

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, 1994

Commission file number 1-5318

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

PENNSYLVANIA
(State or other jurisdiction of
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, 1994
Capital Stock, par value \$1.25 per share	26,473,356

KENNAMETAL INC.
FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 1994

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)

	September 30, 1994	June 30, 1994
	-----	-----
ASSETS		

Current Assets:		
Cash and equivalents	\$ 9,444	\$ 17,190
Accounts receivable, less allowance for doubtful accounts of \$10,419 and \$9,328	149,542	143,691
Inventories	170,122	158,179
Deferred income taxes	13,768	13,744
	-----	-----
Total current assets	342,876	332,804
	-----	-----
Property, Plant and Equipment	475,734	467,652
Less: accumulated depreciation	(232,687)	(224,554)
	-----	-----
Net property, plant and equipment	243,047	243,098
	-----	-----
Other Assets:		
Investments in affiliated companies	7,239	6,393
Intangible assets, less accumulated amortization of \$17,358 and \$16,540	30,522	32,141
Deferred income taxes	65,803	65,606
Other	14,956	17,490
	-----	-----
Total other assets	118,520	121,630
	-----	-----
Total assets	\$ 704,443	\$ 697,532
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current Liabilities:		
Current maturities of term debt and capital leases	\$ 6,007	\$ 4,364
Notes payable to banks	53,718	52,753
Accounts payable	48,142	52,148
Accrued vacation pay	14,769	15,569
Other	76,643	77,193
	-----	-----
Total current liabilities	199,279	202,027
	-----	-----
Term Debt and Capital Leases, Less Current Maturities	89,291	90,178
Deferred Income Taxes	19,457	19,279
Other Liabilities	53,152	51,800
	-----	-----
Total liabilities	361,179	363,284
	-----	-----
Minority Interest	10,135	11,412
Shareholders' Equity:		
Capital stock, \$1.25 par value; 70,000,000 shares authorized; 29,369,658 shares issued	36,712	36,712
Preferred stock, 5,000,000 shares authorized; none issued	-	-
Additional paid-in capital	84,407	83,839
Retained earnings	252,144	245,428
Treasury shares, at cost (2,896,374 and 3,015,466 shares)	(37,517)	(39,247)
Pension liability adjustment	(536)	(536)
Cumulative translation adjustments	(2,081)	(3,360)
	-----	-----

Total shareholders' equity	333,129	322,836
	-----	-----
Total liabilities and shareholders' equity	\$ 704,443	\$ 697,532
	=====	=====

See accompanying notes to condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended	
	September 30,	
	1994	1993
NET SALES	\$218,838	\$175,665
COSTS AND EXPENSES:		
Cost of goods sold	128,051	105,647
Research and development	4,419	3,632
Marketing	50,768	42,830
General and administrative	12,877	14,057
Interest expense	3,474	4,084
Amortization of intangibles	773	948
Restructuring charge	-	24,749
Total costs and expenses	200,362	195,947
OTHER INCOME	92	726
INCOME (LOSS) BEFORE TAXES ON INCOME AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	18,568	(19,556)
PROVISION (BENEFIT) FOR INCOME TAXES	7,900	(1,500)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	10,668	(18,056)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES, NET OF INCOME TAXES:		
Postretirement benefits	-	(20,060)
Income taxes	-	5,057
NET INCOME (LOSS)	\$ 10,668	\$(33,059)
PER SHARE DATA:		
Earnings (loss) before cumulative effect of accounting changes	\$ 0.40	\$ (0.82)
Cumulative effect of accounting changes:		
Postretirement benefits	-	(0.92)
Income taxes	-	0.23
Earnings (loss) per share	\$ 0.40	\$ (1.51)
Dividends per share	\$ 0.15	\$ 0.145
Average shares outstanding (in thousands)	26,390	21,954

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands)

