

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

Commission file number 1-5318

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

PENNSYLVANIA  
(State or other jurisdiction  
of incorporation)

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

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

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

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

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

TITLE OF EACH CLASS	OUTSTANDING AT OCTOBER 31, 1996
Capital Stock, par value \$1.25 per share	26,747,827

KENNAMETAL INC.  
FORM 10-Q  
FOR QUARTER ENDED SEPTEMBER 30, 1996

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## PART I. FINANCIAL INFORMATION

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

(in thousands)	September 30, 1996	June 30, 1996
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 23,427	\$ 17,090
Accounts receivable, less allowance for doubtful accounts of \$9,811 and \$9,296	184,511	189,820
Inventories	213,418	204,934
Deferred income taxes	24,924	24,620
Total current assets	446,280	436,464
Property, Plant and Equipment:		
Land and buildings	157,888	156,064
Machinery and equipment	437,112	415,443
Less accumulated depreciation	(318,261)	(304,400)
Net property, plant and equipment	276,739	267,107
Other Assets:		
Investments in affiliated companies	10,361	8,742
Intangible assets, less accumulated amortization of \$21,379 and \$20,795	43,363	33,756
Deferred income taxes	41,172	41,757
Other	13,016	11,665
Total other assets	107,912	95,920
Total assets	\$830,931	\$799,491
<b>LIABILITIES</b>		
Current Liabilities:		
Current maturities of term debt and capital leases	\$ 17,773	\$ 17,543
Notes payable to banks	56,418	57,549
Accounts payable	58,033	64,663
Accrued vacation pay	20,344	19,228
Other	79,325	59,830
Total current liabilities	231,893	218,813
Term Debt and Capital Leases, Less Current Maturities	56,389	56,059
Deferred Income Taxes	20,685	20,611
Other Liabilities	55,708	52,559
Total liabilities	364,675	348,042
Minority Interest in Consolidated Subsidiaries	13,048	12,500
<b>SHAREHOLDERS' EQUITY</b>		
Shareholders' Equity:		
Preferred stock, 5,000 shares authorized; none issued	-	-
Capital stock, \$1.25 par value; 70,000 shares authorized; 29,370 shares issued	36,712	36,712
Additional paid-in capital	88,085	87,417
Retained earnings	362,788	351,594
Treasury shares, at cost; 2,622 and 2,667 shares held	(35,171)	(35,734)
Cumulative translation adjustments	794	(1,040)
Total shareholders' equity	453,208	438,949
Total liabilities and shareholders' equity	\$830,931	\$799,491

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,	
	1996	1995
OPERATIONS:		
Net sales	\$275,203	\$254,903
Cost of goods sold	160,493	148,461
Gross profit	114,710	106,442
Research and development expenses	5,739	4,964
Selling, marketing and distribution expenses	63,019	59,375
General and administrative expenses	18,206	15,692
Amortization of intangibles	546	384
Operating Income	27,200	26,027
Interest expense	2,642	2,939
Other income (expense)	445	(249)
Income before taxes	25,003	22,839
Provision for income taxes	9,800	9,200
Net income	\$ 15,203	\$ 13,639
PER SHARE DATA:		
Earnings per share	\$ 0.57	\$ 0.51
Dividends per share	\$ 0.15	\$ 0.15
Weighted average shares outstanding	26,729	26,597

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)

