

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

Commission file number 1-5318

KENNAMETAL INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction
of incorporation or organization)

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

World Headquarters
1600 Technology Way
P.O. Box 231
Latrobe, Pennsylvania 15650-0231
(Address of principal executive offices)

Website: www.kennametal.com

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

<u>Title Of Each Class</u>	<u>Outstanding at October 31, 2006</u>
Capital Stock, par value \$1.25 per share	38,653,180

KENNAMETAL INC.
FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006
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This Form 10-Q contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify forward-looking statements by the fact they use words such as “should,” “anticipate,” “estimate,” “approximate,” “expect,” “may,” “will,” “project,” “intend,” “plan,” “believe” and other words of similar meaning and expression in connection with any discussion of future operating or financial performance. These statements are likely to relate to, among other things, our strategy, goals, plans and projections regarding our financial position, results of operations, market position, and product development, all of which are based on current expectations that involve inherent risks and uncertainties, including factors that could delay, divert or change any of them in the next several years. It is not possible to predict or identify all factors; however, they may include the following: global and regional economic conditions; risks associated with the availability and costs of the raw materials we use to manufacture our products; our ability to protect our intellectual property in foreign jurisdictions; risks associated with our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; energy costs; commodity prices; risks associated with integrating recent acquisitions, as well as any future acquisitions, and achieving the expected savings and synergies; risks relating to our recent business divestitures; competition; demands on management resources; future terrorist attacks or acts of war; labor relations; demand for and market acceptance of new and existing products; and risks associated with the implementation of restructuring plans and environmental remediation matters. We provide additional information about many of the specific risks we face in the “Risk Factors” Section of our Annual Report on Form 10-K, and in this Form 10-Q as applicable. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

PART I — FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****KENNAMETAL INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(in thousands, except per share data)	Three Months Ended September 30,	
	2006	2005
Sales	\$ 542,811	\$ 545,766
Cost of goods sold	355,780	348,438
Gross profit	187,031	197,328
Operating expense	135,044	144,901
Loss on divestiture	1,686	—
Amortization of intangibles	1,940	1,351
Operating income	48,361	51,076
Interest expense	7,427	7,829
Other income, net	(3,006)	(879)
Income from continuing operations before income taxes and minority interest expense	43,940	44,126
Provision for income taxes	13,929	15,300
Minority interest expense	557	748
Income from continuing operations	29,454	28,078
Income from discontinued operations, net of income taxes	907	19
Net income	<u>\$ 30,361</u>	<u>\$ 28,097</u>

PER SHARE DATA

Basic earnings per share		
Continuing operations	\$ 0.77	\$ 0.74
Discontinued operations	0.02	0.00
	<u>\$ 0.79</u>	<u>\$ 0.74</u>
Diluted earnings per share		
Continuing operations	\$ 0.76	\$ 0.72
Discontinued operations	0.02	0.00
	<u>\$ 0.78</u>	<u>\$ 0.72</u>
Dividends per share	<u>\$ 0.19</u>	<u>\$ 0.19</u>
Basic weighted average shares outstanding	<u>38,226</u>	<u>37,949</u>
Diluted weighted average shares outstanding	<u>39,058</u>	<u>38,915</u>

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

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

(in thousands)	September 30, 2006	June 30, 2006
ASSETS		
Current assets:		
Cash and equivalents	\$ 118,224	\$ 233,976
Accounts receivable, less allowance for doubtful accounts of \$14,875 and \$14,692	366,837	386,714
Inventories	354,876	334,949
Deferred income taxes	55,580	55,328
Current assets of discontinued operations held for sale	—	24,280
Other current assets	53,757	51,610
Total current assets	<u>949,274</u>	<u>1,086,857</u>
Property, plant and equipment:		
Land and buildings	292,595	290,848
Machinery and equipment	1,086,200	1,058,623
Less accumulated depreciation	(832,387)	(819,092)
Net property, plant and equipment	<u>546,408</u>	<u>530,379</u>
Other assets:		
Investments in affiliated companies	18,349	17,713
Goodwill	529,101	500,002
Intangible assets, less accumulated amortization of \$18,755 and \$16,891	145,733	118,421
Deferred income taxes	38,582	39,721
Assets of discontinued operations held for sale	—	11,285
Other	132,431	130,894
Total other assets	<u>864,196</u>	<u>818,036</u>
Total assets	<u>\$ 2,359,878</u>	<u>\$ 2,435,272</u>
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$ 1,508	\$ 1,597
Notes payable to banks	598	617
Accounts payable	113,120	124,907
Accrued income taxes	37,006	112,364
Accrued expenses	88,078	82,118
Current liabilities of discontinued operations held for sale	—	3,065
Other current liabilities	117,343	137,531
Total current liabilities	<u>357,653</u>	<u>462,199</u>
Long-term debt and capital leases, less current maturities	407,486	409,508
Deferred income taxes	86,006	73,338
Accrued pension and postretirement benefits	146,447	144,768
Other liabilities	27,510	35,468
Total liabilities	<u>1,025,102</u>	<u>1,125,281</u>
Commitments and contingencies		
Minority interest in consolidated subsidiaries	<u>15,177</u>	<u>14,626</u>
SHAREOWNERS' EQUITY		
Preferred stock, no par value; 5,000 shares authorized; none issued	—	—
Capital stock, \$1.25 par value; 70,000 shares authorized; 40,565 and 40,356 shares issued	50,709	50,448
Additional paid-in capital	651,138	638,399
Retained earnings	693,449	670,433
Treasury shares, at cost; 1,967 and 1,749 shares held	(113,763)	(101,781)
Accumulated other comprehensive income	38,066	37,866
Total shareowners' equity	<u>1,319,599</u>	<u>1,295,365</u>
Total liabilities and shareowners' equity	<u>\$ 2,359,878</u>	<u>\$ 2,435,272</u>

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

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

(in thousands)	Three Months Ended September 30,	
	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 30,361	\$ 28,097
Adjustments for non-cash items:		
Depreciation	16,447	16,417
Amortization	1,940	1,351
Stock-based compensation expense	6,174	7,991
Loss on divestitures	1,898	—
Other	1,127	653
Changes in certain assets and liabilities (excluding acquisitions):		
Accounts receivable	30,217	15,704
Change in accounts receivable securitization	—	(9,341)
Inventories	(10,488)	(33,797)
Accounts payable and accrued liabilities	(21,890)	(19,371)
Accrued income taxes	(72,295)	9,580
Other	(2,291)	3,242
Net cash flow (used for) provided by operating activities	<u>(18,800)</u>	<u>20,526</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(22,661)	(14,875)
Disposals of property, plant and equipment	483	835
Acquisitions of business assets, net of cash acquired	(73,905)	—
Proceeds from divestitures	20,214	—
Other	82	891
Net cash flow used for investing activities	<u>(75,787)</u>	<u>(13,149)</u>
FINANCING ACTIVITIES		
Net decrease in notes payable	(23)	(40,957)
Net decrease in short-term revolving and other lines of credit	—	(2,100)
Term debt borrowings	12,775	183,945
Term debt repayments	(23,339)	(156,762)
Repurchase of capital stock	(9,437)	(4,550)
Dividend reinvestment and employee benefit and stock plans	6,222	9,544
Cash dividends paid to shareowners	(7,345)	(7,299)
Other	(116)	5,886
Net cash flow used for financing activities	<u>(21,263)</u>	<u>(12,293)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>98</u>	<u>(388)</u>
CASH AND CASH EQUIVALENTS		
Net decrease in cash and cash equivalents	(115,752)	(5,304)
Cash and cash equivalents, beginning of period	233,976	43,220
Cash and cash equivalents, end of period	<u>\$ 118,224</u>	<u>\$ 37,916</u>

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

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

Kennametal Inc. was incorporated in Pennsylvania in 1943 and maintains its world headquarters in Latrobe, Pennsylvania. Kennametal Inc. and its subsidiaries (collectively, “Kennametal” or the “Company”) is a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool and farm machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries. Our end users’ products include items ranging from airframes to coal, medical implants to oil wells and turbochargers to motorcycle parts. We previously operated three global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG) and J&L Industrial Supply (J&L). During fiscal 2006, we divested our J&L segment.

2. BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our majority-owned subsidiaries, should be read in conjunction with the 2006 Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2006 was derived from the audited balance sheet included in our 2006 Annual Report on Form 10-K. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair statement of the results of the interim periods were made and all adjustments are normal, recurring adjustments. The results for the three months ended September 30, 2006 and 2005 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a “year” is to a fiscal year ended June 30. For example, a reference to 2007 is to the fiscal year ending June 30, 2007. When used in this Form 10-Q, unless the context requires otherwise, the terms “we,” “our” and “us” refer to Kennametal Inc. and its subsidiaries.

3. NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. SFAS 158 is effective for Kennametal June 30, 2007. We are in the process of evaluating the provisions of SFAS 158 to determine the impact of adoption on our financial condition.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, (SAB 108), which expresses the staff’s views regarding the process of quantifying financial statement misstatements. The guidance in SAB 108 must be applied in our 2007 annual financial statements. We are in the process of evaluating the guidance in SAB 108 to determine the impact, if any, on our results of operations or financial condition.

In September 2006, the FASB issued SFAS 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for Kennametal July 1, 2008. We are in the process of evaluating the provisions of SFAS 157.

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

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a method of recognition, measurement, presentation and disclosure within the financial statements for uncertain tax positions that a company has taken or expects to take in a tax return. FIN 48 is effective for Kennametal July 1, 2007. We are in the process of evaluating the provisions of FIN 48 to determine the impact of adoption, if any, on our results of operations or financial condition.

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

(in thousands)	Three Months Ended September 30,	
	2006	2005
Interest paid	\$ 2,311	\$2,496
Income taxes paid (refunded)	86,236	(572)
Contribution of stock to employees defined contribution benefit plans	2,260	2,716
Change in fair value of interest rate swaps	(5,629)	5,195

5. DIVESTITURES

In 2006, we divested our J&L segment for \$359.2 million, subject to post-closing adjustment. We have received \$355.7 million in net proceeds related to the sale of this business of which \$5.5 million was received during second quarter of 2007. In accordance with the terms of the sale agreement, the parties have agreed to submit certain claims raised by the purchaser related to the post-closing adjustment to binding arbitration for resolution. We believe that the purchaser's claims are without merit. We expect to collect the remaining \$3.5 million prior to December 31, 2006. During the quarter, we recognized a pre-tax loss of \$1.7 million.

6. DISCONTINUED OPERATIONS

During 2006, our Board of Directors and management approved plans to divest our Kemmer Praezision Electronics business (Electronics) and our consumer retail product line, including industrial saw blades (CPG) as a part of our strategy to exit non-core businesses. These divestitures are accounted for as discontinued operations. As a result, prior years' financial results have been restated to reflect the activity from these operations as discontinued operations.

The divestiture of Electronics, which was part of the AMMSG segment, will occur in two separate transactions. The first transaction closed during 2006. The second transaction is expected to close during the second quarter of 2007. The assets and liabilities of the business have been recorded at fair value.

The divestiture of CPG, which was part of the MSSG segment, closed August 31, 2006 for net consideration of \$31.2 million. We have received \$21.2 million in net proceeds related to the sale of this business of which \$1.5 million and \$0.2 million were received during 2006 and second quarter of 2007, respectively. We expect to receive the remaining \$10.0 million prior to February 28, 2007. During the quarter, we recognized an additional pre-tax loss of \$0.3 million, which has been recorded in discontinued operations. Future adjustments related to this divestiture are not expected to be material. The assets and liabilities of this business were recorded at fair value and presented as held for sale as of June 30, 2006.

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

The following represents the results of discontinued operations:

(in thousands)	Three Months Ended September 30,	
	2006	2005
Sales	\$12,610	\$23,452
Income (loss) from discontinued operations before income taxes	\$ 1,161	\$ (222)
Income tax expense (benefit)	254	(241)
Income from discontinued operations	<u>\$ 907</u>	<u>\$ 19</u>

The major classes of assets and liabilities of discontinued operations held for sale in the condensed consolidated balance sheet are as follows:

(in thousands)	June 30, 2006
Assets:	
Accounts receivable, net	\$ 14,147
Inventories	10,113
Other current assets	20
Current assets of discontinued operations held for sale	<u>24,280</u>
Property, plant and equipment, net	5,895
Goodwill	5,208
Other long-term assets	182
Long-term assets of discontinued operations held for sale	<u>11,285</u>
Total assets of discontinued operations held for sale	<u>\$ 35,565</u>
Liabilities:	
Accounts payable	\$ 1,213
Other	1,852
Total liabilities of discontinued operations held for sale	<u>\$ 3,065</u>

7. STOCK-BASED COMPENSATION

Stock options are granted to eligible employees at fair market value on the date of grant. Stock options are exercisable under specific conditions for up to 10 years from the date of grant. The aggregate number of shares authorized for issuance under the Kennametal Inc. Stock and Incentive Plan of 2002, as amended (the 2002 Plan), are 3,750,000. Under the provisions of the 2002 Plan, participants may deliver our stock, owned by the holder for at least six months, in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. The fair value of shares delivered during the three months ended September 30, 2006 was \$0.1 million. Stock option expense for the three months ended September 30, 2006 and 2005 was \$1.7 million and \$3.1 million, respectively. In addition to stock option grants, the 2002 Plan permits the award of restricted stock to directors, officers and key employees.