	Three Months Ended	
	September 30,	
	1994	1993
	-----	-----
OPERATING ACTIVITIES:		
Net income (loss)	\$ 10,668	\$(33,059)
Adjustments for non-cash items	10,162	25,676
Changes in certain assets and liabilities	(21,411)	13,151
	-----	-----
Net cash flow from (used for) operating activities	(581)	5,768
	-----	-----
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(7,713)	(4,205)
Purchase of Hertel AG, net of cash	-	(19,226)
Other	1,595	(483)
	-----	-----
Net cash flow used for investing activities	(6,118)	(23,914)
	-----	-----
FINANCING ACTIVITIES:		
Increase in short-term debt	24	40,175
Increase in term debt	2,288	12,669
Reduction in term debt	(1,831)	(15,055)
Dividend reinvestment and employee stock plans	2,299	1,284
Cash dividends paid to shareholders	(3,953)	(3,181)
Other	-	(125)
	-----	-----
Net cash flow from (used for) financing activities	(1,173)	35,767
	-----	-----
Effect of exchange rate changes on cash	126	1,479
	-----	-----
CASH AND EQUIVALENTS:		
Net increase (decrease) in cash and equivalents	(7,746)	19,100
Cash and equivalents, beginning	17,190	4,149
	-----	-----
Cash and equivalents, ending	\$ 9,444	\$ 23,249
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 2,294	\$ 2,585
Income taxes paid	\$ 1,627	\$ 2,678

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the company's 1994 Annual Report. The condensed consolidated balance sheet as of June 30, 1994 has been derived from the audited balance sheet included in the company's 1994 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, 1994 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 60 percent of total inventories at September 30, 1994. 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 (dollars in thousands):

	September 30, 1994	June 30, 1994
	-----	-----
Finished goods	\$125,406	\$112,202
Work in process and powder blends	53,783	54,831
Raw materials and supplies	22,561	20,571
	-----	-----
Inventory at current cost	201,750	187,604
Less LIFO valuation	(31,628)	(29,425)
	-----	-----
Total inventories	\$170,122	\$158,179
	=====	=====

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 or financial position of the company.

The company maintains a Corporate Environmental, Health and Safety (EH&S) Department to effect compliance with all 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. On August 4, 1993, the company completed the acquisition of an 81 percent interest in Hertel AG (Hertel) for \$43 million in cash and \$55 million of assumed debt. Hertel is a manufacturer of cemented carbide tools and tooling systems based in Furth, Germany.

The Hertel acquisition was recorded under the purchase method of accounting and, accordingly, the results of operations of Hertel for the period beginning as of August 4, 1993, forward are included in the

accompanying condensed consolidated financial statements. The purchase price has been allocated to assets acquired and liabilities assumed based on fair market value at the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired has been recorded as goodwill and is being amortized over twenty years. The fair values (as adjusted) of assets acquired and liabilities assumed are summarized below (in thousands):

Current assets	\$114,800
Property, plant and equipment	70,200
Intangible assets (goodwill)	5,800
Deferred tax asset	40,600
Other noncurrent assets	12,400
Current liabilities	104,700
Long-term liabilities	89,400

As presented above, current liabilities includes a reserve of approximately \$36.0 million (pretax) for the restructuring of Hertel. The restructuring costs primarily include amounts for severance, phase-out and relocation. The cumulative charges to the restructuring reserve total \$20.1 million, leaving a balance of \$16.3 million at September 30, 1994. It is expected that the restructuring, which began in fiscal 1994, will be substantially completed during fiscal year 1995.

In the September 1994 quarter, the company purchased an additional 37,000 common shares of Hertel at a purchase price of DM128 per share. The company's ownership interest in Hertel as of September 30, 1994 was 85 percent.

In connection with the acquisition of Hertel, the company recognized a special charge in the September 1993 quarter of approximately \$20.4 million after taxes in connection with the closure of its manufacturing facility in Neunkirchen, Germany, and other integration related actions. The cumulative charges to the related reserve total \$19.4 million, a significant portion of which were cash charges, leaving a balance of \$5.3 million at September 30, 1994. It is expected that spending related to this charge will be substantially completed during fiscal year 1995.