	Three Months Ended September 30,	
	1996	1995
<b>OPERATING ACTIVITIES:</b>		
Net income	\$15,203	\$13,639
Adjustments for noncash items:		
Depreciation and amortization	9,948	9,767
Other	2,335	2,970
Changes in certain assets and liabilities, net of effects of acquisitions:		
Accounts receivable	9,647	2,537
Inventories	(2,551)	(13,046)
Accounts payable and accrued liabilities	2,702	(4,848)
Other	(344)	3,868
Net cash flow from operating activities	36,940	14,887
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(14,615)	(18,030)
Disposals of property, plant and equipment	16	1,008
Acquisitions, net of cash	(14,102)	-
Other	1,938	(418)
Net cash flow used for investing activities	(26,763)	(17,440)
<b>FINANCING ACTIVITIES:</b>		
Increase (decrease) in short-term debt	(1,406)	8,498
Increase in term debt	403	1,041
Reduction in term debt	(312)	(1,879)
Dividend reinvestment and employee stock plans	1,230	819
Cash dividends paid to shareholders	(4,009)	(3,987)
Net cash flow from (used for) financing activities	(4,094)	4,492
Effect of exchange rate changes on cash	254	(130)
<b>CASH AND EQUIVALENTS:</b>		
Net increase in cash and equivalents	6,337	1,809
Cash and equivalents, beginning	17,090	10,827
Cash and equivalents, ending	\$23,427	\$12,636
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid	\$ 1,288	\$ 1,654
Income taxes paid	3,994	4,995

See accompanying notes to condensed consolidated financial statements.

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

1. The condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company's 1996 Annual Report. The condensed consolidated balance sheet as of June 30, 1996 has been derived from the audited balance sheet included in the Company's 1996 Annual Report. These interim statements are unaudited; however, management believes that all adjustments necessary for a fair presentation have been made and all adjustments are normal, recurring adjustments. The results for the three months ended September 30, 1996 are not necessarily indicative of the results to be expected for the full fiscal year.
2. Inventories are stated at lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of domestic inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The Company used the LIFO method of valuing its inventories for approximately 55 percent of total inventories at September 30, 1996. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on management's projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.
3. The major classes of inventory as of the balance sheet dates were as follows (in thousands):

	September 30, 1996	June 30, 1996
Finished goods	\$172,899	\$169,108
Work in process and powder blends	58,125	59,326
Raw materials and supplies	21,861	16,514
Inventories at current cost	252,885	244,948
Less LIFO valuation	(39,467)	(40,014)
Total inventories	\$213,418	\$204,934

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

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

5. Effective July 1, 1996, the company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The adoption of SFAS No. 121 did not have an impact on the financial statements, as the statement is consistent with existing company policy.
6. During the quarter and on October 1, 1996, the company acquired three companies, with annual sales totaling approximately \$22 million, for a total consideration of approximately \$19 million. The acquisitions have been accounted for using the purchase method of accounting. The consolidated financial statements include the operating results of each business from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not significant.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

There were no material changes in financial position, liquidity or capital resources between June 30, 1996 and September 30, 1996. The ratio of current assets to current liabilities was 1.9 as of September 30, 1996 and 2.0 as of June 30, 1996. The debt to capital ratio (i.e., total debt divided by the sum of total debt and shareholders' equity) was 22 percent as of September 30, 1996, and 23 percent as of June 30, 1996.

Capital expenditures are estimated to be \$70-\$80 million in fiscal year 1997. Expenditures will be used primarily to construct a new corporate headquarters and a manufacturing facility in China, to acquire additional client-server information systems and to upgrade machinery and equipment. Capital expenditures are being financed with cash from operations and borrowings under existing revolving credit agreements with banks.

RESULTS OF OPERATIONS

SALES AND EARNINGS

During the quarter ended September 30, 1996, consolidated sales were \$275 million, up 8 percent from \$255 million in the same quarter last year. Net income was \$15.2 million, or \$0.57 per share, as compared with net income of \$13.6 million, or \$0.51 per share in the same quarter last year.

For the quarter ended September 30, 1996, sales increased in all markets with the exception of the Europe Metalworking market. The Industrial Supply market accounted for the largest sales gain as a result of increased mail order sales through J&L Industrial Supply as well as additional Full Service Supply programs. Earnings benefited from productivity improvements related to the Focused Factory initiative and modest price increases. This was offset by a less favorable sales mix and slightly lower production levels.

