

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

FORM 10-K

(mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 30, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-11406

KADANT INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

52-1762325

(I.R.S. Employer Identification No.)

One Technology Park Drive

Westford, Massachusetts 01886

(Address of principal executive offices, including zip code)

(978) 776-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	KAI	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the Registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the Registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the Registrant as of July 1, 2023 (based on the closing price per share as reported on the New York Stock Exchange on the last business day of the Registrant's most recently completed second fiscal quarter), was approximately \$2,567,677,000. For purposes of the immediately preceding sentence, the term "affiliate" consists of each director and executive officer of the Registrant.

As of February 16, 2024, the Registrant had 11,718,808 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the Registrant's 2024 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Kadant Inc.
Annual Report on Form 10-K
for the Fiscal Year Ended December 30, 2023
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PART I

Forward-Looking Statements

This Annual Report on Form 10-K and the documents we incorporate by reference in this report include forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and Section 27A of the Securities Act of 1933, as amended. These forward-looking statements are not statements of historical fact, and may include statements regarding possible or assumed future results of operations. Forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, using information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "seeks," "should," "likely," "will," "would," "may," "continue," "could," or similar expressions, we are making forward-looking statements.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Our future results of operations may differ materially from those expressed in the forward-looking statements. Many of the important factors that will determine these results and values are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. For a discussion of important factors that may cause our actual results to differ materially from those suggested by the forward-looking statements, you should read carefully the section captioned "Risk Factors" in [Part I, Item 1A](#), of this report.

Item 1. Business

Throughout this Annual Report on Form 10-K, when we use the terms "we," "us," "our," "Registrant," and the "Company," we mean Kadant Inc., and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates. Kadant Inc. trades on the New York Stock Exchange under the ticker symbol "KAI."

Unless otherwise noted, references to 2023, 2022, and 2021 in this Annual Report on Form 10-K are to our fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022, respectively.

Description of Our Business

We are a global supplier of technologies and engineered systems that drive Sustainable Industrial Processing. Our products and services play an integral role in enhancing efficiency, optimizing energy utilization, and maximizing productivity in process industries while helping our customers advance their sustainability initiatives with products that reduce waste or generate more yield with fewer inputs, particularly fiber, energy, and water. Producing more while consuming less is a core aspect of Sustainable Industrial Processing and a major element of the strategic focus of our three reportable operating segments: Flow Control, Industrial Processing, and Material Handling.

We have a long and well-established history of developing, manufacturing, and servicing a range of products and equipment used in process industries such as paper, packaging, and tissue; wood products; mining; metals; food processing; and recycling and waste management, among others. Some of our businesses or their predecessor companies have been in operation for more than 100 years. Our diverse customer base includes global and regional industrial manufacturers and distributors who participate in the broader resource transformation sector. We believe we have one of the largest installed bases of equipment in the markets we serve around the globe.

We expect that a significant driver of our long-term growth will be the acquisition of businesses and technologies that complement or augment our existing products and services or may involve entry into a new process industry. We have acquired several businesses in recent years and continue to pursue acquisition opportunities.

On January 1, 2024, we acquired Key Knife, Inc. and certain of its affiliates (collectively, Key Knife) pursuant to a securities purchase agreement dated December 22, 2023, for approximately \$156.0 million in cash, subject to certain customary adjustments. Key Knife is a global supplier of engineered knife systems for custom chipping, planing, and flaking solutions for wood products industries and is part of our Industrial Processing segment.

On January 24, 2024, we acquired all of the outstanding equity securities of KWS Manufacturing Company, Ltd. (KWS), for approximately \$84.0 million in cash, subject to certain customary adjustments. KWS is a leading manufacturer of conveying equipment for the bulk material handling industry and is part of our Material Handling segment.

See [Note 2](#), Acquisitions, and [Note 15](#), Subsequent Events, in the accompanying consolidated financial statements for further details regarding our acquisitions.

