; and

(b) All Awards which have not previously vested shall become vested and all restrictions on Awards shall lapse immediately prior to the Change in Control.

**Section 12. Termination of Employment and Forfeiture.** Notwithstanding any other provision of the Plan (other than provisions regarding Change in Control, which shall apply in all events), a Participant shall have no right to exercise any Option or vest in any Shares awarded under the Plan if following the Participant's termination of employment with the Company or any Subsidiary or Parent of the Company and within a period of two years thereafter, the Participant engages in any business or enters into any employment which the Board in its sole discretion determines to be either directly or indirectly competitive with the business of the Company or substantially injurious to the Company's financial interest (the occurrence of an event described above shall be referred to herein as "Injurious Conduct"). Furthermore, notwithstanding any other provision of the Plan to the contrary, in the event that a Participant receives or is entitled to the delivery or vesting of cash or Shares pursuant to an Award made during the 12-month period prior to the Participant's termination of employment with the Company or any Subsidiary or Parent of the Company or during the 24-month period

following the Participant's termination of such employment, then the Board, in its sole discretion, may require the Participant to return or forfeit to the Company the cash or Capital Stock received with respect to such Award (or its economic value as of (i) the date of the exercise of the Option or (ii) the date of grant or payment with respect to any other Award, as the case may be) in the event that the participant engages in Injurious Conduct.

**Section 13. Amendment and Discontinuance.** The Board may alter, amend, suspend or discontinue the Plan, provided that no such action shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto and, provided further, that the Board may not materially amend this Plan without shareowner approval.

**Section 14. Compliance with Governmental Regulations.** Notwithstanding any provision of the Plan or the terms of any agreement entered into pursuant to the Plan, the Company shall not be required to issue any securities hereunder prior to registration of the Shares subject to the Plan under the Securities Act of 1933, as amended, or the Exchange Act, if such registration shall be necessary, or before compliance by the Company or any Participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of the New York Stock Exchange, Inc. and any other exchange or market on which the Shares are listed or quoted. The Company shall use its reasonable best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

**Section 15. Compliance with Section 16.** With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 (or its successor rule). To the extent that any grant of an Award fails to so comply, it shall be deemed null and void to the extent permitted by law and to the extent deemed advisable by the Plan Administrator.

**Section 16. Participation by Foreign Nationals.** The Plan Administrator may, in order to fulfill the purposes of the Plan and without amending the Plan, modify grants to foreign nationals or United States citizens employed abroad in order to recognize differences in local law, tax policy or custom.

**Section 17. No Right to Employment.** The Plan shall not confer upon any Participant any right with respect to continuation of any employment or consulting relationship with the Company or membership on the Board, nor shall it interfere in any way with the right to terminate such Participant's employment or consulting relationship at any time, with or without cause.

**Section 18. Governing Law.** The validity, constrictions and effect of this Plan, agreements entered into pursuant to the Plan, and of any rules, regulations, determinations or decisions made by the Plan Administrator relating to the Plan or such agreements, and the rights of any and all persons having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with applicable federal laws and the laws of the Commonwealth of Pennsylvania, without regard to its conflict of laws principles.

**Section 19. Effective Date of Plan/Duration.** The Plan shall become effective upon approval of the Plan by the affirmative vote of holders of a majority of the outstanding Shares present and voting at a meeting of shareowners; provided that at least a majority of the outstanding Shares votes for, against or abstains on the matter and at least a majority of these Shares votes in favor of the Plan. No Award may be granted under the Plan after July 23, 2012. Awards granted on or prior to July 23, 2012 shall remain outstanding in accordance with this Plan and their respective terms.

**KENNAMETAL INC.**  
**2008 STRATEGIC TRANSFORMATIONAL EQUITY PROGRAM**

**KENNAMETAL INC.**, a Pennsylvania corporation (the "Company"), hereby establishes the **KENNAMETAL INC. 2008 STRATEGIC TRANSFORMATIONAL EQUITY PROGRAM** (the "Program"), in accordance with the provisions of the Kennametal Inc. Stock and Incentive Plan of 2002, as now or hereafter amended (the "Plan"), and the terms provided herein.