The assumptions used in our Black-Scholes valuation related to grants made during the period were as follows: risk free interest rate – 5.0 percent, expected life – 4.5 years, volatility – 22.4 percent and dividend yield – 1.4 percent.

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

Changes in our stock options for the three months ended September 30, 2006 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, June 30, 2006	2,228,697	\$41.42		
Granted	356,464	54.09		
Exercised	(61,149)	39.58		
Lapsed and forfeited	(99,937)	47.62		
Options outstanding, September 30, 2006	2,424,075	\$43.07	7.0	\$23,833
Options vested and expected to vest, September 30, 2006	2,380,166	\$42.91	6.9	23,775
Options exercisable, September 30, 2006	1,574,995	\$38.80	5.8	21,867
Weighted average fair value of options granted during the period		\$12.87		

The amount of cash received from the exercise of options during the three months ended September 30, 2006 and 2005 was \$2.3 million and \$5.1 million respectively. The related tax benefit for the three months ended September 30, 2006 and 2005 was \$0.3 million and \$0.7 million respectively. The total intrinsic value of options exercised during the three months ended September 30, 2006 and 2005 was \$1.0 million and \$2.2 million, respectively. As of September 30, 2006, the total unrecognized compensation cost related to options outstanding was \$7.6 million and is expected to be recognized over a weighted average period of 2.8 years.

Changes in our restricted stock for the three months ended September 30, 2006 were as follows:

	Shares	Weighted Average Fair Value
Unvested restricted stock, June 30, 2006	442,155	\$44.06
Awarded	95,308	53.88
Vested	(119,213)	41.71
Forfeited	(39,347)	46.64
Unvested restricted stock, September 30, 2006	378,903	\$47.00

During the three months ended September 30, 2006 and 2005, compensation expense related to restricted stock awards was \$2.1 million and \$2.2 million respectively. As of September 30, 2006, the total unrecognized compensation cost related to unvested restricted stock was \$11.9 million and is expected to be recognized over a weighted average period of 2.4 years.

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

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

The table below summarizes the components of the net periodic cost of our defined benefit pension plans:

(in thousands)	Three Months Ended September 30,	
	2006	2005
Service cost	\$ 2,417	\$ 2,956
Interest cost	9,499	8,519
Expected return on plan assets	(11,224)	(9,495)
Amortization of transition obligation	37	37
Amortization of prior service cost	166	179
Amortization of actuarial loss	1,295	3,420
Total net periodic pension cost	<u>\$ 2,190</u>	<u>\$ 5,616</u>

The decrease in net periodic pension cost is primarily the result of an increase in the discount rates applied to our plans and an increase in expected return on plan assets resulting from funding \$73.0 million in the prior year related to our U.S. and U.K. defined benefit pension plans.

During the three months ended September 30, 2006 and 2005, the Company contributed \$1.3 million and \$2.0 million, respectively, to its various defined benefit pension plans. During the three months ended September 30, 2006 and 2005, the Company also expensed contributions of \$2.3 million and \$2.7 million, respectively, to its defined contribution plan.

The table below summarizes the components of the net periodic cost (benefit) of our other postretirement and postemployment benefit plans:

(in thousands)	Three Months Ended September 30,	
	2006	2005
Service cost	\$ 133	\$ 208
Interest cost	420	436
Amortization of prior service cost	12	(858)
Amortization of actuarial gain	(367)	(212)
Total net periodic cost (benefit)	<u>\$ 198</u>	<u>\$(426)</u>

9. INVENTORIES

Inventories are stated at the lower of cost or market. We use the last-in, first-out (LIFO) method for determining the cost of a significant portion of our U.S. inventories. The cost for the remainder of our inventories is determined under the first-in, first-out or average cost methods. We used the LIFO method of valuing inventories for approximately 51.0 percent and 53.0 percent of total inventories at September 30, 2006 and June 30, 2006, respectively. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

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

Inventories as of the balance sheet dates consisted of the following (in thousands):

	September 30, 2006	June 30, 2006
Finished goods	\$ 196,226	\$ 184,349
Work in process and powder blends	154,150	167,475
Raw materials and supplies	68,437	53,454
Inventory at current cost	418,813	405,278
Less: LIFO valuation	(63,937)	(70,329)
Total inventories	<u>\$ 354,876</u>	<u>\$ 334,949</u>

10. ENVIRONMENTAL MATTERS

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

Superfund Sites We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites, including the Li Tungsten Superfund site in Glen Cove, New York. With respect to the Li Tungsten site, we recorded an environmental reserve following the identification of other PRPs, an assessment of potential remediation solutions and an entry of a unilateral order by the USEPA directing certain remedial action. In May 2006, we reached an agreement in principle with the U.S. Department of Justice (DOJ) with respect to this site; the DOJ informed us that it would accept a payment of \$0.9 million in full settlement for its claim against us for costs related to the Li Tungsten site. To date, the draft Consent Order and Agreement for settlement of our Li Tungsten liability has not been finalized, but we expect that the final settlement will proceed according to the terms outlined in the agreement in principle. At September 30, 2006 we had an accrual of \$1.0 million recorded relative to this environmental issue. Cash payments made against this reserve during the quarter were immaterial.

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

Other Environmental Issues Additionally, we also maintain reserves for other potential environmental issues. At September 30, 2006 the total of these accruals was \$5.3 million, and represents anticipated costs associated with the remediation of these issues. Cash payments made against these reserves were immaterial for the quarter.

11. INCOME TAXES

The effective income tax rate for the three months ended September 30, 2006 and 2005 was 31.7 percent and 34.7 percent, respectively. The reduction relative to our statutory rate of 35.0 percent is primarily due to benefits sustained from the prior year implementation of our pan-European business model strategy.

KENNAMETAL INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****12. EARNINGS PER SHARE**

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

For purposes of determining the number of diluted shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised stock options and restricted stock awards by 0.8 million and 1.0 million for the three months ended September 30, 2006 and 2005. Unexercised stock options to purchase our capital stock of 0.7 million and 1.0 million shares for the three months ended September 30, 2006 and 2005, are not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price, and therefore their inclusion would have been anti-dilutive.

13. COMPREHENSIVE INCOME

Comprehensive income is as follows:

(in thousands)	Three Months Ended September 30,	
	2006	2005
Net income	\$30,361	\$28,097
Unrealized loss on securities available-for-sale, net of tax	—	(10)
Unrealized gain on derivatives designated and qualified as cash flow hedges, net of tax	487	70
Reclassification of unrealized gain on matured derivatives, net of tax	(187)	(237)
Minimum pension liability adjustment, net of tax	40	74
Foreign currency translation adjustments	(140)	1,103
Comprehensive income	\$30,561	\$29,097

14. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(in thousands)	June 30, 2006	Acquisitions	Translation Adjustments	September 30, 2006
MSSG	\$201,258	\$ —	\$ 158	\$201,416
AMSG	298,744	29,159	(218)	327,685
Total	\$500,002	\$29,159	\$ (60)	\$529,101

During the three months ended September 30, 2006, we completed two business acquisitions in our AMSG segment for a combined purchase price of \$73.9 million (2007 Business Acquisitions), which generated goodwill of \$29.2 million based on our preliminary purchase price allocations.

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(in thousands)	Estimated Useful Life	September 30, 2006		June 30, 2006	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract-based	4 – 15 years	\$ 5,816	\$ (4,168)	\$ 5,183	\$ (4,096)
Technology-based and other	4 – 15 years	18,773	(7,441)	12,723	(7,048)
Customer-related	5 – 20 years	65,022	(5,865)	42,312	(4,704)
Unpatented technology	30 years	19,277	(1,281)	19,283	(1,043)
Trademarks	Indefinite	54,114	—	54,322	—
Intangible pension assets	N/A	1,486	—	1,489	—
Total		\$164,488	\$(18,755)	\$135,312	\$(16,891)

As a result of the 2007 Business Acquisitions, we recorded \$29.2 million of identifiable intangible assets based on our preliminary purchase price allocations as follows: contract-based of \$0.6 million, technology-based and other of \$5.9 million and customer-related of \$22.7 million.

15. SEGMENT DATA

We currently operate two reportable segments consisting of MSSG and AMMSG, and Corporate. During 2006, we divested our J&L segment. We do not allocate corporate costs, performance-based bonuses, domestic pension expense, interest expense, other expense, income taxes, stock-based compensation expense or minority interest to the operating segment results presented below.

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

(in thousands)	Three Months Ended September 30,	
	2006	2005
External sales:		
MSSG	\$ 357,084	\$ 331,580
AMMSG	185,727	149,184
J&L	—	65,002
Total external sales	\$ 542,811	\$ 545,766
Intersegment sales:		
MSSG	\$ 33,443	\$ 47,737
AMMSG	9,753	9,224
J&L	—	186
Total intersegment sales	\$ 43,196	\$ 57,147
Total sales:		
MSSG	\$ 390,527	\$ 379,317
AMMSG	195,480	158,408
J&L	—	65,188
Total sales	\$ 586,007	\$ 602,913
Operating income:		
MSSG	\$ 45,666	\$ 45,941
AMMSG	27,386	23,852
J&L	—	6,844
Corporate	(24,691)	(25,561)
Total operating income	\$ 48,361	\$ 51,076

KENNAMETAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. SUBSEQUENT EVENTS

On October 24, 2006, the Board of Directors authorized a repurchase program of up to 3.3 million shares of our outstanding capital stock. The purchases would be made from time to time, on the open market or in private transactions, with consideration given to the market price of the stock, the nature of other investment opportunities, cash flows from operating activities and general economic conditions.

At the Annual Meeting of Shareowners on October 24, 2006, our shareowners voted to increase the authorized shares of capital stock from 70,000,000 shares to 120,000,000 shares. Shares of capital stock may be used for general purposes, including stock splits and stock dividends, acquisitions, possible financing activities and other employee, executive and director benefit plans. We have no present plans, arrangements, commitments or understanding with respect to the issuance of these additional shares of capital stock.

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

RESULTS OF CONTINUING OPERATIONS

SALES

Sales for the three months ended September 30, 2006 were \$542.8 million, a decrease of \$3.0 million, or 1.0 percent, from \$545.8 million in the prior year quarter. The decrease in sales is primarily attributed to the net effect of acquisitions and divestitures of 8.0 percent partially offset by 6.0 percent organic growth. Outside sales for J&L for the three months ended September 30, 2005 were \$65.0 million. The increase in organic sales for the quarter is primarily attributed to favorable market conditions, particularly in the energy and mining markets, and market penetration in developing economies.

GROSS PROFIT

Gross profit for the three months ended September 30, 2006 decreased \$10.3 million, or 5.2 percent, to \$187.0 million from \$197.3 million in the prior year quarter. This decrease is primarily due to the net impact of acquisitions and divestitures of \$17.5 million and higher raw material costs, partially offset by organic sales growth, which favorably impacted gross profit by \$8.9 million, and favorable product mix.

Gross profit margin for the three months ended September 30, 2006 decreased 170 basis points from 36.2 percent in the prior year quarter to 34.5 percent. The decrease is primarily attributed to higher raw material costs partially offset by favorable product mix and the net impact of acquisitions and divestitures.

OPERATING EXPENSE

Operating expense for the three months ended September 30, 2006 was \$135.0 million, a decrease of \$9.9 million, or 6.8 percent, compared to \$144.9 million in the prior year quarter. The decrease in operating expense is primarily attributed to the net impact of acquisitions and divestitures of \$10.9 million and a \$2.8 million reduction in professional fee expense, driven by a reduction in fees related to compliance with section 404 of the Sarbanes-Oxley Act of 2002, partially offset by foreign currency exchange rate fluctuations of \$2.2 million.

AMORTIZATION EXPENSE

Amortization expense was \$1.9 million for the three months ended September 30, 2006, an increase of \$0.5 million from \$1.4 million in the prior year quarter. This increase is due to the impact of acquisitions.

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

Interest expense for the three months ended September 30, 2006 decreased to \$7.4 million from \$7.8 million in the prior year quarter. This decrease is due primarily to a \$191.2 million decrease in the average daily domestic borrowings offset by the impact of higher average borrowing rates. The weighted average domestic borrowing rate increased from 5.2% in the prior year quarter to 7.0% in the current quarter.

OTHER INCOME, NET

Other income for the three months ended September 30, 2006 was \$3.0 million compared to \$0.9 million in the prior year quarter. This increase is primarily due to increased interest income of \$1.7 million and a reduction in accounts receivable securitization fees of \$1.0 million.

INCOME TAXES

The effective income tax rate for the three months ended September 30, 2006 and 2005 was 31.7 percent and 34.7 percent, respectively. The reduction relative to our statutory rate of 35.0 percent is primarily due to benefits sustained from the prior year implementation of our pan-European business model strategy.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations for the three months ended September 30, 2006 was \$29.5 million, or \$0.76 per diluted share, compared to \$28.1 million, or \$0.72 per diluted share, in the same quarter last year. The increase in income from continuing operations is a result of the factors previously discussed.