Business Segments and Products

We report our financial results by combining operating entities into three reportable operating segments: Flow Control, Industrial Processing, and Material Handling. See [Note 12](#), Business Segment and Geographical Information, in the accompanying consolidated financial statements for financial information regarding our segments.

Flow Control Segment

Through our Flow Control segment, we provide custom-engineered products, systems, and technologies that control the flow of fluids used in industrial and commercial applications to keep critical processes running efficiently in the packaging, tissue, food, metals, and other industrial sectors. The Flow Control segment consists of our fluid-handling and doctoring, cleaning, & filtration product lines.

Fluid-Handling

We develop, manufacture and market fluid-handling systems and equipment used in industrial piping systems to compensate for movement and to efficiently transfer fluid, power, and data. Our products are used primarily in the production of fiber-based packaging, metals, food, energy, chemicals, textiles, plastics and rubber. Our principal fluid-handling systems and equipment include:

- Rotary joints: Our mechanical sealing devices, used with rotating shafts, allow the transfer of pressurized fluid from a stationary source into and out of rotating machinery for heating, cooling, or the transfer of fluid power.
- Syphons: Our devices, installed inside rotating cylinders, are used to remove fluids from the rotating cylinders through rotary joints or unions located on either end of the cylinder.
- Turbulator® bars: Our steel or stainless steel axial bars, installed on the inside of cylinders, are used to induce turbulence in the condensate layer to improve the uniformity and rate of heat transfer through the cylinders.
- Expansion joints: Our rubber, metal, fabric, and polytetrafluoroethylene (PTFE) expansion joints are used to compensate for movement in industrial piping systems due to thermal expansion, vibration and other causes.
- Engineered steam and condensate systems: Our steam systems and advanced controls manage the flow of steam from the boiler to steam-heated rolls or processing machinery, collect condensed steam, and return it to the boiler to facilitate efficient energy utilization during the manufacturing process. Our systems and equipment are also used to efficiently and effectively distribute steam in a variety of industrial processing applications.

Doctoring, Cleaning, & Filtration

We develop, manufacture, and market a wide range of doctoring, cleaning, and filtration systems and related consumables that continuously clean rolls to keep paper machines and other industrial processes running efficiently. Doctoring and cleaning systems are also used in other process industries such as carbon fiber, textiles, food, and metals. Our principal doctoring, cleaning, and filtration products include:

- Doctor systems and holders: Our doctor systems clean papermaking rolls to maintain the efficient operation of paper machines and other equipment by placing a blade against the roll at constant and uniform pressure. A doctor system consists of the structure supporting the blade and the blade holder.
- Doctor blades: We manufacture doctor and scraper blades made of a variety of materials including metal, bi-metal, and synthetic materials that perform a variety of functions including cleaning, creping, web removal, flaking, and applying coatings. A typical doctor blade has a life ranging from eight hours to two months, depending on the application.
- Cleaning showers and fabric-conditioning systems: Our cleaning shower and fabric-conditioning systems assist in the removal of contaminants that collect on paper machine fabrics and roll surfaces. A typical paper machine has between three and 12 fabrics and multiple rolls. These fabrics can easily become contaminated with fiber, fillers, pitch, and dirt that can have a detrimental effect on paper machine performance and paper quality. Our cleaning shower and fabric-conditioning systems assist in the removal of these contaminants.
- Forming systems and wear surfaces: We supply structures that drain, purify, and recycle process water from the pulp mixture during paper sheet and web formation. Our wear surfaces are used to remove water from the paper web as it travels across the structures in the forming section of the paper machine.
- Water-filtration systems: We offer a variety of filtration systems and strainers that remove contaminants from process water before reuse and recover reusable fiber for recycling back into the pulp mixture.

Industrial Processing Segment

Through our Industrial Processing segment, we provide equipment, machinery, and technologies used to recycle paper and paperboard and process timber for use in the packaging, tissue, wood products and alternative fuel industries, among others.

In addition, we provide industrial automation and digitization solutions to process industries. The Industrial Processing segment consists of our wood processing and stock-preparation product lines.