WHEREAS, the Company maintains the Plan for the benefit of its employees and that of its Subsidiaries;

WHEREAS, in order to further align the interests of key employees with the interests of the shareowners and to enhance the Company's ability to retain the employment of participants in the Program, the Company desires to provide long-term incentive compensation; and

WHEREAS, Section 6 of the Plan authorizes the Company to grant Stock Units under a Performance Share Award.

NOW, THEREFORE, the Committee hereby adopts the Program on the following terms and conditions:

1. Plan. In addition to the terms and conditions set forth herein, awards under the Program are subject to, and governed by, the terms and conditions set forth in the Plan, which terms are hereby incorporated by reference. Unless the context otherwise requires, capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan. In the event of any conflict between the provisions of the Program and the Plan, the Committee shall have full authority and discretion to resolve such conflict and any such determination shall be final and binding on the Participant (as defined below).

2. Effective Date. The effective date of this Program is October 1, 2007.

3. Eligibility.

3.1 The Chief Executive Officer of the Company (the "CEO") shall nominate the employees of the Company and its Subsidiaries (other than the CEO) who shall be eligible to participate in the Program. The Committee shall select, from a group consisting of the CEO and the CEO nominated employees, those individuals who shall participate in the Program (each a "Participant" and collectively the "Participants"). In the event that an employee is hired by the Company or a Subsidiary during the Performance Period, upon nomination by the CEO and to the extent consistent with Section 162(m) of the Code, the Committee shall determine whether such employee will become a Participant in the Program, subject to such adjustments as the Committee determines to be necessary or desirable.

3.2 Notwithstanding the foregoing or any provision of this Program to the contrary, the Committee may terminate a Participant's participation in this Program at any time if the Committee determines, in its sole discretion, that the Participant has experienced a change in status that no longer warrants participation in the Program, including, but not limited to, a

---

reassignment or transfer of position or authority resulting in a diminution of duties and/or responsibilities (“Change in Status”). In making decisions regarding a Participant’s continued participation in the Program, the Committee may consider any and all factors it considers relevant, including, but not limited to whether the Participant continues to: lead a corporate function, line business unit or strategic team/initiative; have a meaningful impact on the Company’s key financial or strategic business objectives and/or goals; be a critical resource in the development and execution of the Company’s long-term strategic plan; serve as an executive officer or have the potential to become an executive officer; perform consistently and satisfy expectations for their defined role; be a team player and role model for the Company’s core values; and/or have potential for a future leadership role.

#### 4. Stock Units.

4.1 The Committee shall determine the number of Stock Units to be awarded to each Participant. Each Stock Unit awarded under the Program shall represent a contingent right to receive one share of the Company’s Capital Stock as described more fully herein, to the extent such Stock Unit is earned and becomes payable pursuant to the terms of this Program. Notwithstanding, Stock Units as initially awarded have no independent economic value, but rather are mere units of measurement used for purpose of calculating the number of Shares, if any, to be delivered under the Program.

4.2 Stock Units shall be adjusted in accordance with the terms of the Program as described more fully herein. Notwithstanding any provision of this Program to the contrary, the Committee shall not use its discretionary authority to increase the number of Stock Units that would otherwise be earned upon full attainment of the Performance Conditions (as defined below) with respect to any Performance Share Award.