The effect of the purchase on the company's operations, assuming the transaction had occurred on July 1, 1992, would be as follows:

Pro Forma (Unaudited)
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended	
	September 30,	
	1994	1993
	(Actual)	(Pro Forma)
Net sales	\$218,838 =====	\$188,347 =====
Income (loss) before cumulative effect of accounting changes	\$ 10,668 =====	\$(19,829) =====
Net income (loss)	\$ 10,668 =====	\$(34,832) =====
Per share data:		
Earnings (loss) before cumulative effect of accounting changes	\$ 0.40	\$ (0.90)
Cumulative effect of accounting changes:		
Postretirement benefits	-	(0.92)
Income taxes	-	0.23
	-----	-----
Earnings (loss) per share	\$ 0.40 =====	\$ (1.59) =====

The pro forma financial information presented above does not purport to

present what the company's results of operations would actually have been if the acquisition of Hertel had occurred on July 1, 1992, or to project the company's results of operations for any future period.

6. Effective July 1, 1993, the company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The change did not significantly affect earnings before cumulative effect of changes in methods of accounting in the first quarter of fiscal year 1994.

The company provides varying levels of postretirement health care and life insurance benefits to most U.S. employees who retire from active service after having attained age 55 and 10 years of service. This plan remains in effect for all current retirees and employees who will retire prior to January 1, 1997. However, for those employees retiring on or after January 1, 1997, the following plan amendments will be effective. The company's retiree health care payments will be capped at 1996 levels. To qualify for medical benefits at normal retirement (age 65 or later), employees must have a minimum of 5 years of service after age 40. Medical benefits will be available for only those retirements that begin on or after the normal retirement age of 65.

The following table presents the components of the company's liability for future retiree health care and life insurance benefits as of June 30, 1994 and July 1, 1993.

	(Dollars in thousands)	
	June 30, 1994	July 1, 1993
	-----	-----
Accumulated postretirement benefit obligations:		
Retirees	\$(14,800)	\$(15,100)
Fully eligible active participants	(8,000)	(7,600)
Other active participants	(13,000)	(11,300)
	-----	-----
Total obligation	\$(35,800)	\$(34,000)
Assets at fair value	-	-
	-----	-----
Accrued postretirement benefit cost	\$(35,800)	\$(34,000)
	=====	=====

As of September 30, 1994, the company's accrued postretirement benefit liability was \$35.8 million.

The components of retiree health care cost for the first quarter of fiscal year 1995 were as follows:

	(Dollars in thousands)
Service cost	\$ 300
Interest cost	725

Total cost	\$1,025
	=====

The discount rate used in calculating the accumulated postretirement benefit obligations was 8.5 percent. In determining the accumulated postretirement benefit obligations at July 1, 1993 and June 30, 1994, the assumed rates of increase in health care were 15 percent for retirees under age 65 and 10 percent for persons age 65 and older. These rates are assumed to decrease to varying degrees annually to 6 percent for years 2002 and thereafter. A 1 percent increase in the trend rate would increase both the accumulated postretirement benefit obligation at June 30, 1994 and the total cost of the plan for the first quarter of fiscal year 1995 by approximately 8 percent. The accumulated postretirement benefit obligation is unfunded.

Effective July 1, 1994, the company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under the new standard, the company must recognize the obligation to provide benefits to former or

inactive employees after employment, but before retirement. The implementation of the new standard did not have a material impact on the results of operations or financial position of the company.

7. Effective July 1, 1993, the company adopted SFAS No. 109, "Accounting for Income Taxes." The company previously accounted for income taxes pursuant to the provisions of APB No. 11. The new standard requires the use of the liability method to recognize deferred income tax assets and liabilities using enacted tax rates. As a result of implementing the change in accounting principle, a net deferred tax liability of \$5.6 million was recognized relating to net operating loss carryforwards and other tax attributes existing as of July 1, 1993. In addition, the income tax effect of the new method of accounting related to the company's adoption of SFAS No. 106 as of July 1, 1993 was the recognition of additional deferred tax assets of \$13.9 million. The combined effect of these items resulted in the recognition of an \$8.3 million net deferred tax asset and a net income tax benefit of \$5.1 million.