Wood Processing

We develop, manufacture, and market debarkers, stranders, chippers, and related equipment used in the production of lumber, oriented strand board (OSB) and other wood products. In addition, we provide industrial automation and digitization solutions to process industries. Our principal wood processing products and services include:

- Ring and rotary debarkers: Our fixed and sliding ring debarkers utilize a rotating multi-tool to strip the bark off a non-rotating log. Our ring debarkers are used in lumber mills to remove the bark from the tree before further processing into lumber. Our rotary debarkers and related parts and consumables employ a combination of mechanical abrasion and log-to-log contact to efficiently remove bark from logs of all shapes and species.
- Stranders: Our disc and ring stranders and related parts and consumables cut batch-fed and tree-length logs into strands for OSB production and are used to manage strands in real time using our proprietary conveying and feeding equipment.
- Chippers: Our disc, drum, and veneer chippers and related parts and consumables are high-quality, robust chipper systems for waste-wood and whole-log applications found in pulp woodrooms, chip plants, and sawmill and planer mill sites.
- Engineered knife systems: Our equipment includes custom chipping, planing, and flaking products and systems used in sawmills, pulp mills, chip plants and other applications.
- Industrial automation and control: We provide industrial automation, process technology, and project management services to help industrial companies digitally transform their operations.

Stock-Preparation

We develop, manufacture, and market custom-engineered systems and equipment, as well as standard individual components, for pulping, de-inking, screening, cleaning, and refining primarily recycled fiber for preparation for entry into the paper machine, and recausticizing and evaporation equipment and systems used in the production of virgin pulp. Our principal stock-preparation products include:

- Recycling and approach flow systems: Our equipment includes pulping, screening, cleaning, and de-inking systems that process fiber and remove contaminants, such as ink, glue, metals, and other impurities, to prepare them for entry into the paper machine during the production of recycled paper.
- Virgin pulping process equipment: Our equipment includes pulp washers, evaporators, and recausticizing and condensate treatment systems used to remove lignin, concentrate and recycle process chemicals, and remove condensate gases.

Material Handling Segment

Through our Material Handling segment, we provide products and engineered systems used to handle bulk and discrete materials for secondary processing or transport in the aggregates, mining, food, and waste management industries, among others. In addition, we manufacture and sell biodegradable, absorbent granules used as carriers in agricultural applications and for oil and grease absorption. The Material Handling segment consists of our conveying and vibratory, baling, and fiber-based product lines.

Conveying and Vibratory Equipment

We develop, manufacture, and market conveying and vibratory equipment and systems to various process industries, including mining, aggregates, food processing, packaging, and paper. Our principal conveying and vibratory products include:

- Vibratory equipment: feeders, screens, and flow aides utilized in the feeding of rugged and non-rugged materials as well as in mixing, blending, and packaging of fragile materials with speed and precision.
- Conveying equipment: transport idlers, power terminal units, and electric controls, used to transport bulk materials in harsh above- and below-ground mining environments; and screw conveyors and feeders, slide gates, and bucket elevators used for material handling operations in the agricultural, food, chemical, and paper industries, among others.

Baling

We develop, manufacture, and market individual components and equipment for baling recyclable and waste materials to prepare them for secondary processing, transport, or storage. Our principal baling products include horizontal channel balers, vertical balers, conveyors, compactors, and bale wrapping machines used in the processing of recyclable and waste materials.

Fiber-based Products

We manufacture and sell biodegradable, absorbent granules derived from papermaking by-products. These materials are primarily used as carriers in agricultural, home lawn and garden, professional lawn, turf and ornamental applications, and for oil and grease absorption.

Dependency on a Single Customer

No single customer accounted for 10% or more of our consolidated revenue in any of the past three years. In addition, within our Flow Control, Industrial Processing, and Material Handling segments, no single customer accounted for more than 10% of each of the respective segment's revenue.

Approximately 53% in 2023, 55% in 2022, and 58% in 2021, of our consolidated revenue were to customers outside the United States, principally in Europe, Asia and Canada.