#### 5. Performance and Service Conditions.

5.1 Subject to Section 8, sixty-five percent (65%) of the total number of Stock Units that may be earned by a Participant will be based on the Company’s adjusted earnings per share (“EPS”), and thirty-five percent (35%) of the total number of Stock Units that may be earned by a Participant will be based on total shareholder return (“TSR”) (each a “Performance Condition” and collectively the “Performance Conditions”). The Performance Conditions shall be measured at one or more measurement dates (“Measurement Dates”) during the performance period of October 1, 2007 through September 30, 2011 (the “Performance Period”), each as approved in writing by (and determined in accordance with the procedures established by) the Committee on November 26, 2007 and on file with the Committee; provided, however, that, except as otherwise specifically provided herein, the ability to earn Stock Units and to receive payment thereon under the Program is expressly contingent upon: (a) achievement of the Performance Conditions; (b) satisfaction of the Service Condition (as defined below); and (c) otherwise satisfying all other terms and conditions of the Program.

5.2 Except as otherwise provided in Section 8, each Participant must be actively employed by the Company on, and not Separate from Service before, the Payment Date to be eligible to receive payment of any Stock Units earned under the Program (the “Service Condition”). For purposes of this Program, “Separation from Service” shall mean the

---



Participant's death, retirement or other termination of employment with the Company and all of its controlled group members within the meaning of Section 409A of the Code. For purposes hereof, the determination of controlled group members shall be made pursuant to the provisions of Section 414(b) and 414(c) of the Code; provided that the language "at least 50 percent" shall be used instead of "at least 80 percent" in each place it appears in Section 1563(a)(1),(2) and (3) of the Code and Treas. Reg. § 1.414(c)-2; provided, further, where legitimate business reasons exist (within the meaning of Treas. Reg. § 1.409A-1(h)(3)), the language "at least 20 percent" shall be used instead of "at least 80 percent" in each place it appears. Whether a Participant has a Separation from Service will be determined based on all of the facts and circumstances and in accordance with the guidance issued under Section 409A.

#### 6. Issuance and Distribution.

6.1 The Committee shall certify in writing prior to payment the extent to which the applicable Performance Conditions and any other material terms of the Program have been achieved. For purposes of this provision, and for so long as the Code permits, the approved minutes of the Committee meeting in which the certification is made may be treated as written certification.

6.2 Subject to the terms and conditions of this Program, Stock Units earned by a Participant will be settled and paid in Shares of the Company's Capital Stock as soon as practicable following the end of the Performance Period on a date determined in the Company's discretion, but in no event later than March 15<sup>th</sup> of the calendar year following the calendar year in which the Performance Period ends (the "Payment Date").

6.3 Subject to the terms and conditions of this Program, in the event a Participant Separates from Service on account of: (a) death or Disability during the Performance Period; (b) an involuntary termination by the Company without cause during the Performance Period; or (c) on account of Retirement, the Stock Units, to the extent earned by the Participant, shall be paid as soon as practicable following the date of such Separation from Service, but in no event later than March 15<sup>th</sup> of the calendar year following the calendar year in which such termination occurred, in accordance with the provisions of Section 8 herein.

6.4 Notwithstanding any other provision of this Program, in the event of a Change in Control, any Stock Units earned by the Participant based on Measurement Dates prior to the closing date of the Change-in-Control transaction shall be paid on the closing date of the Change in Control transaction; provided, further, in the event of a Change in Control, Stock Units may, in the Committee's discretion, be settled in cash and/or securities or other property.

7. Dividends. Stock Units will not be credited with dividends that are paid on the Company's common stock.

#### 8. Change in Participant's Status.

##### 8.1 Death or Disability.

(a) In the event a Participant Separates from Service during the Performance Period on account of death or Disability, the Service Condition will be waived, the Performance

---

Conditions will be deemed to have been achieved and the Participant will be deemed to have earned that number of such Participant's Stock Units determined by: (i) multiplying .50 by the total number of Stock Units in the Participant's Performance Share Award; and (ii) multiplying the resulting number of Stock Units determined under Subsection 8.1(a)(i) by the percentage determined by dividing (x) the number of completed months starting with October 2007 and ending with the month of the Participant's death or Disability, by (y) the total number of months in the Performance Period provided, however, that the Committee may determine, in its sole discretion at the time of Separation of Service, that the Participant shall have earned a greater number of such Participant's Stock Units. Stock Units that become payable under this Section 8.1(a) shall be paid and settled as provided in Section 6.3 above.