The components of the company's deferred tax assets and liabilities arising under SFAS No. 109 were as follows:

(Dollars in thousands)

	June 30, 1994	July 1, 1993
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards	\$ 50,839	\$ 1,086
Deductible temporary differences:		
Inventories	8,071	6,375
Property, plant and equipment	3,889	1,902
Vacation pay	3,471	3,287
Pensions and other long-term liabilities	1,630	2,288
Postretirement benefits other than pensions	13,972	13,940
Other deductible temporary differences	4,575	2,424
	-----	-----
Total deferred tax assets	86,447	31,302
Valuation allowance	(5,760)	(1,086)
	-----	-----
Net deferred tax asset	\$ 80,687	\$ 30,216
	=====	=====
Deferred tax liabilities:		
Accumulated depreciation	\$ 20,617	\$ 21,953
	=====	=====

As a component of its cumulative adjustment from implementing SFAS No. 109, the company recognized a charge of \$1.1 million to establish a valuation reserve related to certain tax attributes comprising its net deferred tax asset. As of July 1, 1993, deferred tax liabilities associated with existing taxable temporary differences exceeded deferred tax assets from future deductible temporary differences, excluding those attributable to SFAS No. 106, by approximately \$5.7 million. The recognition by the company as of July 1, 1993, of the entire transition obligation related to adopting the provisions of SFAS No. 106 resulted in the recognition of a \$13.9 million deferred tax asset. Future operating costs under SFAS No. 106 are expected to exceed deductible amounts for income tax purposes for many years. In addition, under current federal tax regulations, should the company incur tax losses in future periods, such losses may be carried forward to offset taxable income for a period of up to 15 years. Based upon the length of the period during which the SFAS No. 106-generated deferred tax asset can be utilized, the company believes that it is more likely than not that future taxable income will be sufficient to offset fully these future deductions and a valuation allowance for this deferred tax asset is not necessary.

At June 30, 1994, the company had unused tax benefits of \$50.8 million related to non-U.S. net operating loss (NOL) carryforwards for income tax purposes, of which \$46.7 million can be carried forward indefinitely with the balance expiring at various dates through 2001. A significant portion (\$46.7 million) of the unused tax benefits relate to the Federal Republic of Germany.

The company believes that it is more likely than not that \$45.1 million of NOL carryforwards will be utilized in future periods. The recorded tax benefits are expected to be realized by achieving future profitable

operations in Germany. The German NOL carryforwards can be carried forward indefinitely.

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

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

There were no material changes in financial position, liquidity or capital resources between June 30, 1994 and September 30, 1994. The ratio of current assets to current liabilities was 1.7 as of September 30, 1994 as compared with 1.6 as of June 30, 1994. The debt to capital ratio (i.e., total debt divided by the sum of total debt and shareholders' equity) was 31 percent as of September 30, 1994 unchanged from June 30, 1994.

In the September 1993 quarter, the company recorded cumulative effect charges aggregating \$15 million after taxes for the adoption of SFAS No. 106 and SFAS No. 109. While these charges did not involve the use of cash, they had a significant effect on various components of the company's consolidated financial position at September 30, 1993.

Capital expenditures are estimated to be \$50-55 million in fiscal year 1995. Expenditures are being made to modernize facilities and 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, 1994, consolidated sales were \$219 million, up 25 percent from \$176 million in the same quarter last year. The prior year sales include only two months of Hertel revenues. On a comparable year over year basis, it is estimated that sales were up 16 percent from the prior year.

Net income for the September 1994 quarter was \$10.7 million, or \$0.40 per share, as compared with a net loss of \$33.1 million, or \$1.51 per share in the same quarter last year. The net loss in the prior year includes the unfavorable cumulative noncash effect of adopting SFAS No. 106 (\$20.1 million net of income tax effect) and the favorable cumulative noncash effect of adopting SFAS No. 109 (\$5.1 million). In addition to the cumulative effect of changes in accounting principles, prior year results included a restructuring charge of \$20.4 million after taxes.