Backlog

Our backlog of firm orders by segment are as follows:

(In millions)	December 30, 2023	December 31, 2022
Flow Control	\$ 79.6	\$ 80.2
Industrial Processing	176.5	197.8
Material Handling	54.3	67.3
	<u>\$ 310.4</u>	<u>\$ 345.3</u>

We anticipate that the majority of the backlog at year-end 2023 will be shipped within 12 months. Some of our capital orders can be canceled by the customer upon payment of a cancellation fee.

Research and Development

We develop a broad range of products for all facets of the markets we serve. We operate research and development facilities in the United States, Europe, and Canada, and focus our product innovations on process industry challenges and the need for improved fiber processing, heat transfer, roll and fabric cleaning, fluid handling, wood processing, and secondary material handling. In addition to internal product development activities, our research centers allow customers to simulate their own operating conditions and applications to identify and quantify opportunities for improvement.

Our research and development expenses were \$13.6 million in 2023, \$12.7 million in 2022, and \$11.4 million in 2021.

Sales and Marketing

We market and sell our engineered products, services, and systems to process industries using a combination of direct sales, independent sales agents, and distributors depending on the market and product being sold. Technical service personnel, product specialists, and other subject matter experts are utilized in certain markets and with certain product lines. Our application expertise is complemented by a consultative selling approach to ensure we meet the needs of our customers.

Competition

We are a leading supplier of systems and equipment in each of our product lines within our Flow Control segment and there are several global and numerous local competitors in each market. In our Industrial Processing segment, we compete with a limited number of global and regional competitors in the forest products markets and fiber processing equipment markets. In our Material Handling segment, we compete with numerous global, regional, and local competitors for our conveying and vibratory equipment, and strong regional competitors for our baling equipment and fiber-based granules offerings. Because of the diversity of our products, we face many different types of competitors and competition. We compete primarily on the basis of technical expertise, product innovation, and product performance. We believe the reputation that we have established for high-performance, high-reliability products supported by our in-depth process knowledge and application expertise provides us with a competitive advantage. In addition, a significant portion of our business is generated from our worldwide customer base.

To maintain this base, we have emphasized our global presence, local support, and problem-solving relationship with our customers. Our success primarily depends on the following factors:

- Technical expertise and process knowledge;
- Product innovation;
- Product quality, reliability, and performance;
- Operating efficiency of our products;
- Customer service and support;
- Relative price of our products; and
- Total cost of ownership of our products.

Raw Materials

The primary raw materials used by our businesses are: Flow Control segment – steel, stainless steel, ductile iron, brass, bronze, aluminum, and elastomers; Industrial Processing segment – steel and stainless steel; and Material Handling segment – steel, aluminum, and composites. These raw materials are generally purchased and available through a number of suppliers. The raw material used in the manufacture of our fiber-based granules is a by-product from the production of paper that we obtain from two paper mills. If these mills were unable or unwilling to supply us with sufficient fiber, we would be forced to find one or more alternative suppliers for this raw material. To date, our raw materials have generally been available to meet our current needs.

Patents, Licenses, and Trademarks

We protect our intellectual property rights by applying for and obtaining patents when appropriate. We also rely on technical know-how, trade secrets, and trademarks to maintain our competitive position. We also enter into license agreements with others to grant and/or receive rights to patents, trademarks, and know-how. No particular patent, or related group of patents, is so important that its expiration or loss would significantly affect our operations.

Flow Control Segment

We have numerous U.S. and foreign patents, including foreign counterparts to our U.S. patents, expiring on various dates ranging from 2025 to 2050, related to fluid handling and doctoring, cleaning, and filtration equipment. From time to time, we enter into licenses with other companies for products that serve the pulp, papermaking, converting, and paper recycling industries.

Industrial Processing Segment

We have numerous U.S. and foreign patents, including foreign counterparts to our U.S. patents, expiring on various dates ranging from 2024 to 2042, related to stock-preparation and wood processing systems and equipment.