DISCONTINUED OPERATIONS

During 2006, our Board of Directors and management approved plans to divest our Kemmer Praezision Electronics business (Electronics) and our consumer retail product line, including industrial saw blades (CPG) as a part of our strategy to exit non-core businesses. These divestitures are accounted for as discontinued operations. As a result, prior years' financial results have been restated to reflect the activity from these operations as discontinued operations for all periods presented.

The divestiture of Electronics, which was part of the AMSEG segment, will occur in two separate transactions. The first transaction closed during 2006. The second transaction is expected to close during the second quarter of 2007.

The divestiture of CPG, which was part of the MSSG segment, closed August 31, 2006 for net consideration of \$31.2 million. We have received \$21.2 million in net proceeds related to the sale of this business of which \$1.5 million and \$0.2 million were received during 2006 and second quarter of 2007, respectively. We expect to receive the remaining \$10.0 million prior to February 28, 2007. During the quarter, we recognized an additional pre-tax loss of \$0.3 million, which has been recorded in discontinued operations. Future adjustments related to this divestiture are not expected to be material.

The following represents the results of discontinued operations:

(in thousands)	Three Months Ended September 30,	
	2006	2005
Sales	\$12,610	\$23,452
Income (loss) from discontinued operations before income taxes	\$ 1,161	\$ (222)
Income tax expense (benefit)	254	(241)
Income from discontinued operations	\$ 907	\$ 19

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

In 2006, we divested our J&L segment for \$359.2 million, subject to post-closing adjustment. We have received \$355.7 million in net proceeds related to the sale of this business of which \$5.5 million was received during second quarter of 2007. In accordance with the terms of the sale agreement, the parties have agreed to submit certain claims raised by the purchaser related to the post-closing adjustment to binding arbitration for resolution. We believe that the purchaser's claims are without merit. We expect to collect the remaining \$3.5 million prior to December 31, 2006. During the quarter, we recognized a pre-tax loss of \$1.7 million.

BUSINESS SEGMENT REVIEW

Our operations were previously organized into three reportable segments consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG) and J&L Industrial Supply (J&L) and Corporate. We divested J&L in 2006. For the three months ended September 30, 2005, J&L outside sales, intersegment sales and operating income were \$65.0 million, \$0.2 million and \$6.8 million, respectively. The presentation of segment information reflects the manner in which we organize segments for making operating decisions and assessing performance.

METALWORKING SOLUTIONS & SERVICES GROUP

(in thousands)	Three Months Ended September 30,	
	2006	2005
External sales	\$357,084	\$331,580
Intersegment sales	33,443	47,737
Operating income	45,666	45,941

For the three months ended September 30, 2006, MSSG external sales increased 7.7 percent, or \$25.5 million, from the prior year quarter. This increase was driven primarily by growth in metalworking and industrial product sales in North America of 8.9 percent and 8.1 percent, respectively, an increase in European sales of 5.8 percent and growth in Asia Pacific sales of 14.6 percent. MSSG experienced growth in the aerospace, distribution and energy markets. Favorable foreign currency effects were \$7.4 million for the quarter.

For the three months ended September 30, 2006, operating income decreased \$0.2 million from the prior year quarter. The decrease in operating income is primarily due to higher raw material costs offset by continued cost containment and price realization in Europe and Asia Pacific.

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

ADVANCED MATERIALS SOLUTIONS GROUP

(in thousands)	Three Months Ended September 30,	
	2006	2005
External sales	\$185,727	\$149,184
Intersegment sales	9,753	9,224
Operating income	27,386	23,852

For the three months ended September 30, 2006, AMSG external sales increased 24.5 percent, or \$36.5 million, from the prior year quarter. The increase in sales is attributed to organic sales growth due to favorable market conditions and the effects of acquisitions. The increase in sales was achieved primarily in energy, engineered and mining and construction products, which were up 32.1 percent, 17.0 percent and 8.6 percent, respectively.

For the three months ended September 30, 2006, operating income increased \$3.5 million, or 14.8 percent, over the prior year quarter. The increase is attributed to sales growth discussed above and the effects of acquisitions partially offset by higher raw material costs.

CORPORATE

(in thousands)	Three Months Ended September 30,	
	2006	2005
Operating income	\$(24,691)	\$(25,561)

Corporate represents corporate shared service costs, certain employee benefit costs, stock-based compensation expense and eliminations of operating results between segments. For the three months ended September 30, 2006, operating loss decreased \$0.9 million, or 3.4 percent, compared to the prior year. The decrease is primarily attributed to reductions in employment costs of \$1.4 million and fees related to compliance with section 404 of the Sarbanes-Oxley Act of 2002 of \$1.5 million, partially offset by an unfavorable post-closing adjustment of \$1.7 million related to the J&L divestiture.

LIQUIDITY AND CAPITAL RESOURCES

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

Our cash flow from operations is our primary source of financing for capital expenditures and internal growth. During the three months ended September 30, 2006, cash flow used for operating activities was \$18.8 million, compared to cash flow provided by operating activities of \$20.5 million for the prior year period. Cash flow used for operating activities for the period ended September 30, 2006 consists of net income and non-cash items totaling \$57.9 million offset by changes in certain assets and liabilities netting to \$76.7 million. Contributing to this change was a decrease in accrued income taxes of \$72.3 million as a result of tax payments related to the gain on divestiture of J&L and cash repatriated during 2006 under the American Jobs Creation Act (AJCA). During the three months ended September 30, 2006, cash paid for income taxes totaled \$86.2 million. Cash flow provided by operating activities for the three months ended September 30, 2005 consisted of net income and non-cash items totaling \$54.5 million offset by changes in certain assets and liabilities netting to \$34.0 million. Contributing to this change was an increase in inventory of \$33.8 million resulting from higher raw material costs and the increase in production to meet sales demand, offset by a net decrease in accounts receivable of \$6.4 million due to focused collection efforts.

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

Net cash flow used for investing activities was \$75.8 million for the three months ended September 30, 2006, an increase of \$62.7 million, compared to \$13.1 million in the prior year period. During the three months ended September 30, 2006, cash used for investing activities includes \$22.7 million used for purchases of property, plant and equipment, which consisted primarily of equipment upgrades and \$73.9 million used for the acquisition of business assets, partially offset by proceeds from divestitures of \$20.2 million. During the prior year period, cash used for investing activities included \$14.9 million of purchases of property, plant and equipment, which consisted primarily of equipment upgrades.

During the three months ended September 30, 2006 net cash flow used for financing activities was \$21.3 million, an increase of \$9.0 million, compared to \$12.3 million in the prior year period. During the current year period, cash used for financing activities includes a \$10.6 million net decrease in borrowings, \$9.4 million for the repurchase of capital stock and \$7.3 million of cash dividends paid to shareowners offset by \$6.2 million of dividend reinvestment and the effects of employee benefit and stock plans. During the prior year period, cash provided by financing activities included a \$15.9 million net decrease in borrowings, \$4.6 million for the repurchase of capital stock, \$9.5 million of dividend reinvestment and the effects of employee benefit and stock plans and cash dividends paid to shareowners of \$7.3 million.

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

There have been no material changes in our contractual obligations and commitments since June 30, 2006.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is party to a three-year securitization program, which permits us to securitize up to \$10.0 million of accounts receivable. As of September 30, 2006, the Company had no securitized accounts receivable.

FINANCIAL CONDITION

Total assets were \$2,359.9 million at September 30, 2006, compared to \$2,435.3 million at June 30, 2006. Working capital decreased \$33.1 million to \$591.6 million at September 30, 2006 from \$624.7 million at June 30, 2006. The decrease in working capital is primarily driven by cash used for acquisitions of \$73.9 million partially offset by cash proceeds from divestitures of \$20.2 million.

Total liabilities decreased \$100.2 million to \$1,025.1 million at September 30, 2006 from \$1,125.3 million at June 30, 2006, primarily due to decreases in accrued income taxes of \$75.4 million. Shareowners' equity increased \$24.2 million to \$1,319.6 million as of September 30, 2006 from \$1,295.4 million as of June 30, 2006. The increase is primarily a result of net income of \$30.4 million and the effect of employee benefit and stock plans of \$8.4 million partially offset by cash dividends paid to shareowners of \$7.3 million and \$9.4 million for the purchase of treasury stock.

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

ENVIRONMENTAL MATTERS

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

Superfund Sites We are involved as a potentially responsible party (PRP) at various sites designated by the United States Environmental Protection Agency (USEPA) as Superfund sites, including the Li Tungsten Superfund site in Glen Cove, New York. With respect to the Li Tungsten site, we recorded an environmental reserve following the identification of other PRPs, an assessment of potential remediation solutions and an entry of a unilateral order by the USEPA directing certain remedial action. In May 2006, we reached an agreement in principle with the U.S. Department of Justice (DOJ) with respect to this site; the DOJ informed us that it would accept a payment of \$0.9 million in full settlement for its claim against us for costs related to the Li Tungsten site. To date, the draft Consent Order and Agreement for settlement of our Li Tungsten liability has not been finalized, but we expect that the final settlement will proceed according to the terms outlined in the agreement in principle. At September 30, 2006 we had an accrual of \$1.0 million recorded relative to this environmental issue. Cash payments made against this reserve during the quarter were immaterial.

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

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies since June 30, 2006.

NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. SFAS 158 is effective for Kennametal June 30, 2007. We are in the process of evaluating the provisions of SFAS 158 to determine the impact of adoption on our financial condition.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, (SAB 108), which expresses the staff's views regarding the process of quantifying financial statement misstatements. The guidance in SAB 108 must be applied in our 2007 annual financial statements. We are in the process of evaluating the guidance in SAB 108 to determine the impact, if any, on our results of operations or financial condition.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for Kennametal July 1, 2008. We are in the process of evaluating the provisions of SFAS 157.

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

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a method of recognition, measurement, presentation and disclosure within the financial statements for uncertain tax positions that a company has taken or expects to take in a tax return. FIN 48 is effective for Kennametal July 1, 2007. We are in the process of evaluating the provisions of FIN 48 to determine the impact of adoption, if any, on our results of operations or financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have experienced certain changes in our exposure to market risk from June 30, 2006. The fair value of our interest rate swap agreements was a liability of \$8.5 million as of September 30, 2006 compared to a liability of \$14.2 million as of June 30, 2006. The offset to this liability is a corresponding increase to long-term debt, as the instruments are accounted for as a fair value hedge of our long-term debt. The \$5.7 million change in the recorded value of these agreements was non-cash and was the result of marking these instruments to market.

There have been no other material changes to our market risk exposure since June 30, 2006.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-Q, the Company's management evaluated, with the participation of the company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company's disclosure controls were designed to provide a reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer, have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance at September 30, 2006 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act was (i) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

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

PART II. OTHER INFORMATION**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****SHARES OF CAPITAL STOCK ISSUED UNDER DIVIDEND REINVESTMENT PLAN**

As a result of a dividend paid on its capital stock, the Company issued 12,808 shares of capital stock pursuant to its Dividend Reinvestment Plan (DRIP) in excess of the number of shares that were previously registered under the Securities Act of 1933, as amended (the Securities Act) for the DRIP on Form S-3 registration statements on file with the Securities and Exchange Commission (SEC) which were referenced in the DRIP prospectus. Those shares were issued on August 4, 2006 and the closing price of the Company's capital stock on that date was \$52.71.

The Company corrected the administrative oversight by using its existing omnibus shelf registration statement on Form S-3 and filing a prospectus supplement to cover an additional 500,000 shares under the DRIP. The prospectus supplement was filed on November 7, 2006. We believe that the use of the omnibus shelf registration statement and filing of the prospectus supplement complied with the Securities Act.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31, 2006	43,276	\$54.16	25,000	0.2 million
August 1 through August 31, 2006	120,702	\$52.27	98,000	0.1 million
September 1 through September 30, 2006	56,483	\$53.33	55,900	0.0 million
Total:	<u>220,461</u>	\$52.91	<u>178,900</u>	

(1) Employees delivered 38,762 shares of restricted stock to Kennametal, upon vesting, to satisfy tax-withholding requirements. Employees delivered 2,799 shares of stock to Kennametal as payment for the exercise price of stock options.

(2) Under a share repurchase program reaffirmed by Kennametal's Board of Directors on July 25, 2005, Kennametal was authorized to repurchase up to 1.8 million shares of its capital stock. The Company concluded this repurchase program during the three months ended September 30, 2006.

On October 24, 2006, Kennametal's Board of Directors authorized a new share repurchase program, under which Kennametal is authorized to repurchase up to 3.3 million shares of its capital stock. This repurchase program does not have a specified expiration date.

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

At the Annual Meeting of Shareowners on October 24, 2006, our shareowners voted on the election of four directors, a proposed amendment to Article Fifth of the Corporation's Amended and Restated Articles of Incorporation to increase the authorized capital (common) stock from 70,000,000 shares to 120,000,000 and the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2007. Of the 34,052,107 shares present in person or by proxy, the following is the number of shares voted in favor of, abstained or voted 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 the re-election of four directors whose terms expire in 2009:

	For	Withheld
Ronald M. DeFeo	33,057,390	994,717
Philip A. Dur	33,052,627	999,480
William R. Newlin	32,826,174	1,225,933
Lawrence W. Stranghoener	33,056,391	995,716

The following other directors' terms of office continued after the meeting: Carlos M. Cardoso, A. Peter Held, Larry D. Yost, Timothy R. McLevish, Markos I. Tambakeras, and Steven H. Wunning.