The following table presents the company's sales by product class and geographic area (dollars in thousands):

	Quarter ended September 30, 1994	1993	% Change
	-----	-----	-----
Sales by Product Class:			
Metalworking	\$183,581	\$144,991	26.6
Mining and construction	28,367	25,278	12.2
Metallurgical	6,890	5,396	27.7
	-----	-----	
Net sales	\$218,838 =====	\$175,665 =====	24.6
Sales by Geographic Area:			
Within the U.S.	\$140,569	\$119,247	17.9
Foreign and export	78,269	56,418	38.7
	-----	-----	
Net sales	\$218,838 =====	\$175,665 =====	24.6

METALWORKING PRODUCTS

During the September 1994 quarter, worldwide sales of metalworking products increased 27 percent from last year. The prior year metalworking sales include only two months of Hertel revenues. On a comparable year over year basis, worldwide sales of metalworking products are estimated to have increased 15 percent.

In the United States, sales of metalcutting inserts and toolholding devices

increased 15 percent. Total sales of industrial supply products increased 22 percent as a result of increased sales through mail order catalogs and full service supply programs.

International sales of metalworking products increased 48 percent from the previous year primarily because of the impacts of the Hertel acquisition, favorable foreign currency translation effects and higher sales volume in Europe. Excluding the acquisition impacts and currency translation effects, international metalworking sales increased an estimated 11 percent.

MINING AND CONSTRUCTION PRODUCTS

During the September 1994 quarter, sales of mining and construction tools increased 12 percent from the previous year primarily because of strong domestic demand for mining tools. International demand for highway construction and mining tools remains weak, particularly in Europe.

METALLURGICAL PRODUCTS

During the September 1994 quarter, sales of metallurgical products increased 28 percent from the previous year primarily because of strong international demand for carbide powders.

GROSS PROFIT MARGIN

As a percentage of sales, the gross profit margin for the September 1994 quarter was 41.5 percent as compared with 39.9 percent in the prior year. The gross profit margin benefited from a favorable sales mix and increased manufacturing efficiencies. However, these benefits were partially offset by higher raw material costs.

OPERATING EXPENSES

For the quarter ended September 30, 1994, research and development, marketing and general and administrative expenses increased 12 percent as a result of the acquisition impacts, higher sales volume and unfavorable foreign currency translation effects.

As a percentage of sales, operating expenses decreased to 31.1 percent as compared with 34.5 percent last year. The operating expense ratio decreased as a result of the decrease in general and administrative expenses combined with the increase in consolidated sales.

INTEREST EXPENSE

Interest expense was \$3.5 million for the September 1994 quarter, as compared with \$4.1 million for the same period last year. The decrease was primarily due to the lower amount of debt outstanding in the September 1994 quarter as compared with the prior year. As of September 30, 1994 approximately 35 percent of the company's total debt was subject to variable interest rates.

INCOME TAXES

The effective tax rate for the September 1994 quarter was 43 percent compared with an effective tax rate, excluding the acquisition impacts, effects of the accounting changes and the restructuring charge, of 41.8 percent in the prior year.

OUTLOOK

In looking to the second quarter ending December 31, 1994, management expects consolidated sales to increase from the \$195 million achieved in the same quarter last year. Sales of metalworking products in the United States should benefit from the continued expansion of the economy, catalog sales and full service supply programs. In addition, international sales are expected to improve as the European economies continue to expand. Sales of mining and construction tools should continue to grow from increased domestic demand for mining tools.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in footnote 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, 1994, 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, this litigation will not have a materially adverse effect on the results of operations or financial position of the company.

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

At the Annual Meeting of Stockholders on October 31, 1994, the stockholders of the company voted on the election of directors, a proposed amendment to Article Fifth of the Amended and Restated Articles of Incorporation increasing the authorized capital stock from 30,000,000 shares to 70,000,000 shares and the election of independent auditors. 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 1997.