(b) In the event a Participant Separates from Service during the period between the end of the Performance Period and the Payment Date on account of death or Disability, the Service Condition will be waived and the Participant shall be entitled to receive payment for any Stock Units that have been earned based on Measurement Dates prior to the date of Separation from Service. Stock Units that become payable under this Section 8.1(b) shall be paid and settled as provided in Section 6.2 above.

#### 8.2 Retirement.

(a) In the event a Participant Separates from Service during the Performance Period on account of Retirement, all Stock Units granted to the Participant shall be cancelled and forfeited, whether payable or not, without payment by the Company or any Affiliate; provided, however, that the Committee may, in its sole discretion at the time of Retirement, waive the Service Condition and determine that any Stock Units that have been earned based on Measurement Dates prior to the date of Separation from Service shall not be cancelled and forfeited. Stock Units, if any, that become payable under this Section 8.2(a) shall be paid and settled as provided in Section 6.3 above.

(b) In the event a Participant Separates from Service during the period between the end of the Performance Period and the Payment Date on account of Retirement, all Stock Units granted to the Participant shall be cancelled and forfeited, whether payable or not, without payment by the Company or any Affiliate; provided, however, that the Committee may, in its sole discretion at the time of Retirement, waive the Service Condition and determine that any Stock Units that have been earned based on Measurement Dates prior to the date of Separation from Service shall not be cancelled and forfeited. Stock Units, if any, that become payable under this Section 8.2(b) shall be paid and settled as provided in Section 6.2 above.

#### 8.3 Involuntary Termination (without cause).

(a) In the event a Participant Separates from Service on account of an involuntary termination by the Company without cause during the Performance Period, the Service Condition will be waived and the Participant shall be entitled to receive payment for any Stock Units that have been earned based on Measurement Dates prior to the date of Separation from Service. Stock Units that become payable under this Section 8.3 shall be paid and settled as provided in Section 6.3 above.

---

(b) In the event a Participant Separates from Service during the period between the end of the Performance Period and the Payment Date on account of an involuntary termination by the Company without cause, the Service Condition will be waived and the Participant shall be entitled to receive payment for any Stock Units that have been earned based on Measurement Dates prior to the date of Separation from Service. Stock Units that become payable under this Section 8.3(b) shall be paid and settled as provided in Section 6.2 above.

8.4 Other Separations from Service. In the event a Participant Separates from Service for any other reason (other than death, Disability, Retirement, or an involuntary termination by the Company without cause), including, but not limited to, voluntarily by the Participant or by the Company with cause, prior to the Payment Date, all Stock Units granted to the Participant shall be cancelled and forfeited, whether payable or not, without payment by the Company or any Affiliate.

8.5 Termination of Participation (Change in Status). In the event the Committee terminates a Participant's participation in the Program on account of a Change in Status during the Performance Period, all Stock Units that have not been earned based on Measurement Dates prior to the date the Participant's participation in the Program terminated shall be cancelled and forfeited without payment by the Company or any Affiliate; provided, however, that the Committee may, in its sole discretion at the time the Participant's participation in the Program is terminated, determine that all, or any portion of, such Stock Units shall not be cancelled and forfeited. Stock Units that are not forfeited on account of a Change in Status shall remain subject to all of the terms and conditions of the Program, including but not limited to, the Service Condition and the attainment of Performance Conditions for any remaining Measurement Dates, as applicable. Stock Units, if any, that become payable under this Section 8.5 shall be paid and settled as provided in Section 6.2 above

8.6 Notwithstanding any other provision of this Program to the contrary, any Stock Units awarded to a Participant that are not earned or deemed earned pursuant to this Section 8 shall be cancelled and forfeited without payment by the Company or any Affiliate.