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

	Three Months Ended		
	September 30,		
	1996	1995	% Change
By Market:			
Metalworking:			
North America	\$ 90,907	\$ 87,560	4%
Europe	60,694	65,383	(7)
Asia-Pacific	10,400	7,994	30
Industrial Supply	73,278	56,251	30
Mining and Construction	39,924	37,715	6
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Net sales	\$275,203	\$254,903	8%
	=====	=====	===
By Geographic Area:			
Within the United States	\$177,500	\$154,940	15%
International	97,703	99,963	(2)
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Net sales	\$275,203	\$254,903	8%
	=====	=====	===

METALWORKING MARKETS

During the September 1996 quarter, sales in the North America Metalworking market increased 4 percent from the previous year. Direct sales of domestic metalcutting inserts and toolholding devices increased 2 percent due to slightly improved economic conditions in the United States and due to additional emphasis of milling and drilling products. Sales of metalworking products increased 14 percent in Canada.

Sales in the Europe Metalworking market decreased 7 percent. Demand for metalworking products continues to be slow due to weak economic conditions in Europe, primarily in Germany. Sales in the United Kingdom and France posted modest gains. Excluding the impact of unfavorable foreign currency translation effects, sales in the Europe Metalworking market decreased 3 percent.

In the Asia-Pacific Metalworking market, sales rose 6 percent, excluding the consolidation of a majority-owned subsidiary in China, as sales were impacted by soft economic conditions in the Asian region and Korea. Excluding unfavorable foreign currency translation effects, sales in the Asia-Pacific Metalworking market increased 11 percent.

## INDUSTRIAL SUPPLY MARKET

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During the September 1996 quarter, sales in the Industrial Supply market increased 30 percent as a result of increased sales through mail order and Full Service Supply programs. The increase in sales was driven by the ongoing geographic expansion program at J&L Industrial Supply, new and existing Full Service Supply programs with large customers and innovative marketing programs. During the September quarter, J&L opened a new location in Dallas, Texas, and three additional J&L locations are scheduled to open by the end of calendar 1996.

## MINING AND CONSTRUCTION MARKET

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During the September 1996 quarter, sales in the Mining and Construction market increased 6 percent from the previous year as a result of increased domestic demand for mining and highway construction tools. International sales of highway construction tools decreased as a result of weak economic conditions in Europe.

## GROSS PROFIT MARGIN

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As a percentage of sales, gross profit margin for the September 1996 quarter was 41.7 percent as compared with 41.8 percent in the prior year. The gross profit margin benefited from productivity improvements related to the Focused Factory initiative and modest price increases. These benefits were offset by a less favorable sales mix and slightly lower production levels.

## OPERATING EXPENSES

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For the quarter ended September 30, 1996, operating expenses as a percentage of sales were 31.6 percent compared to 31.4 percent last year. Operating expenses increased 9 percent primarily because of costs related to implementation of new SAP client-server information systems, costs necessary to support the higher sales levels, costs necessary to support Full Service Supply programs, marketing and branch expansion at J&L, and higher costs related to acquisitions.

## INCOME TAXES

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The effective tax rate for the September 1996 quarter was 39.2 percent compared to an effective tax rate of 40.3 percent in the prior year. The reduction in the effective tax rate resulted from certain tax benefits derived from international operations.

## ACQUISITIONS

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During the quarter and on October 1, 1996, the company acquired three companies, with annual sales totaling approximately \$22 million, for a total consideration of approximately \$19 million. The acquisitions have been accounted for using the purchase method of accounting. The consolidated financial statements will include the operating results of each business from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not significant.

## OUTLOOK

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In looking to the second quarter ending December 31, 1996, management expects consolidated sales to increase over the second quarter of a year ago. Sales in the North America Metalworking market should benefit from slowly improving economic condition in the United States. Sales in the Europe Metalworking market, which are principally driven by the German market, are not expected to improve in the next quarter. Sales demand in the Asia-Pacific Metalworking market is expected to slow.