2. With respect to the votes cast for the approval of the proposed amendment to the Corporation's Amended and Restated Articles of Incorporation:

	For	Against	Abstained
Amendment to the Corporation's Amended and Restated Articles of Incorporation	29,629,707	4,307,733	114,666

3. With respect to the ratification of the selection of the firm of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2007:

	For	Against	Abstained
PricewaterhouseCoopers LLP	34,003,049	27,617	21,440

ITEM 6. EXHIBITS

(10) Material Contracts

- | | | |
|---------|--|--|
| (10.1)* | Description of Incentive Awards and Bonuses Payable to Named Executive Officers | The text of Item 1.01 of the July 28, 2006 Form 8-K relating to “Incentive Awards” and “One-Time Bonus” is incorporated herein by reference. |
| (10.2)* | Kennametal Inc. 2006 Executive Retirement Plan (for Designated Others) (Effective July 31, 2006) | Filed herewith. |
| (10.3)* | Kennametal Inc. Supplemental Executive Retirement Plan (as amended effective July 31, 2006) | Filed herewith. |

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

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

(32) Section 1350 Certifications

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

SIGNATURES

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

KENNAMETAL INC.

Date: November 9, 2006

By: /s/ Frank P. Simpkins

Frank P. Simpkins
Interim Chief Financial Officer, Vice
President Finance and Corporate Controller

**Plan Document
and
Summary Plan Description
of the
Kennametal Inc.
2006 Executive Retirement Plan
(for Designated Officers)
Effective July 31, 2006**

Kennametal Inc.
2006 Executive Retirement Plan
Article I. — General Provisions

1.1 Establishment and Purpose

Kennametal Inc. hereby establishes the Kennametal Inc. 2006 Executive Retirement Plan (the “Plan”) on the terms and conditions hereinafter set forth. The Plan is designed primarily for the purpose of providing benefits for a select group of highly-compensated management employees of the Company and is intended to qualify as a “top hat” plan under ERISA §§ 201(2), 301(a)(3) and 401(a)(1).

1.2 Definitions

(a) **“Accrued Benefit”** means the benefit earned by a Participant with respect to his or her Credited Service, as such benefit is determined pursuant to Article II, including, but not limited to Sections 2.1, 2.2, 2.3, and 2.4.

(b) **“Base Salary”** means the Participant’s gross base salary rate (as of the end of each month) from the Company, before any pre-tax reductions pursuant to the Participant’s elections under IRC §§ 125 or 402(e)(3) or pursuant to an election to defer base salary under a nonqualified deferred compensation arrangement.

(c) **“Beneficiary”** means the person or persons designated by a Participant as his beneficiary, or otherwise determined, in accordance with the provisions of Article V.

(d) **“Board”** means the Board of Directors of the Company.

(e) **“Cause”** means that the Participant:

(i) shall be guilty of malfeasance, willful misconduct or gross negligence in the performance of services for the Company;

(ii) shall not make his or her services available to the Company on a full time basis for any reason other than arising from Disability or from the Participant’s incapacity due to physical or mental illness or injury which does not constitute Disability and other than by reason of the fact that the Participant’s employment has been terminated by the Company prior to a Change in Control and other than for Cause; or

(iii) during the period of Participant’s employment by the Company, shall, in any geographic area in which Kennametal is offering its services and products, without the prior written consent of the Company:

- a. directly or indirectly engage in, or
- b. assist or have an active interest in (whether as proprietor, partner, investor, shareholder, officer, director or any type of principal whatsoever), or enter the employ of, or act as agent for, or advisor or consultant to, any person, firm, partnership, association, corporation or business organization, entity or enterprise which is or is about to become directly or indirectly engaged in,

any business which is competitive with any business of the Company or any subsidiary or affiliate thereof in which the Participant is or was engaged; provided, however, that the foregoing provisions of this definition are not intended to include (or classify as "Cause") the Participant's purchasing, for investment, not in excess of 1% of any class of stock or other corporate security of any company which is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

The Committee shall determine whether or not Cause existed for termination of Participant's employment unless the Participant has a written employment agreement with the Company, in which case the determination shall be made in the manner provided under the Participant's said employment agreement.

(f) **"Change in Control"** means a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date hereof ("1934 Act"), or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the 1934 Act which serve similar purposes; provided that, without limitation, such a change in control shall be deemed to have occurred if (i) Kennametal shall be merged or consolidated with any corporation or other entity other than a merger or consolidation with a corporation or other entity all of whose equity interests are owned by Kennametal immediately prior to the merger or consolidation, or (ii) Kennametal shall sell all or substantially all of its operating properties and assets to another person, group of associated persons, or corporation; or (iii) any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act), is or becomes a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities coupled with or followed by the existence of a majority of the board of directors of Kennametal consisting of persons other than persons who either were directors of Kennametal immediately prior to or were nominated by those persons who were directors of Kennametal immediately prior to such person becoming a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities.

(g) **"Committee"** means the Compensation Committee of the Board, or such other committee designated by the Board to discharge the duties of the Committee hereunder.

(h) **“Company”** means Kennametal Inc., a Pennsylvania corporation, or any successor thereto.

(i) **“Credited Service”** means, except as provided in Section 1.4(c), completed calendar months of service while a Participant. A Participant’s Credited Service shall begin on the first day of the month following, or, if earlier, the first day of the month coincident with, the date of the Participant’s election as an Officer and designation by the Committee as a Participant in the Plan; provided that the Committee, in its sole and absolute discretion, may specify a different effective date for the Participant’s Credited Service to begin (though such different specified date shall be the first day of a calendar month). Except as provided in Section 1.4(c), a Participant’s Credited Service shall end on the last day of the calendar month preceding, or, if later, the last day of the calendar month coinciding with, the first to occur of : (a) the termination of the Participant’s employment with the Company, or (b) the 181st consecutive business day that Participant shall have been absent from his principal office at the Company’s offices because of Disability.

(j) **“Disability”** means such incapacity due to physical or mental illness or injury, as causes the Participant to be absent from his principal office at the Company’s offices for the entire portion of 180 consecutive business days.

(k) **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.

(l) **“Final Average Earnings”** means

(i) The annual average of a Participant’s monthly Base Salary plus monthly Target Bonus amounts (whether or not any bonuses were in fact awarded to the Participant) for the 36 completed calendar months of Credited Service preceding the date on which Participant’s employment ends (irrespective of either (a) non accrual of additional benefits, during all or part of such 36 months, based upon Credited Service due to the 500% maximum accrual limit under Section 2.2; or (b) any forfeiture of 24 months of Credited Service, pursuant to Section 2.5, in calculating his or her Vested Benefit). In the event a Participant has less than 36 completed calendar months of Credited Service, then, for purposes of calculating Final Average Earnings, then the Participant’s average Base Salary plus Target Bonus amounts shall be based on only the actual number of completed calendar months preceding the date on which the Participant’s Credited Service ends.

(ii) A Participant’s Final Average Earnings shall be determined without regard to any limitations on compensation under the IRC, including those under IRC § 401(a)(17).

(m) **“IRC”** means the Internal Revenue Code of 1986, as amended, and any successor code or law.

(n) **“Monthly Accrual Rate”** has the meaning set forth at Section 2.1.

(o) **“Officer”** means a corporate officer of the Company elected by the Board.

(p) **“Participant”** means any individual who has initially satisfied the eligibility requirements set forth in Section 1.4 and who has an Accrued Benefit under the Plan.

(q) **“Plan”** means the plan of nonqualified executive retirement benefits set forth in this document, as the same may be amended from time to time.

(r) **“Plan Year”** means the twelve-month period coinciding with the Company’s fiscal year, beginning each July 1 and ending on the following June 30.

(s) **“Target Bonus”** means the cash award (stated as a percentage of Base Salary) for which the Participant is eligible under his or her salary classification pursuant to Kennametal Inc. Management Performance Bonus Plan.

(t) **“Vested Benefit”** means the portion, if any, of a Participant’s Accrued Benefit in which such Participant has earned vested and nonforfeitable rights under the provisions of the Plan, including, but not limited to, Sections 2.5. Nevertheless, any Participant’s Vested Benefit is subject to divestment and forfeiture pursuant to Sections 2.6 and 2.7.

1.3 Administration.

(a) The Committee shall administer the Plan and have sole and absolute authority and discretion to decide all matters relating to the administration of the Plan, including, without limitation, determining the rights and status of Participants or their beneficiaries under the Plan. The Committee is authorized to interpret the Plan, to adopt administrative rules, regulations, and guidelines for the Plan, and to correct any defect, supply any omission or reconcile any inconsistency or conflict in the Plan, and to appoint delegates to carry out ministerial administrative matters under the Plan. The Committee’s determinations under the Plan need not be uniform among all Participants, or classes or categories of Participants, and may be applied to such Participants, or classes or categories of Participants, as the Committee, in its sole and absolute discretion, considers necessary, appropriate or desirable. All determinations by the Committee shall be final, conclusive and binding on the Company, the Participant and any and all interested parties.

(b) Without limiting the generality of the grant of authority to the Committee under Section 1.3(a), the Committee, in its sole and absolute discretion and with no obligation to apply its discretion in a uniform manner, shall have full authority to waive a Participant’s satisfaction of the requirement of Section 2.5(d) that the Participant remain employed with the Company until age 62 to become 100% vested in his or her Accrued Benefit.

(c) Notwithstanding any provision of the Plan to the contrary, if any benefit provided under this Plan is subject to the provisions of IRC § 409A and the regulations issued thereunder, the provisions of the Plan shall be administered, interpreted and construed in a manner intended to comply with IRC § 409A and the regulations issued thereunder (or such provision shall be disregarded to the extent that it cannot be so administered, interpreted or construed).

1.4 Eligibility and Participation.

(a) Participation in the Plan is limited to a select group of highly-compensated management employees as referred to in ERISA §§ 201(2), 301(a)(3) and 401(a)(1). In particular, participation in the Plan is limited to each key executive of the Company who satisfies the requirements of either (i) or (ii):

(i) (A) He or she has been elected an Officer of the Company by the Board on or after July 31, 2006, and (B) he or she has specifically been designated by the Committee as eligible to participate in the Plan.

(ii)

a. Pursuant to designation by the Committee, he or she is a current participant in the Company's existing Supplemental Executive Retirement Plan as of July 31, 2006.

b. He or she shall not have attained the age of 56 as of December 31, 2006. And

c. He or she has elected to become a Participant in this Plan effective as of July 31, 2006 with respect to all of his or her prior service as an Officer of the Company while a designated participant in the Company's existing Supplemental Executive Retirement Plan, as well as future service as an Officer, and to receive no benefits from the Company's existing Supplemental Executive Retirement Plan.

(b) A Participant in the Plan shall cease to be a Participant upon receiving payment for the full amount of benefits to which the Participant is entitled under the Plan.

(c) Notwithstanding the foregoing, the Committee, in its sole and absolute discretion, may elect to terminate a Participant's continued participation in the Plan at any time with respect to accrual of additional benefits after the effective date of the Committee's action, irrespective of factors such as, but not limited to, continued employment by the Company, officer status, etc.

Article II. — Retirement Benefits

2.1 Monthly Accrual Rate

A Participant shall accrue benefits under the Plan at a percentage of his or her Final Average Earnings for each completed calendar month of the Participant's Credited Service at the applicable rate set forth below:

Attained Age during the Calendar Month	Monthly Accrual
Less than 46	1.0417% (equivalent to 12.5004% per year)
46 but less than 51	1.5625% (equivalent to 18.7500% per year)
51 but less than 56	2.0833% (equivalent to 24.9996% per year)
56 but less than 59	2.6042% (equivalent to 31.2504% per year)
59 and up	3.1250% (equivalent to 37.5000% per year)

The accumulated benefit of a Participant pursuant to the foregoing is such Participant's Accrued Benefit.

2.2 Maximum Accrued Benefit

Notwithstanding Section 2.1, the maximum accumulated total monthly accruals that any Participant may earn under Section 2.1, and receive under the Plan, is 500%.