8.7 Any payments due a deceased Participant shall be paid to the Participant's estate as provided herein. For purposes of the Program, the term "Disability" shall have the meaning ascribed thereto under the Plan, and the term "Retirement" shall mean that a Participant voluntarily Separates from Service at a time when the Participant meets either of the following criteria: (a) a Participant is at least 55 years old and has at least 10 years of service to the Company (based upon the Participant's most recent date of hire); or (b) a Participant is a participant under the Company's Supplemental Executive Retirement Plan and has attained the age of 56.

9. Responsibilities of the Committee. In addition to the authority granted to the Committee under the Plan, the Committee has responsibility for all aspects of the Program's administration, including but not limited to: ensuring that the Program is administered in accordance with the provisions of the Program and the Plan; approving Participants; authorizing awards of Stock Units to Participants; and adjusting Stock Units as authorized hereunder consistent with the terms of the Program. All decisions of the Committee under the Program shall be final, conclusive and binding on all interest parties. No member of the Committee shall be liable for

---

any action or determination made in good faith on the Program or any Stock Units awarded thereunder.

#### 10. Tax Consequences/Withholding.

10.1 It is intended that: (a) a Participant's Stock Units shall be considered to be subject to a substantial risk of forfeiture in accordance with those terms as defined in Section 409A and 3121(v)(2) of the Code; and (b) a Participant shall have merely an unfunded, unsecured promise to be paid a benefit, and such unfunded promise shall not consist of a transfer of "property" within the meaning of Code Section 83.

10.2 At the Company's option, all applicable federal, state and local income and employment taxes (including taxes of any foreign jurisdiction) which the Company is required to withhold or remit at any time with respect to the Stock Units may be settled by either (a) the withholding by the Company of that portion of the Stock Units having an aggregate Fair Market Value on the Tax Date equal to the tax obligation, with the remaining portion payable to the Participant, or (b) the Company requesting that Participant timely remit to the Company any such payment in full, in cash or check, or as otherwise authorized under the terms of the Plan.

10.3 This Program is intended to be excepted from coverage under Section 409A of the Code and the regulations promulgated thereunder and shall be construed accordingly. Notwithstanding any provision of this Program to the contrary, if any benefit provided under this Program is subject to the provisions of Section 409A of the Code and the regulations issued thereunder (and not excepted therefrom), the provisions of the Program shall be administered, interpreted and construed in a manner necessary to comply with Section 409A and the regulations issued thereunder (or disregarded to the extent such provision cannot be so administered, interpreted, or construed). Notwithstanding, Section 409A of the Code may impose upon the Participant certain taxes or other charges for which the Participant is and shall remain solely responsible, and nothing contained in this Program or the Plan shall be construed to obligate the Company or any Affiliate for any such taxes or other charges.

10.4 Notwithstanding any provision of the Program to the contrary, if a Performance Share Award is intended to qualify as performance-based compensation under Section 162(m) of the Code and the regulations issued thereunder and a provision of this Program would prevent such award from so qualifying, such provision shall be administered, interpreted and construed to carry out such intention (or disregarded to the extent such provision cannot be so administered, interpreted or construed).

#### 11. Protective Covenants.

11.1 General. The Participants acknowledge and recognize the highly competitive nature of the business of the Company and its Affiliates and understand and agree that they owe the Company a strict duty of loyalty. Toward that end, the Participants hereunder agree that this Section 11 is reasonable and necessary in order to protect the legitimate business interests and goodwill of the Company, including the Company's trade secrets, valuable confidential business and proprietary information, and specialized training provided to Participants and other employees of the Company.