Sales in the Industrial Supply market should continue to grow and benefit from expansion of locations, increased catalog sales and new Full Service Supply programs. Sales in the Mining and Construction market should increase from domestic demand.

This Form 10-Q, including the prior two paragraphs, contains "forward-looking statements" as defined in Section 21E of the Securities Exchange Act of 1934. Actual results can differ from those in the forward-looking statements to the extent that the anticipated economic conditions in the United States and Europe are not sustained.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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The information set forth in Note 4 to the condensed consolidated financial statements, contained in Part I, Item 1 of this Form 10-Q, is incorporated by

reference herein and supplements the information previously reported in Part I, Item 3 of the Company's Form 10-K for the year ended June 30, 1996, which is also incorporated by reference herein.

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

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

At the Annual Meeting of Stockholders on October 28, 1996, the stockholders of the Company voted on the election of directors and independent public accountants, and for the approval of a new Stock Option and Incentive Plan. The following is the number of shares voted in favor of and against each matter, and the number of shares having authority to vote on each matter but withheld.

1. With respect to the votes cast for directors whose terms expire in 1999.

	For	Withheld	Broker Non-Vote
Peter B. Bartlett	21,921,616	352,357	0
Warren H. Hollinshead	21,922,297	351,676	0
Robert L. McGeehan	21,922,216	351,757	0

The following other directors' terms of office continued after the meeting: Richard C. Alberding, A. Peter Held, Quentin C. McKenna, Aloysius T. McLaughlin, Jr., William R Newlin and Larry Yost.

2. With respect to the approval of the new Stock Option and Incentive Plan of 1996.

	For	Against	Abstained	Broker Non-Vote
Approval of Stock Option and Incentive Plan of 1996	18,998,102	891,258	94,537	2,290,076

3. With respect to the election of the firm of Arthur Andersen LLP, independent public accountants, to audit the financial statements of the Company and its subsidiary companies for the fiscal year ending June 30, 1997.

	For	Against	Abstained	Broker Non-Vote
Arthur Andersen LLP	22,191,369	37,683	44,921	0

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(10.14) Stock Option and Incentive Plan of 1996

(27) Financial Data Schedule for three months ended September 30, 1996, submitted to the Securities and Exchange Commission in electronic format

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1996.

SIGNATURES

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

KENNAMETAL INC.

Date: November 13, 1996

By: /S/ RICHARD J. ORWIG

Richard J. Orwig  
Vice President  
Chief Financial and Administrative Officer



Kennametal Inc.  
STOCK OPTION AND INCENTIVE PLAN OF 1996

SECTION 1. ESTABLISHMENT. There is hereby established the Kennametal Inc. Stock Option and Incentive Plan of 1996 (hereinafter called the "Plan") pursuant to which directors, officers and employees of Kennametal Inc. (hereinafter called the "Company") and its subsidiaries who are mainly responsible for its continued growth and development and future financial success may be granted options to purchase shares of Capital Stock of the Company (as defined in Section 5 below) and/or may receive awards of shares of Capital Stock in order to secure to the Company the advantage of the incentive and sense of proprietorship inherent in stock ownership by such persons, to reward such persons for services previously performed and/or as an added inducement to continue to provide service to the Company.

SECTION 2. DURATION. Options and share awards under this Plan may be granted only within the ten-year period beginning on the date on which the Plan is adopted by the stockholders. Any options or share awards outstanding after the expiration of such ten-year period may be exercised within the periods prescribed by Section 7.

SECTION 3. ADMINISTRATION. The Plan shall be administered by the full Board of Directors or a committee constituted so as to permit transactions under the Plan to comply with Rule 16b-3 (or any successor rule) promulgated under the Securities Exchange Act of 1934, as amended (the "Plan Administrator"). Subject to the provisions of the Plan, the Plan Administrator is authorized to adopt such rules and regulations and to take such action in the administration of the Plan as it shall deem proper.