2.3 Examples of Accrued Benefit Determination

Example 1: An Officer is designated by the Committee to participate in the Plan effective July 1, 2006. The Participant is then age 38, having been born on January 13, 1968. She will attain age 46 in January 2014; age 51 in January 2019; age 56 in January 2024; and age 59 in January 2027. The Participant's employment terminates on June 27, 2026 and, pursuant to Section 1.2(i), has Credited Service only through May 31, 2026. Such Participant's Accrued Benefit under the Plan would be calculated as a percentage of her Final Average Earnings, as follows:

7-1-2006 to 12-31-2013 = 90 months x 1.0417% =	93.7530%
1-1-2014 to 12-31-2018 = 60 months x 1.5625% =	93.7500%
1-1-2019 to 12-31-2023 = 60 months x 2.0833% =	124.9980%
1-1-2024 to 5-31-2026 = 29 months x 2.6042% =	75.5218%
Total Accrued Benefit	388.02% of Final Average Earnings

Example 2: An Officer is designated by the Committee to participate in the Plan effective as of July 1, 2006. The Participant is then age 50, having been born on January 25, 1956. He will attain age 51 in January 2007; age 56 in January 2012; and age 59 in January 2015. The Participant's employment terminates on December 31, 2022, when he is 66. Such Participant's Accrued Benefit under the Plan would be calculated as a percentage of his Final Average Earnings, as follows:

7-1-2006 to 12-31-2006 = 6 months x 1.5625% =	9.3750%
1-1-2007 to 12-31-2011 = 60 months x 2.0833% =	124.9980%
1-1-2012 to 12-31-2014 = 36 months x 2.6042% =	93.7512%
1-1-2015 to 3-31-2022 = 87 months x 3.1250% =	271.8750%
Total Accrued Benefit	500.00% of Final Average Earnings

Note that, pursuant to Section 2.2, there is no further accrual of benefits once the Accrued Benefit reaches 500%, based on Credited Service through March 31, 2022.

2.4 Dollar Amount of Accrued Benefit Not to Decline.

At no time shall the dollar amount of a Participant's Accrued Benefit decline below the amount of such benefit, calculated pursuant to the formula set forth in Section 2.1 and the maximum limit set forth in Section 2.2, as of the June 30 (the last day of the Plan Year) preceding the current date of reference.

Accordingly, and for example, the dollar amount of each Participant's Accrued Benefit shall be calculated as of each June 30 pursuant to the formula set forth in Section 2.1 and the maximum limit set forth in Section 2.2. Should the amount determined pursuant to any such calculation be less than the amount determined as of the immediately preceding June 30 (notwithstanding the Participant's having an additional year of Credited Service as of the date of the current calculation), then the amount calculated as of the immediately preceding June 30 shall apply for purposes of the Plan.

However, the dollar amount of benefits a Participant may be entitled to receive from the Plan is subject to the provisions of Section 2.5.

2.5 Vesting of Accrued Benefit.

Subject to the forfeiture provisions set forth in Sections 2.6 and 2.7:

(a) A Participant who attains the age of 62 while employed by the Company shall become 100% vested in his or her Accrued Benefit under the Plan, including any additional Accrued Benefit he or she may earn by virtue of Credited Service after attaining age 62.

(b) Prior to attaining age 62 while employed by the Company, a Participant shall, upon accruing a percentage of Final Average Earnings equal to 150% or higher, become vested in such Accrued Benefit and future increments thereto.

(c) A Participant who is employed by the Company on the date of a Change in Control shall become vested in his or her Accrued Benefit under the Plan, including any additional Accrued Benefit he or she may earn by virtue of Credited Service after such Change in Control.

(d) Notwithstanding Sections 2.5(b) and 2.5(c), if the Participant's employment with the Company terminates voluntarily or involuntarily (other than for Cause, see Section 2.6) prior to attainment of age 62, then the Participant shall forfeit the last 24 months of Credited Service used in calculating his or her Accrued Benefit, and his or her Vested Benefit (if any) shall be calculated based on his or her accumulated Credited Service percentages, less the last 24 months, multiplied by his or her Final Average Earnings (determined as of the date of termination of employment). However, such

forfeiture of Credited Service shall not apply if the Participant's termination of employment is because of his or her death or follows his or her incurring a Disability.

(e) The operation of Section 2.5 is illustrated by the following examples:

Example 1: This example replicates Example 1 in Section 2.3. An Officer is designated by the Committee to participate in the Plan effective July 1, 2006. The Participant is then age 38, having been born on January 13, 1968. She will attain age 46 in January 2014; age 51 in January 2019; age 56 in January 2024; and age 59 in January 2027. The Participant's employment terminates on June 27, 2026 (other than by reason of Disability or death). Such Participant's Vested Benefit under the Plan would be calculated as a percentage of her Final Average Earnings, as follows:

7-1-2006 to 12-31-2013 = 90 months x 1.0417% =	93.7530%
1-1-2014 to 12-31-2018 = 60 months x 1.5625% =	93.7500%
1-1-2019 to 12-31-2023 = 60 months x 2.0833% =	124.9980%
1-1-2024 to 5-31-2024 = 5 months x 2.6042% =	13.0210%
Total Vested Benefit	325.52% of Final Average Earnings

Example 2: A Participant has an Accrued Benefit of 148% of Final Average earnings at the time of her Disability or death. Inasmuch as the Participant's Accrued Benefit had not reached the minimum level of 150% required for vesting pursuant to Section 2.5(b), the Participant has no Vested Benefit under the Plan and nothing is payable to the Participant or, in the case of death, to the Participant's Beneficiary.

Example 3: A Participant has an Accrued Benefit of 148% of Final Average earnings at the time of the occurrence of a Change in Control. The Participant's employment terminates immediately following the Change of Control. The Participant's Vested Benefit is calculated based on his Credited Service at the date of termination of employment reduced by the Accrued Benefit attributable to the 24 months of Credited Service preceding his termination of employment.

Example 4: An Officer is designated by the Committee to participate in the Plan effective July 1, 2006. The Participant is then age 32—about to become 33—having been born on July 4, 1973. She will attain age 46 in July 2019; age 51 in July 2024; age 56 in July 2029; and age 59 in July 2032. The Participant voluntarily terminates employment on June 30, 2033, when she is age 59. Such Participant's Accrued Benefit under the Plan would be calculated as a percentage of her Final Average Earnings, as follows:

7-1-2006 to 6-30-2019 = 156 months x 1.0417% =	162.5052%
7-1-2019 to 6-30-2024 = 60 months x 1.5625% =	93.7500%
7-1-2024 to 6-30-2029 = 60 months x 2.0833% =	124.9980%
7-1-2029 to 6-30-2032 = 36 months x 2.6042% =	93.7512%
7-1-2032 to 2-28-2033 = 8 months x 3.1250% =	25.0000%
Total Accrued Benefit (maximum Accrued Benefit)	500.00 % of Final Average Earnings

However, because the Participant's employment terminated prior to attainment of age 62 and other than because of her death or following a Disability, her Vested Benefit is calculated as follows:

7-1-2006 to 6-30-2019 = 156 months x 1.0417% =	162.5052%
7-1-2019 to 6-30-2024 = 60 months x 1.5625% =	93.7500%
7-1-2024 to 6-30-2029 = 60 months x 2.0833% =	124.9980%
7-1-2029 to 2-28-2031 = 20 months x 2.6042% =	52.0840%
Total Vested Benefit	433.34% of Final Average Earnings

2.6 Forfeiture for Cause

Notwithstanding anything in this Plan to the contrary, if a Participant's employment with the Company terminates on account of Cause (which includes voluntary resignation in lieu of involuntary termination on account of Cause), no benefits will be payable hereunder. All benefits of any nature, whether vested or unvested, shall be forfeited and the Participant shall have no further rights under the Plan.

2.7 Forfeiture for Competition

Except in the case of a Participant who has become Vested in his or her Accrued Benefit upon the occurrence of a Change in Control, the payment of a Participant's Vested Benefit under this Plan is expressly conditioned upon the non-competition of the Participant with the Company, and his or her nonsolicitation of customers and/or employees of the Company, for a period of three years after the Participant leaves the Company. Accordingly, unless the Participant first secures the written consent of the Board or the Committee, he or she shall not directly or indirectly, as an officer, director, employee, consultant, agent, partner, joint venturer, proprietor, or other, engage in or assist any business which is or may become in direct or indirect competition with the Company or any of its subsidiaries, other than as a mere investor holding not more than one percent of the equity interest of any such competing enterprise; nor shall he or she solicit customers or employees of the Company or any of its subsidiaries. In the event that the Committee makes a good-faith determination that a Participant who is entitled to receive a Vested Benefit under the Plan, or who has already received a Vested Benefit under the Plan, is or may be violating the non-competition provisions hereof, it shall immediately notify him or her of such finding in writing and afford him or her a reasonable opportunity (a period of not less than sixty days) to rebut such finding, or to desist from such competitive activity. In the event that the Committee believes that a violation of the non-competition provision continues uncorrected following the sixty-day period, it shall direct that the Participant (including any Beneficiary claiming through the Participant) shall forfeit any right to future payment of a Benefit under the Plan, and if the Participant has already received a Benefit under the Plan, the Committee is authorized and directed to undertake legal proceedings against the Participant to recover such Benefit.

Article III. — Distribution of Benefit

3.1 Date of Distribution of Benefits

A Participant's Vested Benefit shall be paid in a cash lump sum to the Participant (or, as applicable, the Participant's Beneficiary) not later than 30 days following first to occur of

- (a) the date of the Participant's death;
- (b) the date that is six months after the date of the Participant's termination of employment.

Article IV. — Funding By Company

4.1 Unsecured Obligation of Company.

(a) Any benefit payable pursuant to this Plan shall be paid from the general assets of the Company. Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create a trust of any kind or a fiduciary relationship between any Participant (or any other interested person) and the Company or the Committee, or require the Company to maintain or set aside any specific funds for the purpose of paying any benefit hereunder. To the extent that a Participant or any other person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

(b) If the Company maintains a separate fund or makes specific investments, including the purchase of insurance insuring the life of a Participant, to assure its ability to pay any benefits due under this Plan, neither the Participant nor the Participant's Beneficiary shall have any legal or equitable ownership interest in, or lien on, such fund, policy, investment or any other asset of the Company. The Company, in its sole discretion, may determine the exact nature and method of informal funding (if any) of the obligations under this Plan. If the Company elects to maintain a separate fund or makes specific investments to fund its obligations under this Plan, the Company reserves the right, in its sole discretion, to terminate such method of funding at any time, in whole or in part.

Article V. — Beneficiaries

5.1 Beneficiary Designations.

A Participant may designate a Beneficiary under the Plan only by signing an instrument (in form acceptable to the Committee) and filing the same with the Committee or its delegate prior to the Participant's death. In the absence of such a designation and at any other time when there is no existing Beneficiary designated hereunder, the unpaid value of the Participant's Vested Benefit to which a Beneficiary was entitled shall be distributed to the Participant's surviving spouse, if any; otherwise to the Participant's issue per stirpes, if any; otherwise to the Participant's estate. A Beneficiary who dies or which ceases to exist shall not be entitled to any part of any payment

thereafter to be made to the Participant's Beneficiary unless the Participant's designation specifically provides to the contrary. If two or more persons designated as a Participant's Beneficiary are in existence, the amount of any payment to the Beneficiary under this Plan shall be divided equally among such persons, unless the Participant's designation specifically provides to the contrary.

5.2 Change in Beneficiary.

A Participant may, at any time and from time to time, change a Beneficiary designation hereunder without the consent of any existing Beneficiary or any other person. Any change in Beneficiary shall be made only by an instrument (in form acceptable to the Committee) signed by the Participant, and any change shall be effective only if signed by the Participant and received by the Committee or its delegate prior to the death of the Participant.

Article VI. — Claims Procedures

6.1 Claims for Benefits.

The Committee shall determine the rights of any Participant to any benefits hereunder. Any Participant who believes that he or she has not received the benefits to which he is entitled under the Plan may file a claim in writing with the Committee. The Committee shall, no later than 90 days after the receipt of a claim (plus an additional period of 90 days if required for processing, provided that notice of the extension of time is given to the claimant within the first 90-day period), either allow or deny the claim in writing. If a claimant does not receive written notice of the Committee's decision on his claim within the above-mentioned period, the claim shall be deemed to have been denied in full.

A denial of a claim by the Committee, wholly or partially, shall be written in a manner calculated to be understood by the claimant and shall include:

(a) the specific reasons for the denial;

(b) specific reference to pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the claim review procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

6.2 Appeal Provisions.

A claimant whose claim is denied (or his duly authorized representative) may within 60 days after receipt of denial of a claim file with the Committee a written request for a review of such claim. If the claimant does not file a request for review of his claim within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Committee on his claim, the decision shall become final and the claimant will not be entitled to bring a civil action under ERISA §

502(a). If such an appeal is so filed within such 60-day period, the Committee (or its delegate) shall conduct a full and fair review of such claim. During such review, the claimant (or the claimant's authorized representative) shall be given the opportunity to review all documents that are pertinent to his claim and to submit issues and comments in writing.

The Committee (or its delegate) shall mail or deliver to the claimant a written decision on the matter based on the facts and the pertinent provisions of the Plan within 60 days after the receipt of the request for review (unless special circumstances require an extension of up to 60 additional days, in which case written notice of such extension shall be given to the claimant prior to the commencement of such extension). Such decision shall be written in a manner calculated to be understood by the claimant, shall state the specific reasons for the decision and the specific Plan provisions on which the decision was based and shall, to the extent permitted by law, be final and binding on all interested persons. If the decision on review is not furnished to the claimant within the above-mentioned time period, the claim shall be deemed to have been denied on review.