---

11.2 Non Competition and Non Solicitation. During the term of the Participant's employment and for eighteen (18) months following the termination of employment, the Participant agrees that he/she will not, in any geographic region in which the Company or any of its Affiliates offers or sells products or services or conducts business, directly or indirectly, on behalf of him/herself or on behalf of others:

(a) engage his/her services with a competitor of the Company as a principal, executive, manager, director, employee, agent or consultant. This restriction applies equally to services the Participant may wish to provide directly or indirectly through any corporation, firm or organization in which the Participant may be an officer, director, employee, substantial shareholder, partner, member or be otherwise affiliated. A competitor of the Company is defined as any entity that provides products or services that are the same as or similar to any products or services offered by the Company; or

(b) induce or attempt to induce any Company employee to terminate employment with the Company, hire or participate in the hiring of any Company employee, or interfere with or attempt to disrupt the relationship, contractual or otherwise, between the Company and any Company employee. For purposes of this paragraph, a Company employee means any person employed by the Company or any of its Affiliates during the Performance Period or within six (6) months of the date of any action of Participant that violates this paragraph.

Participant acknowledges that the broad geographic restriction set forth above is reasonable because the Company offers its products and services in a global, international market. Participant further covenants and agrees that the geographic, length of term and types of activities restricted (non-competition restrictions) contained in this Agreement are reasonable and necessary to protect the legitimate business interests of the Company because of the scope of the Company's business. Participant acknowledges that these non-competition restrictions are reasonable and necessary and will not prevent Employee from being gainfully employed.

11.3 The Participants each agree that he/she will not directly or indirectly assist others in engaging in any of the activities, which are prohibited under Sections 11.2 above.

11.4 It is expressly understood and agreed that although the Participants and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Program is unenforceable against any Participant, the provisions of this Program shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable against such Participant. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Program is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein. The protective covenants set forth

---

in this Section 11 shall be extended by any amount of time that a Participant is in breach of such covenants, such that the Company receives the full benefit of the time duration set forth above.

12. **Confidential Information and Trade Secrets.** The Participants and the Company agree that certain materials, including, but not limited to, information, data and other materials relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans or the business and affairs of the Company and its Affiliates, constitute proprietary confidential information and trade secrets. Accordingly, the Participants will not at any time during or after a Participant's employment with the Company (including any Affiliate) disclose or use for such Participant's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its Affiliates, any proprietary confidential information or trade secrets, provided that the foregoing shall not apply to information which is not unique to the Company or any of its Affiliates or which is generally known to the industry or the public other than as a result of such Participant's breach of this covenant. The Participants agree that upon termination of employment with the Company (including any Affiliate) for any reason, the Participants will immediately return to the Company all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, which in any way relate to the business of the Company and its Affiliates. The Participants further agree that the Participants will not retain or use for their own account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or any of its Affiliates.

13. **Remedies/Forfeiture.**

13.1 The Participants acknowledge that a violation or attempted violation on a Participant's part of Sections 11 and 12 will cause irreparable damage to the Company and its Affiliates, and the Participants therefore agree that the Company and its Affiliates shall be entitled as a matter of right to an injunction, out of any court of competent jurisdiction, restraining any violation or further violation of such promises by the Participants or a Participant's employees, partners or agents. The Participants agree that such right to an injunction is cumulative and in addition to whatever other remedies the Company (including any Affiliate) may have under law or equity. Specifically, the Participants agree that such right to an injunction is cumulative and in addition to the Participants' obligations to make timely payment to the Company as set forth in Section 13.2 of this Program. ***The Participants further acknowledge and agree that a Participant's Performance Share Award and Stock Units granted thereunder shall be cancelled and forfeited without payment by the Company if such Participant breaches any of his or her obligations set forth in Section 11 and 12 herein.***

13.2 At any point after becoming aware of a breach of any obligation set forth in Sections 11 and 12 of this Program, the Company shall provide notice of such breach to a Participant. By agreeing to participate in this Program, the Participants agree that within ten (10) days after the date the Company provides such notice, a Participant shall pay to the Company, in a form acceptable to the Company, a dollar amount (determined as of the date of distribution) equal to any and all distributions paid to or on behalf of such Participant under this Program. The Participants agree that failure to make such timely payment to the Company

---

constitutes an independent and material breach of the terms and conditions of this Program, for which the Company may seek recovery of the unpaid amount as liquidated damages, in addition to all other rights and remedies the Company may have resulting from a Participant's breach of the obligations set forth in Sections 11 and 12. The Participants agree that timely payment to the Company as set forth in this provision of the Program is reasonable and necessary because the compensatory damages that will result from breaches of Sections 11 and/or 12 cannot readily be ascertained. Further, the Participants agree that timely payment to the Company as set forth in this provision of the Program is not a penalty, and it does not preclude the Company from seeking all other remedies that may be available to the Company, including without limitation those set forth in this Section 13.