SECTION 4. ELIGIBILITY. Directors, officers and employees of the Company and its subsidiaries who, in the opinion of the Plan Administrator, are mainly responsible for the continued growth and development and future financial success of the business shall be eligible to participate in the Plan. The Plan Administrator shall, in its sole discretion, from time to time, select from such eligible persons those to whom options shall be granted or shares awarded and determine the number of shares to be included in such option or award; provided, however, that no option may be granted in substitution for an outstanding option except as provided in Section 12(d). No participant shall have any right to receive an option or share award, except as the Plan Administrator in its discretion shall determine. The term "subsidiary," where used in the Plan or in any stock option agreement entered into under the Plan, means a "subsidiary corporation" as defined in Section 425 of the Internal Revenue Code of 1986, as it may be amended from time to time (the "Code").

SECTION 5. SHARES SUBJECT TO THE PLAN. The total number of shares of stock which may be issued pursuant to the Plan shall be 1,500,000 shares of capital stock, par value \$1.25 per share, of the Company (the "Capital Stock") provided, however, that: (i) the number of shares of Capital Stock to be issued pursuant to the Plan is subject to adjustment as provided in Section 12; and (ii) to the extent that options granted under the Plan shall expire or terminate without being exercised or shares awarded under the Plan shall be forfeited, such shares shall remain available for purposes of the Plan. Capital Stock to be issued under the Plan may be either authorized and unissued shares or shares held in treasury by the Company.

Section 6. TYPES OF OPTIONS. Options granted pursuant to the Plan may be either options which are incentive stock options under Section 422 of the Code (hereinafter called "Incentive Stock Options") or other options (hereinafter called "Nonstatutory Stock Options"). Incentive Stock Options and Nonstatutory Stock Options shall be granted separately hereunder. The Plan Administrator, in its discretion, shall determine whether and to what extent options granted under the Plan shall be Incentive Stock Options or Nonstatutory Stock Options. The provisions of the Plan and any stock option agreement pursuant to which Incentive Stock Options shall be issued shall be construed in a manner consistent with Section 422 of the Code and rules and regulations promulgated or proposed thereunder.

SECTION 7. TERMS OF OPTIONS. Each option granted under the Plan shall be evidenced by a stock option agreement between the Company and the person to whom such option is granted and shall be subject to the following terms and conditions:

(a) Subject to adjustment as provided in Section 12 of this Plan, the price at which each share covered by an option may be purchased shall be determined in each case by the Plan Administrator; provided, however, that such price shall not be less than the fair market value thereof at the time the option is granted. 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 corporation of the Company) and an option granted to such optionee is intended to qualify as an Incentive Stock Option, the option price shall be no less than 110% of the fair market value of the shares covered by the option on the date the option is granted.

(b) The aggregate fair market value of shares of Capital Stock 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) shall not exceed the limitations, if any, imposed by Section 422(d) of the Code (or any successor provision). If any option designated as an Incentive Stock Option, either alone or in conjunction with any other option or options, exceeds the foregoing limitation, 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.

(c) During the lifetime of the optionee the option may be exercised only by the optionee. The option shall not be transferable by the optionee otherwise than by will or by the laws of descent and distribution or, if in compliance with Rule 16b-3 (or any successor rule), pursuant to a domestic relations order. After the death of the optionee, the option 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 subsection 7(d)(iii) hereof.