6.3 Further Proceedings

If a Participant's claim for benefits is denied in whole or in part, such Participant may file suit only in a state court located in Westmoreland County, Pennsylvania or federal court located in Allegheny County, Pennsylvania. ***Notwithstanding, before such Participant may file suit in a state or federal court, Participant must exhaust the Plan's administrative claims procedure. If any such judicial or administrative proceeding is undertaken, the evidence presented will be strictly limited to the evidence timely presented to the Plan Administrator. In addition, any such judicial or administrative proceeding must be filed within six months after the Plan Administrator's final decision.***

Article VII. — Miscellaneous

7.1 Withholding.

The Company shall have the right to withhold from any benefits payable under the Plan or other wages payable to a Participant an amount sufficient to satisfy all federal, state and local tax withholding requirements, if any, arising from or in connection with the Participant's receipt or vesting of benefits under the Plan.

7.2 No Guarantee of Employment.

Nothing in this Plan shall be construed as guaranteeing future employment to any Participant. Without limiting the generality of the preceding sentence, except as otherwise set forth in a written agreement, a Participant continues to be an employee of the Company solely at the will of the Company, subject to discharge at any time, with or without Cause. The benefits provided for herein for a Participant shall not be deemed to modify, affect or limit any salary or salary increases, bonuses, profit sharing or any other type of compensation of a Participant in any manner whatsoever. Except as otherwise specifically provided herein, nothing contained in this Plan shall affect the right of a Participant to participate in or be covered by or under any qualified or nonqualified pension, profit

sharing, group, bonus or other supplemental compensation, retirement or fringe benefit Plan constituting any part of the Company's compensation structure whether now or hereinafter existing.

7.3 Payment to Guardian.

If a benefit payable hereunder is payable to a minor, to a person declared incompetent or to a person incapable of handling the disposition of his property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or person. The Committee may require such proof of incompetency, minority, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Company and each subsidiary from all liability with respect to such benefit.

7.4 Assignment.

No right or interest under this Plan of any Participant or Beneficiary shall be assignable or transferable in any manner or be subject to alienation, anticipation, sale, pledge, encumbrance or other legal process or in any manner be liable for or subject to the debts or liabilities of the Participant or Beneficiary.

7.5 Severability.

If any provision of this Plan or the application thereof to any circumstance(s) or person(s) is held to be invalid by a court of competent jurisdiction, the remainder of the Plan and the application of such provision to other circumstances or persons shall not be affected thereby.

7.6 Amendment and Termination.

(a) The Company may at any time (without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan; provided, however, that no modification, amendment or termination of this Plan shall adversely affect the Accrued Benefit rights of a Participant under the Plan, determined as of the date of such action, without the consent of such Participant. Notwithstanding the foregoing or any provision of the Plan to the contrary, the Company may at any time (without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan to the extent necessary or advisable to conform the provisions of the Plan with IRC § 409A, the regulations issued thereunder or an exception thereto, regardless of whether such modification, amendment or termination of this Plan shall adversely affect the rights of a Participant under the Plan.

(b) The Committee is authorized, in its sole and complete discretion, to act for the Company in exercising the Company's powers of amendment and termination as described in Section 7.6(a).

7.7 Exculpation and Indemnification

The Company shall indemnify and hold harmless the members of the Committee from and against any and all liabilities, costs and expenses incurred by such persons as a result of any act, or omission to act, in connection with the performance of such person's duties, responsibilities and obligations under the Plan, other than such liabilities, costs and expenses as may result from the gross negligence, willful misconduct, and/or criminal acts of such persons.

7.8 Confidentiality.

In further consideration of the benefits available to each Participant under this Plan, each Participant shall agree that, except as such may be disclosed in financial statements and tax returns, or in connection with estate planning, all terms and provisions of this Plan, and any agreement between the Company and the Participant entered into pursuant this Plan, are and shall forever remain confidential until the death of Participant; and the Participant shall not reveal the terms and conditions contained in this Plan or any such agreement at any time to any person or entity, other than his respective financial and professional advisors unless required to do so by a court of competent jurisdiction or as otherwise may be required by law.

7.9 Leave of Absence.

The Company may, in its sole discretion, permit a Participant to take a leave of absence for a period not to exceed one year. Any such leave of absence must be approved by the Company. During this time, the Participant will still be considered to be in the employ of the Company for purposes of this Plan.

7.10 Gender and Number.

For purposes of interpreting the provisions of this Plan, the masculine gender shall be deemed to include the feminine, the feminine gender shall be deemed to include the masculine, and the singular shall include the plural unless otherwise clearly required by the context.

7.11 Governing Law.

Except as otherwise preempted by the laws of the United States, this Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to its conflict of law provisions.

Article VIII. — STATEMENT OF ERISA RIGHTS

Each Participant in the Plan is entitled to certain rights and protections under ERISA. ERISA provides that all Participants shall be entitled to:

Receive Information About the Plan and Benefits

Examine, without charge, at the Plan Administrator's office, all documents governing the Plan.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of Participants and beneficiaries. No one, including a Participant's employer or any other person, may fire such Participant or otherwise discriminate against a Participant in any way to prevent such Participant from obtaining a welfare benefit or exercising such Participant's rights under ERISA. However, this rule neither guarantees continued employment, nor affects the Company's right to terminate a Participant's employment for other reasons.

Enforce Participant Rights

If a Participant's claim for a benefit is denied or ignored, in whole or in part, a Participant has a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps a Participant can take to enforce the above rights. For instance, if a Participant requests a copy of Plan documents and does not receive them within 30 days, such Participant may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay such Participant up to \$110 a day until Participant receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If a Participant has a claim for benefits which is denied or ignored, in whole or in part, such Participant may file suit in a state or Federal court. If a Participant is discriminated against for asserting such Participant's rights, such Participant may seek assistance from the U.S. Department of Labor, or may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If a Participant is successful the court may order the person such Participant has sued to pay these costs and fees. If a Participant loses, the court may order such Participant to pay these costs and fees, for example, if it finds such Participant's claim is frivolous.

Assistance with Participant Questions

If a Participant has any questions about the Plan, such Participant should contact the Plan Administrator. If a Participant has any questions about this statement or about such Participant's rights under ERISA, or if a Participant needs assistance in obtaining documents from the Plan Administrator, such Participant should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in such Participant's telephone directory or the

Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. A Participant may also obtain certain publications about such Participant's rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

Article IX. — SUMMARY INFORMATION

Name of Plan: The name of the plan under which benefits are provided is the Kennametal Inc. 2006 Executive Retirement Plan

Plan Sponsor: The Sponsor of the Plan is:

Kennametal Inc.
1600 Technology Way
P. O. Box 231
Latrobe, PA 15650-0231
Telephone: (724) 539-5000

Plan Administrator: The Plan Administrator of the Plan is:

The Compensation Committee of the Board of Directors
Kennametal Inc.
1600 Technology Way
P. O. Box 231
Latrobe, PA 15650-0231
Telephone: (724) 539-5000

Employer Identification Number: The Employer Identification Number (EIN) assigned to the Plan Sponsor by the Internal Revenue Service is 25-0900168.

Type of Plan: Nonqualified unfunded deferred compensation plan ("top hat").

Type of Administration: The Plan is administered by the Plan Administrator without use of third party administrators or insurers.

Funding: Benefits payable under the Plan are provided from the general assets of the Company.

Agent for Service of Legal Process: For disputes arising under the Plan, service of legal process may be made upon the General Counsel of Plan Sponsor.

Plan Year: The Plan's fiscal records are kept on a June 30 fiscal year basis (July 1 to June 30).

Adopted by order of the Board of Directors.

KENNAMETAL INC

By: /s/ Kevin R. Walling
 Kevin R. Walling
 Vice President and
 Chief Human Resource Officer

Date: September 11, 2006

**Plan Document
and
Summary Plan Description
of the
Kennametal Inc.
Supplemental Executive Retirement Plan
As Amended Effective July 31, 2006**

KENNAMETAL INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
(As Amended, effective July 31, 2006)

Section 1. Purpose and Effective Date.

- 1.1 The purpose of this Supplemental Executive Retirement Plan is to ensure the payment of a competitive level of retirement income, in order to attract, retain, and motivate selected executives. The Plan is also intended to provide eligible executives with a retirement benefit that cannot be paid from the Company's qualified Retirement Income Plan, due to various limitations of the United States Internal Revenue Code.
- 1.2 This Plan was previously amended and adopted, effective April 21, 1995; amended and adopted, effective July 26, 1999; amended and adopted, effective January 1, 2004; amended and adopted July 25, 2005, and was most recently amended and adopted, effective as of July 31, 2006. It is effective for each participant on the date he or she is designated as a Participant.
- 1.3 The terms of this Plan are applicable only to eligible executives who are employed by the Company on or after April 21, 1995. Any executive who retired or otherwise terminated employment prior to such date, shall not be eligible to be designated a Participant under this Plan unless he or she returns to service with the Company on or after April 21, 1995.
- 1.4 Notwithstanding the foregoing, in connection with the amendment of this Plan adopted effective July 31, 2006, the Company has provided for the closing of the class of officers and key executive employees who will be eligible to receive benefits under this Plan. (In connection with the adoption of such amendment, the Company has adopted a separate "Kennametal Inc. 2006 Executive Retirement Plan" to provide nonqualified retirement benefits for designated officers who are not eligible to participate in this Plan.)

Section II. Definitions.

- 2.1 **Board of Directors** means the Directors of the Company.
- 2.2 **Bonus Award** means the annual cash award, if any, received by a Participant under the provisions of the Kennametal Inc. Management Performance Bonus Plan of any given fiscal year. Only an award generated by successful attainment of the Bonus Plan's business objectives shall be considered a "Bonus Award" for the purposes of this Plan, provided that a Bonus Plan award of \$0.00 to the Participant for a given fiscal year shall be taken into account for purposes of this Plan. No other kind of bonus award or grant will qualify as a "Bonus Award" for purposes of this Plan.

2.3 **Cause** means that the Participant:

- (a) shall be guilty of malfeasance, willful misconduct or gross negligence in the performance of services for the Company
- (b) shall not make his or her services available to the Company on a full time basis for any reason other than arising from Disability or from the Participant's incapacity due to physical or mental illness or injury which does not constitute Disability and other than by reason of the fact that the Participant's employment has been terminated by the Company prior to a Change in Control and other than for Cause; or
- (c) during the period of Participant's employment by the Company, shall, in any geographic area in which the Company is offering its services and products, without the prior written consent of the Company:

(1) directly or indirectly engage in, or

(2) assist or have an active interest in (whether as proprietor, partner, investor, shareholder, officer, director or any type of principal whatsoever), or enter the employ of, or act as agent for, or advisor or consultant to, any person, firm, partnership, association, corporation or business organization, entity or enterprise which is or is about to become directly or indirectly engaged in,

any business which is competitive with any business of the Company or any subsidiary or affiliate thereof in which the Participant is or was engaged; provided, however, that the foregoing provisions of this definition are not intended to include (or classify as "Cause") the Participant's purchasing, for investment, not in excess of 1% of any class of stock or other corporate security of any company which is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

The Committee shall determine whether or not Cause exists for termination of Participant's employment unless the Participant has a written employment agreement with the Company, in which case the determination shall be made in the manner provided under the Participant's said employment agreement.

2.4 **Change in Control** shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date hereof ("1934 Act"), or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the 1934 Act which serve similar purposes; provided that, without limitation, such a change in control shall be deemed to have occurred if (i) Kennametal shall be merged or consolidated with any corporation or other entity other than a merger or consolidation with a corporation or other entity all of whose equity interests are owned by Kennametal immediately prior to the merger or consolidation, or (ii) Kennametal shall sell all or substantially all of its operating properties and assets to another person, group of associated persons, or corporation; or (iii) any "person" (as such term is used in

Sections 13(d) and 14(d) of the 1934 Act), is or becomes a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities coupled with or followed by the existence of a majority of the board of directors of Kennametal consisting of persons other than persons who either were directors of Kennametal immediately prior to or were nominated by those persons who were directors of Kennametal immediately prior to such person becoming a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities.

- 2.5 **Code** means the Internal Revenue Code of 1986, as amended from time to time. References in the Plan to a Code Section shall be deemed to refer to any successor provision of the Code, as appropriate.
- 2.6 **Committee** means Compensation Committee of the Board, or such other committee designated by the Board to discharge the duties of the Committee hereunder.
- 2.7 **Company** means Kennametal Inc., a Pennsylvania corporation, or any successor bound by this Plan pursuant to Section 8.5.
- 2.8 **Disability** means such incapacity due to physical or mental illness or injury, as causes the Participant to be absent from his principal office at the Company's offices for the entire portion of 180 consecutive business days.
- 2.9 **Employee** means an employee of the Employer.
- 2.10 **Employer** means the Company and any subsidiary or affiliate of the Company whose employees participate in the Plan.
- 2.11 **Final Base Salary** means the Participant's monthly base salary rate, before any pre-tax reductions pursuant to the Participant's elections under IRC § § 125 or 402(e)(3), for the calendar month in which Participant's Termination of Employment occurs, without regard to any limitations on compensation under the Code, including those under IRC § 401(a)(17).
- 2.12 **IRC** means the Code.
- 2.13 **Participant** means any Employee of an Employer who is entitled to participate in the Plan in accordance with Section III. Where the context so indicates, "Participant" shall also include a retired or deceased Participant with respect to whom a SERP Benefit is payable.
- 2.14 **Plan** means the Company's Supplemental Executive Retirement Plan (SERP), as set forth herein and as amended and restated from time to time.