14. Assignment/Nonassignment.

14.1 The Company shall have the right to assign this Program and the Participants agree to remain obligated by all provisions of this Program that are assigned to any successor, assign or surviving entity. Any successor to the Company is an intended third party beneficiary of this Program.

14.2 The Stock Units shall not be sold, pledged, assigned, hypothecated, transferred or disposed of (a "Transfer") in any manner, other than by will or the laws of descent and distribution. Any attempt by a Participant to Transfer the Stock Units in violation of the terms of the Program shall render the Stock Units null and void, and result in the immediate forfeiture of such Stock Units, without payment by the Company or any Affiliate.

15. Impact on Benefit Plans. Payments under the Program shall not be considered as earnings for purposes of the Company's and/or Affiliate's qualified retirement plans or any other retirement or benefit plan unless specifically provided for therein. Nothing herein shall prevent the Company or any Affiliate from maintaining additional compensation plans and arrangements for its employees.

16. Successors; Changes in Stock. The obligation of the Company under the Program shall be binding upon the successors and assigns of the Company. In the event of a corporate transaction, stock split, stock dividend, or similar event, the Stock Units and the Shares of Company Capital Stock shall be appropriately adjusted to prevent dilution or enlargement of the rights of Participants which would otherwise result from any such event as provided under the terms of the Plan, provided that any such adjustment shall be consistent with Code Sections 162(m) and 409A, as applicable. Notwithstanding, in the case of a Change-in-Control, any obligation under the Program shall be handled in accordance with the terms of Section 6 hereof.

17. Governing Law, Jurisdiction, and Venue.

17.1 This Program shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the principles of conflicts of law.

17.2 Participant hereby irrevocably submits to the personal and exclusive jurisdiction of the United States District Court for the Western District of Pennsylvania or the Court of Common Pleas of Allegheny County, Pennsylvania in any action or proceeding arising

---

out of, or relating to, this Program (whether such action or proceeding arises under contract, tort, equity or otherwise). Participant hereby irrevocably waives any objection which Participant now or hereafter may have to the laying of venue or personal jurisdiction of any such action or proceeding brought in said courts.

17.3 Jurisdiction over, and venue of, any such action or proceeding shall be exclusively vested in the United States District Court for the Western District of Pennsylvania or the Court of Common Pleas of Allegheny County, Pennsylvania.

17.4 Provided that the Company commences any such action or proceeding in the courts identified in Section 17.3, Participant irrevocably waives Participant's right to object to or challenge the above selected forum on the basis of inconvenience or unfairness under 28 U.S.C. § 1404, 42 Pa. C.S. § 5322 or similar state or federal statutes. Participant agrees to reimburse the Company for all of the attorneys fees and costs it incurs to oppose Participant's efforts to challenge or object to litigation proceeding in the courts identified in Section 17.3 with respect to actions arising out of or relating to this Program (whether such actions arise under contract, tort, equity or otherwise).

18. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Program shall in no way be construed to be a waiver of such provision or of any other provision hereof.

19. Severability. In the event that any one or more of the provisions of this Program shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

20. Funding. The Program is not funded and all amounts payable hereunder, if any, shall be paid from the general assets of the Company. No provision contained in this Program or the Plan and no action taken pursuant to the provisions of this Program or the Plan shall create a trust of any kind or require the Company to maintain or set aside any specific funds to pay benefits hereunder. To the extent a Participant acquires a right to receive payments from the Company under the Program, such right shall be no greater than the right of any unsecured general creditor of the Company.