(d) An option may be exercised in whole at any time, or in part from time to time, within such period or periods (not to exceed ten years from the granting of the option in the case of an Incentive Stock Option) as may be determined by the Plan Administrator and set forth in the stock option agreement (such period or periods being hereinafter referred to as the "option period"), provided that:

(i) If the optionee who is an employee of the Company or any of its subsidiaries shall cease to be employed by the Company or any of its subsidiaries, the option may be exercised only within three months after the termination of employment and within the option period or, if such termination was due to disability or retirement (as hereinafter defined), within one year after termination of employment and within the option period, unless such termination of employment shall be for cause or in violation of an agreement by the optionee to remain in the employ of the Company or one of its subsidiaries, in which case the option shall forthwith terminate; provided, however, that the Plan Administrator may in its sole discretion extend the option period of any option for up to three years from the date of termination of employment regardless of the original option period. For purposes of the Plan, retirement shall mean the termination of employment with the Company at a time when the participant in the Plan is eligible to receive immediately payable retirement benefits under the Company's then existing retirement plan or under any other retirement plan that is maintained by a Company subsidiary.

(ii) If the optionee who is a director of the Company or any of its subsidiaries shall cease to serve as a director of the Company or any of its subsidiaries, the option may be exercised only within three months after the cessation of service and within the option period or, if such cessation was due to disability, within one year after cessation of service and within the option period, unless such cessation of service as a director was the result of removal for cause, in which case the option shall forthwith terminate; provided, however, that the Plan Administrator may in its sole discretion extend the option period of any option for up to three years from the date of cessation of service regardless of the original option period.

(iii) If the optionee shall die, the option may be exercised only within 450 calendar days after the optionee's death and within the option period and only by the optionee's personal representative or persons entitled thereto under the optionee's will or the laws of descent and distribution;

(iv) The option may not be exercised for more shares (subject to adjustment as provided in Section 12) after the termination of the optionee's employment, cessation of service as a director or the optionee's death (as the case may be) than the optionee was entitled to purchase thereunder at the time of the termination of the optionee's employment or the optionee's death;

(v) 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 corporation of the Company) and an option granted to such optionee is intended to qualify as an Incentive Stock

Option, the option by its terms may not be exercisable after the expiration of five years from the date such option is granted; and

(vi) No option granted to an optionee subject to Section 16(b) may be exercised during the six-month period beginning on the date of grant.

(e) The option 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) in the discretion of the Plan Administrator, through the delivery to the Company of previously owned shares of Capital Stock having an aggregate fair market value equal to the option price of the shares being purchased pursuant to the exercise of the option; provided, however, that shares of Capital Stock delivered in payment of the option price must have been held by the participant for at least six (6) months in order to be utilized to pay the option price; (iv) through an election pursuant to Section 8 hereof to have shares of Capital Stock otherwise issuable to the optionee withheld to pay the exercise price of such option; or (v) in the discretion of the Plan Administrator, through any combination of the payment procedures set forth in subsections (i)-(iv) of this Section 7(e).

(f) The Plan Administrator, in its discretion, may authorize "stock retention options" which provide, upon the exercise of an option granted under this Plan, the Stock Option Plan of 1982, the Stock Option and Incentive Plan of 1988 or the Stock Option and Incentive Plan of 1992 (a "prior option") using previously owned shares, for the automatic issuance of a new option under this Plan with an exercise price equal to the current fair market value and 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. Such stock retention option shall have the same option period as the prior option.

(g) In consideration for the granting of each option, the optionee shall agree to remain in the employment of the Company or one of its subsidiaries, at the pleasure of the Company or such subsidiary, for at least one year from the date of the granting of such option or until the first day of the month coinciding with or next following the optionee's sixty-fifth birthday, whichever may be earlier. Nothing contained in the Plan nor in any stock option agreement shall confer upon any optionee any right with respect to the continuance of employment by the Company or any of its subsidiaries nor interfere in any way with the right of the Company or any subsidiary to terminate his employment or change his compensation at any time.

(h) The Plan Administrator may include such other terms and conditions 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 shall be exercisable in one or more installments during the term of the option and the right to exercise may be cumulative as determined by the Plan Administrator.

#### SECTION 8. SHARE WITHHOLDING.

(a) An optionee may, in the discretion of the Plan Administrator, elect to pay the exercise price of an option, in whole or in part, by requesting that the Company withhold shares of stock otherwise issuable to the optionee having a fair market value equal to the portion of the exercise price of the option being paid pursuant to such election (a "Share Withholding Election").