- 2.15 **Primary Social Security Benefit** means the monthly benefit, as provided by the Federal Social Security Act, to which the Participant would be entitled at age 65, based upon the assumption that such Participant will continue to receive until reaching age 65 monthly earnings at the same rate as he or she received such monthly earnings at the time of retirement, termination of employment or death. (Note: This definition is identical to that used under the Retirement Income Plan.)
- 2.16 **Retirement Income Plan** means the funded, tax-qualified Kennametal Inc. Retirement Income Plan, as it may be amended and restated, from time to time.
- 2.17 **Retirement Income Plan Benefit** means either (a) the monthly benefit that would be payable as a single life annuity under the Retirement Income Plan commencing upon a retirement at age 65, based on credited service and average earnings as of the Participant's termination of service, calculated pursuant to the terms and provisions of the Retirement Income Plan as such terms and provisions literally apply to the Participant because the Participant is an active participant (accruing additional benefits) in the Retirement Income Plan up to his or her termination of service and will in fact be eligible to receive benefits reflecting credited service and average earnings determined to his or her termination of service; or (b) but for the amendment to the Retirement Income Plan effective December 31, 2003 that excluded such Participant from further active participation in such plan after such date, or in the case of a Participant first hired after December 31, 2003, excluded such Participant from any active participation in such plan, the monthly benefit that would be payable as a single life annuity under the Retirement Income Plan commencing upon a retirement at age 65, based on credited service and average earnings as of the Participant's termination of service calculated pursuant to the terms and provisions of the Retirement Income Plan (other than vesting provisions) as such terms and provisions theoretically would have applied to the Participant if the Participant had not been excluded from active participation, or from further active participation, in the plan, but had instead been an active participant (accruing benefits) in the Retirement Income Plan up to his or her termination of service, based on his or her credited service and average earnings to such termination of service. That is, the Retirement Income Plan Benefit determined hereunder is either (a) the actual benefit that a Participant is eligible to receive under such plan because he or she is active participant in the Retirement Income Plan at termination of service, or (b) the theoretical benefit the Participant would have been eligible to receive had he or she been eligible to be an active participant in the Retirement Income Plan up to termination of service (determined without regard to the vesting provisions of the Retirement Income Plan).
- 2.18 **SERP Benefit** means the benefit, calculated pursuant to Section V and Appendix A, that is payable to a Participant under the Plan who has attained a 100% vested percentage pursuant to Section IV.
- 2.19 **Surviving Spouse** means the individual to whom the Participant is legally married at the time of his or her death.

- 2.20 **Vested SERP Benefit** means the percentage of the Participant's SERP Benefit determined pursuant to Section IV.
- 2.21 **Target Retirement Income** means the monthly amount determined as the "applicable percentage" of the total of (a) the Participant's Final Base Salary plus (b) 1/36th of the sum of the Participant's last three Bonus Awards. For this purpose, the applicable percentage is 60% at 30 Years of Service, plus or minus 1% for each Year of Service greater than or less than thirty.
- 2.22 **Year of Service** means each full twelve-month period beyond Employee's most recent hire date, as determined pursuant to the Company's regular personnel records and policies. (Note: This definition is not intended to be coextensive with the definition of "Credited Service" as used in the Retirement Income Plan.)

Section III. Eligibility.

- 3.1 Each officer or key executive Employee of the Company approved by the Committee, in its sole and complete discretion, shall be eligible to participate in the Plan.
- 3.2 Any officer or key executive who becomes a Participant shall continue to be a Participant until his or her termination of employment, or until a date prior to such time, as determined by the Committee, in its sole discretion.
- 3.3 Notwithstanding the foregoing, in connection with the amendment of this Plan adopted effective July 31, 2006, the Company has provided for the closing of the class of officers and key executive employees who will be eligible to receive benefits under this Plan. In connection with the adoption of the July 2006 amendment to this Plan, the Company has adopted a separate "Kennametal Inc. 2006 Executive Retirement Plan" to provide nonqualified retirement benefits for designated officers who are not eligible to participate in this Plan. Accordingly:
- (a) No officer or key employee hired by the Company from and after July 31, 2006 shall be eligible to be designated as a Participant in this Plan.
 - (b) Any Participant in this Plan as of July 31, 2006 who shall have attained the age of at least 56 years no later than December 31, 2006, shall remain a Participant in this Plan and shall not be eligible to be approved by the Committee to become a participant in the Kennametal Inc. 2006 Executive Retirement Plan.
 - (c) Any Participant in this Plan as of July 31, 2006 who shall not have attained the age of at least 56 years no later than December 31, 2006, will be provided the option irrevocably to elect either
 - (1) to become a participant in the Kennametal Inc. 2006 Executive Retirement Plan with respect to all of his or her prior service from and after the date he or she

became a Participant in this Plan pursuant to the Committee’s approval (but excluding service prior to the commencement of participation in this Plan even though such pre-participation service is recognized for purposes of calculating Target Retirement Income under Section 2.22 of this Plan) to July 31, 2006, plus his or her future service as an officer of the Company, as such prior and future service is credited under the terms of the Kennametal Inc. 2006 Executive Retirement Plan; and, in such case, to receive no benefits whatsoever pursuant to the terms of this Plan; or

(2) to receive his or benefits as accrued to July 31, 2006 under the terms of (and subject to all other applicable provisions of) this Plan but “frozen” as of that date, with no further accrual of benefits under this Plan after July 31, 2006; and, in such case, to be irrevocably ineligible for participation in the Kennametal Inc. 2006 Executive Retirement Plan.

Section IV. Vesting.

4.1 A Participant shall become vested in the SERP Benefit, determined under the provisions of Section V, only in accordance with the following vesting schedule:

<i>Age of Participant at Termination of Employment</i>	<i>Cumulative Vested SERP Benefit</i>
Less than age 56	0%
56	20%
57	40%
58	60%
59	80%
60 or older	100%

Notwithstanding the foregoing, a Participant whose employment is involuntarily terminated with Cause shall forfeit any entitlement to a benefit under the Plan.

4.2 Notwithstanding the percentage vesting schedule in Section 4.1, the SERP Benefit (determined under the provisions of Section V) of each Participant who is an Employee at the time of a Change in Control of the Company, shall become 100% vested.

Section V. Amount of Benefit

5.1 The amount of each Participant’s SERP Benefit shall initially be calculated as the excess of the Target Retirement Income over the sum of (a) the Participant’s Retirement Income Plan Benefit plus (b) the Participant’s Primary Social Security Benefit.

5.2 The Target Retirement Income, the Retirement Income Plan Benefit, and the Social Security Benefit, shall be calculated according to the methodology described in Appendix A.

- 5.3 The Committee shall cause the formula calculation described in Section 5.1 to be done annually, or as otherwise required, for each Participant. The Committee shall then be advised of the SERP Benefit amount for each Participant, and shall direct that an official list of Participants and their accrued SERP Benefit be prepared, which shall govern the payment of a benefit under the Plan, pursuant to Section VI (but subject to Section IV), until the next annual review and redetermination of a SERP Benefit amount.

Section VI. Payment of Benefit.

- 6.1 Payment of the Participant's Vested SERP Benefit, if any, shall commence on the first day of the seventh month following the month in which the Participant's employment with the Company terminates voluntarily or involuntarily (except for Cause).

A Participant's Vested SERP Benefit shall be paid in equal monthly installments, in the form of a single life annuity with no death or other survivor benefit other than those described in Section VII. However, the first monthly payment to the Participant shall equal the sum of seven monthly payments (to account for the six month delay in commencement of payments required under IRC § 409A(a)(1)(B)(i)).

Section VII. Surviving Spouse and other Death Benefit.

- 7.1 In the event of the death of a Participant prior to the commencement of payment of a Plan benefit to the Participant, an amount equal to 50% of the amount of the benefit calculated in accordance with the vesting provisions of Section IV and the amount of the benefit of Section V which would otherwise have been payable to the Participant, will instead be payable to the Participant's Surviving Spouse. Payments to such Surviving Spouse shall be made from the month following the month in which the death of the Participant occurred until the death of the Surviving Spouse. However, in the event the Participant's death occurs after termination of employment as described in Section 6.1, the first monthly payment to the Surviving Spouse shall include an additional amount equal to the sum of the monthly payments that would have been made to the Participant prior to his or her death had monthly payments commenced on the first of the month following the Participant's termination of employment as described in Section 6.1. For example, if a Participant terminated employment, as described in Section 6.1, on December 15 and then died on the following April 15, survived by a Surviving Spouse, the first payment to the Surviving Spouse shall include the sum of four monthly payments that would have been paid to the Participant in January, February and March and April (but for the six-month delay in commencement of payments) as well as the 50% Surviving Spouse benefit described in this Section VII.
- 7.2 In the event of the death of a Participant after the commencement of payment of a Plan benefit to the Participant, an amount equal to 50% of the amount of the Plan benefit then being paid to the Participant will instead be payable to the Participant's Surviving

Spouse. Payments to such Surviving Spouse shall be made from the month following the month in which the death of the Participant occurred, until the death of the Surviving Spouse.

- 7.3 If the Surviving Spouse is five (5) or more years younger than the Participant, the monthly payment to the Surviving Spouse pursuant to paragraphs 7.1 and 7.2 shall be actuarially adjusted, so that it has the same present actuarial value as the full 50% payment to a hypothetical Surviving Spouse who is less than five (5) years younger than the Participant. For this purpose, the Committee shall use a life expectancy factor derived from the definition of "Actuarial Equivalent" under the Retirement Income Plan as in effect as of the date of the calculation. Effective as of January 1, 2004, the basis of Actuarial Equivalence under the Retirement Income Plan is the 1983 Group Annuity Mortality Table for Males, using 0% interest with the Surviving Spouse's age set back four years. The life expectancy factors derived therefrom are set forth in Appendix B of the Plan. The foregoing actuarial adjustment shall be effected by dividing the life expectancy factor for the hypothetical Surviving Spouse by the life expectancy for the Surviving Spouse (calculated to four decimals). The quotient obtained shall be multiplied by the Surviving Spouse's 50% benefit pursuant to paragraphs 7.1 and 7.2. An example of the method of actuarial adjustment is shown in Appendix C of the Plan.
- 7.4 In the event that the Participant shall have been entitled to payments under Section 6 of the Plan, and/ or his or her Surviving Spouse (if any) shall have been entitled to payments under Section 7 of the Plan, and, in either case, upon the death of last to die of the Participant and Surviving Spouse (if any), the aggregate amount of the cumulative payments of the SERP Benefit shall have been less than \$50,000, the Company shall pay a lump sum amount, equal to \$50,000 less the aggregate amount of the cumulative payments of the SERP Benefit already made, to the person(s) determined below in the following order of preference: (1) to the person designated by the Participant in a written notice filed with the Committee, or, if the Participant has no such notice on file, or the person(s) designated in such notice do(es) not exist at the relevant time, then (2) to the executor or administrator of the Participant's estate.

Section VIII. Claims Procedures

- 8.1 **Claims for Benefits.** The Committee shall determine the rights of any Participant to any benefits hereunder. Any Participant who believes that he or she has not received the benefits to which he is entitled under the Plan may file a claim in writing with the Committee. The Committee shall, no later than 90 days after the receipt of a claim (plus an additional period of 90 days if required for processing, provided that notice of the extension of time is given to the claimant within the first 90-day period), either allow or deny the claim in writing. If a claimant does not receive written notice of the Committee's decision on his claim within the above-mentioned period, the claim shall be deemed to have been denied in full.

A denial of a claim by the Committee, wholly or partially, shall be written in a manner calculated to be understood by the claimant and shall include:

- the specific reasons for the denial;
- specific reference to pertinent Plan provisions on which the denial is based;
- a description of any additional material or information necessary for the claimant to perfect the claim;
- an explanation of why such material or information is necessary; and
- an explanation of the claim review procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

8.2 **Appeal Provisions.** A claimant whose claim is denied (or his duly authorized representative) may within 60 days after receipt of denial of a claim file with the Committee a written request for a review of such claim. If the claimant does not file a request for review of his claim within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Committee on his claim, the decision shall become final and the claimant will not be entitled to bring a civil action under ERISA § 502(a). If such an appeal is so filed within such 60-day period, the Committee (or its delegate) shall conduct a full and fair review of such claim. During such review, the claimant (or the claimant's authorized representative) shall be given the opportunity to review all documents that are pertinent to his claim and to submit issues and comments in writing.

The Committee (or its delegate) shall mail or deliver to the claimant a written decision on the matter based on the facts and the pertinent provisions of the Plan within 60 days after the receipt of the request for review (unless special circumstances require an extension of up to 60 additional days, in which case written notice of such extension shall be given to the claimant prior to the commencement of such extension). Such decision shall be written in a manner calculated to be understood by the claimant, shall state the specific reasons for the decision and the specific Plan provisions on which the decision was based and shall, to the extent permitted by law, be final and binding on all interested persons. If the decision on review is not furnished to the claimant within the above-mentioned time period, the claim shall be deemed to have been denied on review.