21. Headings. The descriptive headings of the Sections of this Program are inserted for convenience of reference only and shall not constitute a part of this Program.

22. Amendment or Termination of this Program. This Program may be modified, amended, suspended or terminated by the Committee at any time, provided that no such action shall deprive any Participant without such Participant's consent of any rights theretofore granted pursuant to this Program. Notwithstanding the foregoing or any provision of this Program to the contrary, that the Company may, in its sole discretion and without the Participant's consent, modify or amend the terms of the Plan or a Performance Share Award, or take any other action it deems necessary or advisable, to cause the Plan to comply with Section 409A (or an exception thereto). Any modification, amendment, suspension or termination shall only be effective upon a writing issued by the Company, and a Participant shall not offer evidence of any purported oral modifications or amendments to vary or contradict the terms of this Program document.



KENNAMETAL INC.  
2008 STRATEGIC TRANSFORMATIONAL EQUITY PROGRAM

[DATE]

[NAME AND ADDRESS]

Dear [NAME]:

Pursuant to the terms and conditions of the Kennametal Inc. 2008 Strategic Transformational Equity Program (the "Program"), the Compensation Committee of the Board of Directors of Kennametal Inc. (the "Committee") has awarded you \_\_\_\_\_ Stock Units (the "Award"). The terms and conditions of your Award are governed by the provisions of the Program document attached hereto as Exhibit A, the terms of which are hereby incorporated by reference. Capitalized terms not otherwise defined herein shall each have the meaning assigned to them in the Program.

This Award will be countersigned by the Company upon receipt of your signed acknowledgment and acceptance as set forth below, provided it is received on or before the close of business Friday, December 14, 2007.

**Acknowledgment**

I hereby acknowledge and accept the Award described above subject to all of the terms and conditions of the Program, including, without limitation, the forfeiture and covenant provisions set forth in Sections 11, 12 and 13 of the Program, regardless of whether the Award ever results in a payment under the Program. I further acknowledge receipt of a copy of the Program document and the Plan, and I agree to be bound by all the provisions of the Program and the Plan, as amended from time to time.

By signing below, I acknowledge that: (i) I have read and understand the Program including, without limitation, the provisions that require me to repay monies to the Company if I breach Section 11 or 12 of the Program; (ii) the Stock Units that have been awarded to me have no independent economic value, but rather are mere units of measurement to be used in calculating benefits, if any, available under the Program; (iii) I agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under this Agreement, the Program or the Plan; and (iv) my decision to participate in the Program is completely voluntary and done with full knowledge of its terms. ***I further acknowledge and agree that, except as otherwise specifically provided in Section 8 of the Program, in the event I Separate from Service prior to the Payment Date, the Stock Units awarded to me shall be cancelled and forfeited, whether payable or not, without payment by the Company or any Affiliate.***

Participant  
Signature: \_\_\_\_\_  
Name \_\_\_\_\_

Date: \_\_\_\_\_

Company  
Signature: \_\_\_\_\_  
Name \_\_\_\_\_  
Title: \_\_\_\_\_

Date: \_\_\_\_\_

I, Carlos M. Cardoso, certify that:

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

Date: February 6, 2008

/s/ Carlos M. Cardoso

Carlos M. Cardoso  
Chairman, President and  
Chief Executive Officer

I, Frank P. Simpkins, certify that:

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

Date: February 6, 2008

/s/ Frank P. Simpkins

Frank P. Simpkins  
Vice President and  
Chief Financial Officer

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

In connection with the Quarterly Report of Kennametal Inc. (the "Corporation") on Form 10-Q for the period ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

/s/ Carlos M. Cardoso

\_\_\_\_\_  
Carlos M. Cardoso  
Chairman, President and Chief Executive Officer  
Kennametal Inc.

February 6, 2008

/s/ Frank P. Simpkins

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

February 6, 2008

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