(b) A Share Withholding Election must be in writing and must be delivered to the Company no later than with the delivery of the notice of exercise of the option.

#### SECTION 9. SHARE AWARDS.

(a) The Plan Administrator may, from time to time, subject to the provisions of the Plan, award shares to participants; provided, however, that the maximum number of shares of Capital Stock that may take the form of share awards is 75,000.

(b) The award of shares shall be evidenced by a share award agreement executed by the Company and the grantee setting forth the number of shares of Capital Stock awarded, the vesting period, the vesting schedule or criteria and such other terms and conditions as the Plan Administrator may determine.

(c) The grantee of a share award shall receive shares of Capital

Stock without payment to the Company immediately upon grant; provided, however, that the grantee's ownership of such shares shall be subject to the following terms and conditions:

(i) Any single award of shares to a participant in an amount greater than 100 shares shall vest in installments upon achievement by the Company or grantee of specified performance goals as determined by the Plan Administrator and as provided in the share award agreement;

(ii) If the grantee or the Company, as the case may be, fails to achieve the designated goals or the grantee ceases to be employed by the Company for any reason (including death, permanent disability or retirement) prior to the expiration of the vesting period, the grantee shall forfeit all shares so awarded which have not then vested;

(iii) A grantee who has received a share award pursuant to the Plan shall have all rights of a stockholder in such Capital Stock, including but not limited to the right to vote and receive dividends with respect thereto; provided, however, that shares awarded pursuant to the Plan which have not vested may not be sold or otherwise transferred by the grantee and stock certificates representing such shares shall bear a restrictive legend to that effect; and

(iv) No share award (or portion thereof) granted to a person subject to Section 16(b) shall vest within the six-month period beginning on the date of grant of such share award.

SECTION 10. LIMITATION ON OPTIONS AND AWARDS. The aggregate number of shares covered by any options or share awards to one person shall not exceed fifteen percent (15%) of the aggregate number of shares subject to the Plan as provided in Section 5 hereof.

#### SECTION 11. 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 11 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 either two years after the option was granted or one year after the receipt of stock by the optionee, 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 grantee 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 delivery to the Company of previously owned shares of Capital Stock having an aggregate fair market value on the Tax Date equal to the tax obligation provided that the previously owned shares delivered in satisfaction of the withholding obligations must have been held by the participant for at least six (6) months; or (iii) in the discretion of the Plan Administrator, through a combination of the procedures set forth in subsections (i) and (ii) of this Section 11(b).

(c) A grantee who is obligated to pay to the Company an amount required to be withheld under applicable tax withholding requirements in connection with either the exercise of a Nonstatutory Stock Option or a share award under the Plan may, in the discretion of the Plan Administrator, elect to satisfy this withholding obligation, in whole or in part, by requesting that the Company withhold shares of stock otherwise issuable to the grantee having a fair market value on the Tax Date equal to the amount of the tax required to be withheld; provided, however, that shares may be withheld by the Company only if such withheld shares have vested. Any fractional amount shall be paid to the Company by the optionee in cash or shall be withheld from the optionee's next regular paycheck.

(d) An election by a grantee to have shares of stock withheld to satisfy federal, state and local tax withholding requirements pursuant to Section 11(c) (a "Tax Withholding Election") must be in writing and delivered to the Company prior to the Tax Date.

#### SECTION 12. ADJUSTMENT OF NUMBER AND PRICE OF SHARES.

(a) In the event that a dividend shall be declared upon the Capital Stock of the Company payable in shares of said stock, the number of

shares of Capital Stock covered by each outstanding option and the number of shares which may be issued pursuant to the Plan but are not yet covered by outstanding options shall be adjusted by adding thereto the number of shares of Capital Stock which would have been distributable thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend.