8.3 **Further Proceedings.** If a Participant's claim for benefits is denied in whole or in part, such Participant may file suit only in a state court located in Westmoreland County, Pennsylvania or federal court located in Allegheny County, Pennsylvania. ***Notwithstanding, before such Participant may file suit in a state or federal court, Participant must exhaust the Plan's administrative claims procedure. If any such judicial or administrative proceeding is undertaken, the evidence presented will be strictly limited to the evidence timely presented to the Plan Administrator. In addition, any such judicial or administrative proceeding must be filed within six months after the Plan Administrator's final decision.***

Section IX. Miscellaneous Provisions.

- 9.1 **Administration.** The Committee shall be responsible for all facets of interpretation and administration of the Plan. The Committee may adopt rules and regulations to assist it in the administration of the Plan. The Board of Directors has also delegated to the Committee the right to modify provisions of the Plan in individual cases.
- 9.2 **No Guaranty of Employment.** Nothing in this Plan shall be construed as guaranteeing future employment to any Participant. Without limiting the generality of the preceding sentence, except as otherwise set forth in a written agreement, a Participant continues to be an employee of the Company solely at the will of the Company, subject to discharge at any time, with or without Cause. The benefits provided for herein for a Participant shall not be deemed to modify, affect or limit any salary or salary increases, bonuses, profit sharing or any other type of compensation of a Participant in any manner whatsoever. Except as otherwise specifically provided herein, nothing contained in this Plan shall affect the right of a Participant to participate in or be covered by or under any qualified or nonqualified pension, profit sharing, group, bonus or other supplemental compensation, retirement or fringe benefit Plan constituting any part of the Company's compensation structure whether now or hereinafter existing.
- 9.3 **Non-Competition.** Receipt of the SERP Benefit is expressly conditioned upon the non-competition of the retired Participant with the Company, for so long as any payments are being made hereunder. Accordingly, unless the Participant first secures the written consent of the Board of Directors or the Committee, he shall not directly or indirectly, as an officer, director, employee, consultant, agent, partner, joint venturer, proprietor, or other, engage in or assist any business which is or may become in direct or indirect competition with the Company or any of its subsidiaries, other than as a mere investor holding not more than one percent of the equity interest of any such competing enterprise. In the event that the Committee makes a good-faith determination that a Participant receiving a SERP Benefit is or may be violating the non-competition provisions hereof, it shall immediately notify him or her of such finding in writing and afford him or her a reasonable opportunity (a period of not less than sixty days) to rebut such finding, or to desist from such competitive activity. In the event that the Committee believes that a violation of the non-competition provision continues uncorrected following the sixty-day period, it may then cease making SERP Benefit payments, and the retired Participant (and any Spouse or other beneficiary claiming through the Participant) shall forfeit any right to future payment of a SERP Benefit under the Plan.
- 9.4 **Source of Benefit Payments.** This Plan is intended to be an unfunded plan of deferred compensation for a select group of management or highly compensated individuals, and it is intended that a SERP Benefit payable hereunder will be paid from the general assets of the Company. However, in the event of a Change in Control, amounts payable to a Participant or the Surviving Spouse or estate, under Sections 6 and 7 of the Plan, may be provided for in accordance with an Executive Deferred Compensation Trust (a so-called "Rabbi" trust) between the Company and a trustee. Should such an Executive Deferred

Compensation Trust be established, the Company shall inform the Participant of the identity of the trustee upon the Participant's request.

- 9.5 **Non-Assignment, Alienation.** Nothing in this Plan gives a Participant or any person claiming payments for or through him or her, any right, title, or interest in any asset held in the Company, prior to the payment thereof, and that the right of a Participant to any payment hereunder is strictly contractual and unsecured. In addition, the benefit to be paid hereunder may not be voluntarily or involuntarily sold, transferred, assigned, alienated, or encumbered, and any such attempt shall be void.
- 9.6 **Obligation of Successors.** This Plan shall be binding upon the Company or any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise), to all or substantially all of the business and/or assets of the Company, or to any assignee thereof. To the extent that the Company must take additional contractual or other steps to make the Plan an enforceable contractual obligation of a successor (e.g., a purchaser of assets), the Company shall take such steps. This Plan and all rights of the Participant hereunder shall inure to the benefit of and be enforceable by the Participant or the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees.
- 9.7 **Amendment, Termination.** This Plan may be amended or terminated at any time by action of the Board of Directors, provided that no such amendment or termination shall reduce or eliminate the right of a Participant to the payment of a Plan benefit earned prior to such amendment or termination.
- 9.8 **Withholding.** The Company may provide for the withholding, from any benefit payable under this Plan, all Federal, state, city, or other taxes as shall be appropriate pursuant to any law or governmental regulation or ruling, and may delay the payment of any benefit until the Participant or beneficiary provides payment to the Company of all applicable withholding taxes.
- 9.9 **Miscellaneous.** This Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, to the extent not governed by federal law. Section headings are for convenience of reference only, and shall not affect the construction or interpretation of any of the provisions hereof.

APPENDIX A

t Calculation begins with current monthly base salary and years of service, up to the present date.

t *Target Retirement Income* equals a percent of (a) Final Base Salary plus (b) the monthly average (i.e., 1/36) of the sum of the last three Bonus Awards. The percentage is calculated as 60% for 30 years of service, plus or minus 1% for each year of service greater than or less than thirty. For example:

Years of Service	Retirement Target
Newly hired	30%
5	35%
10	40%
15	45%
20	50%
25	55%
30	60%
35	65%
40	70%
45	75%

t Calculate the *Retirement Income Plan Benefit*, based on current years of service and pensionable earnings, to date, and including current statutory limitations (IRC §§ 415 and 401A(17)), but not actuarially reduced for age less than 65. This calculation is made on the assumption (whether or not true) that the Participant is an active participant in the RIP and is currently eligible to accrue additional benefits thereunder. (Thus, the calculation is made even if the Participant is excluded from active participation under the terms of the RIP, as amended effective December 31, 2003.)

t Calculate the *Primary Social Security Benefit*, based on earnings to date and assuming that current level of earnings will continue through age 65.

t The *SERP Benefit* equals the *Target Retirement Income* (above) minus the **sum** of (a) the *Retirement Income Plan Benefit* plus (b) the *Primary Social Security Benefit*.

t The *SERP Benefit* is then adjusted, if applicable, under the vesting schedule in Section 4.1.

APPENDIX A
continued

t However, the *minimum* SERP Benefit is 10% of current Base Salary.

t If the prior Vested SERP benefit (as last calculated under the above described method and posted to the official list of Participants and their respective Vested SERP Benefits) is greater than the new Vested SERP Benefit, use the prior Vested SERP Benefit.

t Therefore, the Vested SERP Benefit is the greatest of:

- Target Retirement Income minus sum of (a) Retirement Income Plan Benefit plus (b) the Primary Social Security Benefit, adjusted, if applicable, under the vesting schedule in Section 4.1.
- 10% of Current Base Salary, or
- Prior Vested SERP Benefit.

APPENDIX B

LIFE EXPECTANCIES FROM THE 1983 GROUP ANNUITY TABLE FOR MALES
(Set back 4 years for Joint Annuitants)

Age	Joint Annuitant
20	61.8209
21	60.8413
22	59.8620
23	58.8830
24	57.9043
25	56.9259
26	55.9480
27	54.9706
28	53.9937
29	53.0174
30	52.0418
31	51.0670
32	50.0929
33	49.1198
34	48.1476
35	47.1765
36	46.2066
37	45.2380
38	44.2708
39	43.3052
40	42.3420
41	41.3799
42	40.4194
43	39.4609
44	38.5048
45	37.5519
46	36.6027
47	35.6578
48	34.7181
49	33.7843
50	32.8570
51	31.9371
52	31.0249
53	30.1209
54	29.2251
55	28.3377
56	27.4584
57	26.5870
58	25.7232
59	24.8665
60	24.0165
61	23.1729
62	22.3357
63	21.5052
64	20.6824
65	19.8686
66	19.0651
67	18.2736
68	17.4961
69	16.7345
70	15.9910
71	15.2675
72	14.5650
73	13.8838
74	13.2233
75	12.5823
76	11.9593
77	11.3534
78	10.7651
79	10.1954
80	9.6460
81	9.1190
82	8.6159
83	8.1375
84	7.6840
85	7.2554
86	6.8510

87	6.4698
88	6.1104
89	5.7710
90	5.4494
91	5.1452
92	4.8567
93	4.5831
94	4.3236
95	4.0780
96	3.8449
97	3.6221
98	3.4067
99	3.2050
100	3.0190
101	2.8379
102	2.6613
103	2.4889
104	2.3201
105	2.1539
106	1.9885
107	1.8203
108	1.6485
109	1.4741

APPENDIX C

Example:

A Participant receiving a SERP Benefit in the amount of \$10,000 dies at age 74. His or her Surviving Spouse is age 65. The benefit payable to the Surviving Spouse would be calculated as follows.

1. Life expectancy set forth on the Group Annuity Mortality Table of a hypothetical Surviving Spouse who is age 69 = 16.7345
2. Life expectancy set forth on the Group Annuity Mortality Table of the Surviving Spouse who is age 65 = 19.8686
3. Quotient obtained by dividing 1 above by 2 above ($16.7345 \div 19.8686$) = 0.8423
4. Yearly benefit payable to Surviving Spouse = $\$10,000 \times 50\% \times 0.8423 = \$4,211.50$

APPENDIX D

STATEMENT OF ERISA RIGHTS

Each Participant in the Plan is entitled to certain rights and protections under ERISA. ERISA provides that all Participants shall be entitled to:

Receive Information About the Plan and Benefits

Examine, without charge, at the Plan Administrator's office, all documents governing the Plan.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of Participants and beneficiaries. No one, including a Participant's employer or any other person, may fire such Participant or otherwise discriminate against a Participant in any way to prevent such Participant from obtaining a welfare benefit or exercising such Participant's rights under ERISA. However, this rule neither guarantees continued employment, nor affects the Company's right to terminate a Participant's employment for other reasons.

Enforce Participant Rights

If a Participant's claim for a benefit is denied or ignored, in whole or in part, a Participant has a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps a Participant can take to enforce the above rights. For instance, if a Participant requests a copy of Plan documents and does not receive them within 30 days, such Participant may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay such Participant up to \$110 a day until Participant receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If a Participant has a claim for benefits which is denied or ignored, in whole or in part, such Participant may file suit in a state or Federal court. If a Participant is discriminated against for asserting such Participant's rights, such Participant may seek assistance from the U.S. Department of Labor, or may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If a Participant is successful the court may order the person such Participant has sued to pay these costs and fees. If a Participant loses, the court may order such Participant to pay these costs and fees, for example, if it finds such Participant's claim is frivolous.

APPENDIX D

continued

Assistance with Participant Questions

If a Participant has any questions about the Plan, such Participant should contact the Plan Administrator. If a Participant has any questions about this statement or about such Participant's rights under ERISA, or if a Participant needs assistance in obtaining documents from the Plan Administrator, such Participant should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in such Participant's telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. A Participant may also obtain certain publications about such Participant's rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

SUMMARY INFORMATION

Name of Plan: The name of the plan under which benefits are provided is the Kennametal Inc. Supplemental Executive Retirement Plan

Plan Sponsor: The Sponsor of the Plan is:

Kennametal Inc.
1600 Technology Way
P. O. Box 231
Latrobe, PA 15650-0231

Telephone: (724) 539-5000

Plan Administrator: The Plan Administrator of the Plan is:

The Compensation Committee of the Board of Directors
Kennametal Inc.
1600 Technology Way
P. O. Box 231
Latrobe, PA 15650-0231

Telephone: (724) 539-5000

Employer Identification Number: The Employer Identification Number (EIN) assigned to the Plan Sponsor by the Internal Revenue Service is 25-0900168.

Type of Plan: Nonqualified unfunded deferred compensation plan ("top hat").

APPENDIX D

continued

Type of Administration: The Plan is administered by the Plan Administrator without use of third party administrators or insurers.

Funding: Benefits payable under the Plan are provided from the general assets of the Company.

Agent for Service of Legal Process: For disputes arising under the Plan, service of legal process may be made upon the General Counsel of Plan Sponsor.

Plan Year: The Plan's fiscal records are kept on a June 30 fiscal year basis (July 1 to June 30).

I, Carlos M. Cardoso, certify that:

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

Date: November 9, 2006

/s/ Carlos M. Cardoso

Carlos M. Cardoso
President and
Chief Executive Officer

I, Frank P. Simpkins, certify that:

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

Date: November 9, 2006

/s/ Frank P. Simpkins

Frank P. Simpkins
Interim Chief Financial Officer, Vice
President Finance and Corporate Controller

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

In connection with the Quarterly Report of Kennametal Inc. (the "Corporation") on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

/s/ Carlos M. Cardoso

Carlos M. Cardoso
President and Chief Executive Officer
Kennametal Inc.

November 9, 2006

/s/ Frank P. Simpkins

Frank P. Simpkins
Interim Chief Financial Officer, Vice
President Finance and Corporate Controller
Kennametal Inc.

November 9, 2006

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