For	Withheld	Broker Non-Vote
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This schedule contains summary financial information extracted from the September 30, 1994 Condensed Consolidated Financial Statements (unaudited) and is qualified in its entirety by reference to such financial statements.

1,000

QTR-1		
	JUN-30-1995	
	JUL-01-1994	
	SEP-30-1994	
		9,444
		0
		149,542
		10,419
		170,122
	342,876	
		475,734
		232,687
		704,443
199,279		
		0
		36,712
0		
		0
		296,417
704,443		
		218,838
	218,838	
		128,051
		200,362
		(92)
		0
	3,474	
		18,568
		7,900
10,668		
		0
		0
		0
		10,668
		.40
		.40

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
AS AMENDED

FIRST. The name of the Corporation is Kennametal Inc.

SECOND. The location and post office address of its registered office in this Commonwealth is Route 981 Westmoreland County Airport, Latrobe, Pennsylvania 15650.

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

FOURTH. The term of its existence is perpetual.

FIFTH. The authorized capital stock of the Corporation shall be 70,000,000 shares of Capital Stock of the par value of \$1.25 per share and 5,000,000 shares of Class A Preferred Stock without par value.

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

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

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

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

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

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

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

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

are represented by the holders of outstanding shares of Class A Preferred Stock shall be determined on the basis of (i) the aggregate number of votes, if any, that the holders of all outstanding shares of Class A Preferred Stock are entitled to cast and (ii) the aggregate number of votes, if any, that the holders of all outstanding shares of Class A Preferred Stock affirmatively do cast, respectively, in connection with a stockholder vote required by Article SEVENTH, Article EIGHTH, Article NINTH or Article TENTH;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) For purposes of this Article Ninth:

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

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

(iii) "4% Shareholder" shall mean any person (other than the Corporation or any corporation of which a majority of any class or series

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

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

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

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

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

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

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

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

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

(A) The transaction constituting the Business Combination shall provide for a consideration to be received by holders of Capital Stock in exchange for their stock, and the aggregate amount of the cash consideration and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Capital Stock in such Business Combination shall be at least equal to the highest of the following:

(I) (if applicable) the highest per share price

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

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

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

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

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

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

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

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

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

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

(V) (if applicable) the price per share equal to the Fair Market Value per share of such class of Voting Stock determined pursuant to clause (IV) immediately preceding, multiplied by the ratio of (x) the highest per share price (including any brokerage commissions, transfer taxes, and soliciting dealers' fees) paid in order to acquire any shares of such class of Voting Stock beneficially owned by the Interested Shareholder

which were acquired within the two-year period immediately prior to the Announcement Date to (y) the Fair Market Value per share of such class of Voting Stock on the first day in such two-year period on which the Interested Shareholder beneficially owned any share of such class of Voting Stock.

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

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

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

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

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

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

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

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

(b) For the purposes of this Article Tenth:

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

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

(B) any sale, lease, exchange, mortgage, pledge, transfer, or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder and/or any Affiliate or Associate of any Interested Shareholder of any assets of the Corporation or any Subsidiary thereof having an aggregate Fair Market Value of, equal to or in excess of a Substantial Part of the

assets of the Corporation;

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

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

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

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

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

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

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

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

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

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

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

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

(v) For the purposes of determining whether a person is an Interested Shareholder pursuant to Section (b)(iii) of this Article Tenth, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned by an Interested Shareholder through application of Section (b)(iv) of this Article Tenth but shall not

include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement, or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise.

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

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

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

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

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

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

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

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

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

be binding and conclusive on all parties.