(b) In the event that the outstanding shares of Capital Stock of the Company shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for the shares of Capital Stock covered by each outstanding option, and the shares which may be issued pursuant to the Plan but are not yet covered by outstanding options, the number and kind of shares of stock or other securities which would have been substituted therefor if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such changed or substituted stock or other securities.

(c) In the event there shall be any change, other than specified in this Section 12, in the number or kind of outstanding shares of Capital Stock of the Company or of any stock or other securities into which such Capital Stock shall be changed or for which it shall have been exchanged, then, if the Board of Directors shall determine, in its discretion, that such change equitably requires an adjustment in the number or kind of shares covered by outstanding options and the shares which may be issued pursuant to the Plan but are not yet covered by outstanding options, such adjustment shall be made by the Board of Directors and shall be effective and binding for all purposes of the Plan and on each outstanding stock option agreement.

(d) In the event that, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board of Directors shall authorize the issuance or assumption of a stock option or stock options 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 or options 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.

(e) No adjustment or substitution provided for in this Section 12 shall require the Company to issue or to sell a fractional share under any stock option agreement or share award agreement and the total adjustment or substitution with respect to each stock option and share award agreement shall be limited accordingly.

(f) In the case of any adjustment or substitution provided for in this Section 12, the option price per share in each stock option agreement shall be equitably adjusted by the Board of Directors to reflect the greater or lesser number of shares of stock or other securities into which the stock covered by the option may have been changed or which may have been substituted therefor.

SECTION 13. FAIR MARKET VALUE. In any determination of fair market value hereunder, fair market value shall be deemed to be the mean between the highest and lowest sales prices for the Capital Stock of the Company as reported in the New York Stock Exchange -- Composite Transactions reporting system for the date in question, or if no sales were made on that date, on the next preceding date on which sales were made.

#### SECTION 14. CHANGE IN CONTROL.

(a) In the event of a Change in Control of the Company, as hereinafter defined, the following provisions shall apply to options and share awards previously awarded under the Plan, notwithstanding any provision herein or in any agreement to the contrary:

(i) All options which provide for exercise in one or more installments shall become immediately exercisable in full;

(ii) If any optionee shall cease to be employed by the Company or any of its subsidiaries within one (1) year following a Change in Control, then the option may in all events be exercised for a period of three months after such termination of employment and within the option period; and

(iii) All awards of shares under the Plan which have not previously vested shall become vested.

(b) The term "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 by the Securities and Exchange Commission pursuant to the Exchange Act which serve similar purposes; provided that, without limitation, such a Change in Control shall be deemed to have occurred if: (i) the Company shall be merged or consolidated with another corporation or entity, other than a corporation or entity which is an "affiliate" of the Company (as such term is defined in Rule 144(a) promulgated under the Securities Act of 1933), 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 affiliates 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 of Directors of the Company.

SECTION 15. AMENDMENT AND DISCONTINUANCE. The Board of Directors 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.

SECTION 16. 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 shares hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933 or the Exchange Act, if such registration shall be necessary, or before compliance by the 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. The Company shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

SECTION 17. 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 option or share 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 18. 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 19. EFFECTIVE DATE OF PLAN. The Plan shall become effective upon approval and adoption of the Plan by the affirmative vote of holders of a majority of the outstanding shares of Capital Stock of the Company present and voting at the 1996 Annual Meeting of Stockholders.

This schedule contains summary financial information extracted from the September 30, 1996 Consolidated Financial Statements (unaudited) and is qualified in its entirety by reference to such financial statements.

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3-MOS	JUN-30-1997	JUL-1-1996	SEP-30-1996
			23,427
			0
		194,322	
		9,811	
		213,418	
	446,280		
			595,000
	318,261		
	830,931		
231,893			
			0
0			
			0
			36,712
			416,496
830,931			
			275,203
	275,203		
			160,493
		160,493	
		6,285	
		441	
	2,642		
	25,003		
		9,800	
15,203			
		0	
		0	
			0
		15,203	
		0.57	
		0	