Material Handling Segment

We have numerous U.S. and foreign patents, including foreign counterparts to our U.S. patents, expiring on various dates ranging from 2024 to 2041, related to various aspects of conveyor belt systems and conveying apparatus, and baling equipment. We license one of our two significant product brand names, Link-Belt®, from a third party pursuant to a trademark license agreement. Approximately 31% of our Material Handling segment revenue in 2023 was generated by sales of conveying equipment under the Link-Belt® name. Under the terms of the license agreement, we have a worldwide, exclusive, royalty-free, perpetual license to use the Link-Belt® trademark in connection with such products.

We also currently hold several U.S. patents, expiring on various dates ranging from 2026 to 2034, related to various aspects of the processing of fiber-based granules and the use of these materials in agricultural, home lawn and garden, professional lawn, turf and ornamental applications, and for oil and grease absorption.

Government Regulations

We are subject to a variety of U.S. and international governmental regulations, including environmental regulations. We believe that our operations comply in all material respects with applicable laws and regulations. Our compliance with these requirements did not change during the past year, and is not expected to have a material adverse effect on our cash flows, earnings, or competitive position. For more information on risks related to government regulations, please see [Part I, Item 1A](#), “Risk Factors.”

Seasonal Influences

Flow Control Segment

There are no material seasonal influences on this segment's sales of products and services.

Industrial Processing Segment

Our Industrial Processing segment is subject to seasonal variations, with demand for our wood processing products tending to be greater during the building season, which generally occurs in the second and third quarters in North America.

Material Handling Segment

Our Material Handling segment may experience minor seasonal fluctuations in sales, with demand for our products tending to be greater in the second and third quarters due to the impact of weather and favorable outdoor working conditions at certain of our customers. Our fiber-based products business experiences fluctuations in sales, usually in the third quarter, when sales decline due to the seasonality of the agricultural and home lawn and garden markets.

Human Capital Resources

At Kadant, our culture is based on responsible and safe practices, supported by an engaged and empowered workforce. We believe that our employees are the core of our business, and we devote significant time and resources to their training and development. For more information, please reference our Corporate Sustainability Report, which is available at www.kadant.com.

Safety

We maintain a safety-first culture grounded on the premise of eliminating workplace incidents, risks and hazards. We have created and implemented processes to help eliminate safety events by reducing their frequency and severity. Our commitment to safety is reinforced by our robust safety program and training.

Talent, Development, Diversity and Inclusion

The attraction, retention and development of exceptional employees is critical to our continued success. As part of these efforts, we strive to offer a competitive compensation and benefits program and to foster a safe and inclusive work environment where everyone feels respected, valued and empowered to do their best work. We embrace the diversity of our employees, including their unique backgrounds, experiences, and talents. Everyone is valued and appreciated for their distinct contributions to the growth and sustainability of our business. We strive to cultivate a culture of diversity and inclusion that supports and enhances our ability to recruit, develop and retain talent at every level.

As of December 30, 2023, we had approximately 3,100 full-time employees worldwide. Of our full-time employees, approximately 45% were in North America, 32% were in Europe and 20% were in Asia. Other than certain of our Canadian employees and typical works councils outside of the U.S., none of our employees are represented by labor unions or covered by a collective bargaining agreement. Subsequent to year-end 2023, with the acquisitions of Key Knife and KWS, we added approximately 300 full-time employees in North America.

Our management team places significant focus and attention on matters concerning our human capital, particularly their diversity, capability development, and succession planning. Accordingly, we regularly review talent development and succession plans for each of our functions and operating segments, to identify and develop a pipeline of talent to maintain business operations. We have numerous programs to attract and retain our talent, including leadership and executive development programs as well as technical and other training. We partner with vocational schools, community colleges, universities and associations to promote future careers in manufacturing through training and apprenticeship programs. We also have a well-established performance management and talent development process in which managers provide regular feedback and coaching to develop employees.