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

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

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

STATEMENT WITH RESPECT TO SHARES

SERIES ONE PREFERRED STOCK

RESOLVED that pursuant to the authority conferred upon the Board of Directors by Paragraph 1 of Article 5th of the Articles of Incorporation of the Corporation, as amended, there is hereby established a series of the Class A Preferred Stock of the Corporation to consist initially of 200,000 shares with the designation and relative rights and preferences thereof to be as follows:

"Section 1. DESIGNATION. The shares of such series shall be designated as "Series One Preferred Stock." Shares of this series shall be issued pursuant to the exercise of rights to purchase Series One Preferred Stock distributed to the holders of Capital Stock, par value \$1.25 per share, of the Corporation (the "Capital Stock").

Section 2. DIVIDENDS AND DISTRIBUTIONS. Subject to the rights and preferences of the holders of any shares of any series of Class A Preferred Stock ranking senior as to dividends to this Series One Preferred Stock, the holders of shares of Series One Preferred Stock, in preference to the holders of Capital Stock and shares of stock ranking junior as to dividends to the Series One Preferred Stock, shall be entitled to receive, when and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 15th day of September, December, March and June in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series One Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$25.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends plus 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Capital Stock, or a subdivision of the outstanding shares of Capital Stock (by reclassification or otherwise), paid on the Capital Stock at any time during the quarter year immediately preceding the quarter year ending on the day immediately preceding such Quarterly Dividend Payment Date. In the event the Corporation shall at any time after October 23, 1990 (the "Rights Declaration Date") during any quarter year immediately preceding the quarter year ending on the day immediately preceding a Quarterly Dividend Payment Date (i) declare any dividend on Capital Stock payable in shares of Capital Stock, or (ii) subdivide the outstanding Capital Stock or combine the outstanding Capital Stock into a greater or lesser number of shares of Capital Stock, then in each such case the amounts to which holders of shares of Series One Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of shares of Capital Stock outstanding immediately after such event and the denominator of which is the number of shares of Capital Stock that were outstanding immediately prior to such event.

Dividends shall begin to accrue and be cumulative on outstanding shares of Series One Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series One Preferred Stock, unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series One Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the

shares of Series One Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series One Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. VOTING RIGHTS.

(A) Each share of Series One Preferred Stock shall entitle the holder thereof to 100 votes (and each one one-hundredth of a share of Series One Preferred Stock shall entitle the holder thereof to one vote) on all matters submitted to a vote of the stockholders of the Corporation. In the event that the Corporation shall at any time declare or pay any dividend on Capital Stock payable in shares of Capital Stock or effect a subdivision or combination or consolidation of the outstanding shares of Capital Stock (by reclassification or otherwise than by payment of a dividend in shares of Capital Stock) into a greater or lesser number of shares of Capital Stock, then and in each such event, the number of votes per share to which holders of shares of Series One Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Capital Stock outstanding immediately after such event, and the denominator of which is the number of shares of Capital Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by applicable law, the holders of shares of Series One Preferred Stock and the holders of shares of Capital Stock shall vote together as one class for the election of directors of the Corporation and on all other matters submitted to a vote of stockholders of the Corporation.

(C) Except as provided herein, or by applicable law, holders of Series One Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Capital Stock as set forth herein) for authorizing or taking any corporate action.

Section 4. CERTAIN RESTRICTIONS.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series One Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series One Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or as to assets) to the Series One Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or as to assets) with the Series One Preferred Stock, except dividends paid ratably on the Series One Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or as to assets) to the Series One Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or as to assets) to the Series One Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series One Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series One Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Paragraph (A) of this

Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. REACQUIRED SHARES. Any shares of Series One Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Class A Preferred Stock and may be reissued as part of a new series of Class A Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. LIQUIDATION, DISSOLUTION OR WINDING UP. Subject to the rights and preferences of the holders of any shares of any series of Class A Preferred Stock ranking senior as to assets to this Series One Preferred Stock, (A) upon any involuntary or voluntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or as to assets) to the Series One Preferred Stock unless, prior thereto, the holders of shares of Series One Preferred Stock shall have received an amount per share equal to the Per Share Series One Liquidation Preference. The Per Share Series One Liquidation Preference shall be equal to the sum of (x) \$100.00 plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, plus (y) the Participation Preference. The "Participation Preference" is an amount per each share of Series One Preferred Stock outstanding, equal to the product of (A) the Excess Distribution Amount, as hereinafter defined times (B) a fraction whose numerator is 100 and whose denominator is the sum of (i) the product of 100 times the number of outstanding shares of Series One Preferred Stock, plus (ii) the product of 100 times a fraction whose numerator is the number of outstanding shares of Capital Stock and whose denominator is the Adjustment Number; provided however, if the foregoing computation results in a negative number, then the Participation Preference shall be 0. Following the payment of the full amount of the Series One Liquidation Preference, holders of shares of Capital Stock shall receive the remaining assets to be distributed.

The "Excess Distribution Amount" is an amount equal to the amount available for distribution to stockholders of the Corporation after payment of all debts and liabilities less the sum of (i) the liquidation preferences in respect of all shares of preferred stock of the Corporation other than the Series One Preferred Stock, (ii) the product of 100 times the number of outstanding shares of Series One Preferred Stock, and (iii) the product of the number of outstanding shares of Capital Stock times a fraction whose numerator is 100 and whose denominator is the Adjustment Number.

(B) The Adjustment Number shall initially be 100 and shall be subject to adjustment as provided in this subsection (B). In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Capital Stock payable in shares of Capital Stock, (ii) subdivide the outstanding Capital Stock, or (iii) combine the outstanding Capital Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Capital Stock outstanding immediately after such event and the denominator of which is the number of shares of Capital Stock that were outstanding immediately prior to such event.

Section 7. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Capital Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series One Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Capital Stock is changed or exchanged. In the event the Corporation shall at any time (i) declare any dividend on Capital Stock payable in shares of Capital Stock, or (ii) subdivide the outstanding Capital Stock or combine the outstanding Capital Stock into a greater or lesser number of shares of Capital Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series One Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Capital Stock outstanding immediately after such event and the denominator of which is the number of shares of Capital Stock that were outstanding immediately prior to such event.

Section 8. REDEMPTION. The outstanding shares of Series One Preferred Stock may be redeemed at the option of the Board of Directors as a whole, but not in part, at any time, or from time to time, at a cash price per share equal to (i) the product of the Adjustment Number times the Average Market Value, as

such term is hereinafter defined, of the Capital Stock, plus (ii) all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid or declared and a sum sufficient for the payment thereof set apart, without interest; provided, however, that if and whenever any quarterly dividend shall have accrued on the Series One Preferred Stock which has not been paid or declared and a sum sufficient for the payment thereof set apart, the Corporation may not purchase or otherwise acquire any shares of Series One Preferred Stock unless all shares of such stock at the time outstanding are so purchased or otherwise acquired. The "Average Market Value" is the average of the closing sale prices of the Capital Stock during the 30 day period immediately preceding the date before the redemption date on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing bid quotations with respect to a share of Capital Stock during such 30-day period on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value of the Capital Stock as determined by the Board of Directors in good faith.

Section 9. FRACTIONAL SHARES. Series One Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, if applicable, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series One Preferred Stock."

[KENNAMETAL LOGO]

NEWS
FROM KENNAMETAL INC.
P.O. Box 231
Latrobe, PA 15650
Phone 412-539-4617
Michael J. Mussog
Manager
External Reporting

DATE November 2, 1994

FOR RELEASE Immediate

KENNAMETAL AND GRAINGER ESTABLISH MARKETING ALLIANCE

LATROBE, PA, November 2, 1994 - Kennametal Inc. (KMT/NYSE) announced today an agreement with W.W. Grainger, Inc. to establish an alliance to market metalcutting tools and accessories and maintenance, repair and operations (MRO) products. Under this alliance, customers will benefit from our combined expertise in cutting tools and accessories for metalcutting applications and MRO products.

W.W. Grainger, Inc. with 1993 sales of \$2.6 billion, is a nationwide distributor of equipment, components and supplies to the commercial, industrial, contractor and institutional markets. GWW shares are traded on the New York and Chicago stock exchanges.