Compensation and Benefits

As part of these efforts, we strive to offer a competitive compensation and benefits program. Our compensation and benefits program is designed to attract and retain talented individuals who possess the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our stockholders. We offer comprehensive, locally relevant benefits to all eligible employees which include, among other benefits:

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- Comprehensive health insurance coverage;
- Retirement benefits;
- Life insurance and disability benefits; and
- Leave and wellness benefits.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Exchange Act. The SEC maintains a website that contains reports, proxy and information statements, and other information that are filed electronically by issuers with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov. In addition, we make available free of charge through our website at www.kadant.com our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to these reports filed with or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file these materials with, or furnish them to, the SEC. We are not including the information contained on our website as part of this report, nor are we incorporating the information on our website into this report by reference.

Information about our Executive Officers

The following table summarizes certain information concerning our executive officers as of February 16, 2024:

Name	Age	Present Title (Fiscal Year First Became Executive Officer)
Jeffrey L. Powell	65	President and Chief Executive Officer (2009)
Michael J. McKenney	62	Executive Vice President and Chief Financial Officer (2002)
Stacy D. Krause	47	Senior Vice President, General Counsel, and Secretary (2018)
Dara F. Mitchell	55	Senior Vice President, Corporate Development (2021)
Deborah S. Selwood	55	Senior Vice President and Chief Accounting Officer (2015)
Peter J. Flynn	73	Senior Vice President (2019)
Thomas Andrew Blanchard	65	Vice President (2021)
Michael C. Colwell	58	Vice President (2019)
Fredrik H. Westerhout	59	Vice President (2021)

Mr. Powell has been our chief executive officer and a director since July 2019 and our president since April 2019. He served as an executive vice president and a co-chief operating officer from March 2018 to March 2019. From March 2013 to March 2018, he was an executive vice president and had supervisory responsibility for our stock-preparation, wood processing, and fiber-based products businesses. From September 2009 to March 2013, he was a senior vice president. From January 2008 to September 2009, Mr. Powell was vice president, new ventures, with principal responsibility for acquisition-related activities. Prior to joining us, Mr. Powell was the chairman and chief executive officer of Castion Corporation from April 2003 through December 2007.

Mr. McKenney has been an executive vice president and our chief financial officer since March 2018. From June 2015 to March 2018, he was a senior vice president and our chief financial officer. He served as our vice president, finance and chief accounting officer from 2002 to 2015 and as corporate controller from 1997 to 2007. Mr. McKenney was controller of Kadant AES, our division acquired from Albany International Inc., from 1993 to 1997. Prior to 1993, Mr. McKenney held various financial positions at Albany International and Coopers & Lybrand LLP.

Ms. Krause has been our senior vice president, general counsel, and secretary since November 2021 and served as our vice president, general counsel and secretary from July 2018 to November 2021. She served as our deputy general counsel from December 2017 to June 2018. Prior to joining us, Ms. Krause was head of commerce cloud commercial legal at [salesforce.com, inc.](http://salesforce.com), a global SAAS software company, from July 2016 to December 2017. She previously served as assistant general counsel of Demandware, Inc., a global SAAS software company, from January 2014 to July 2016, prior to its acquisition by salesforce.com, and was assistant general counsel of Entegris, Inc., a provider of advanced materials and materials handling solutions, from 2011 to 2014. Prior to 2011, Ms. Krause was a lawyer in the corporate transactional department of Wilmer Cutler Pickering Hale and Dorr LLP.

Ms. Mitchell has been our senior vice president, corporate development, since May 2019 and served as our vice president, corporate development from 2016 to 2019 and our director of corporate development from 2013 to 2016. Prior to joining Kadant, Ms. Mitchell was a principal at NewDelta Partners, an investment banking and strategic advisory firm, and investment director at 3i, a global private equity firm where she was responsible for investing in technology companies.

Kadant Inc.

Ms. Selwood has been our senior vice president and chief accounting officer since May 2019 and served as our vice president and chief accounting officer from 2015 to 2019. Prior to that, she served as our corporate controller from 2007 to 2015 and as assistant controller from 2004 to 2007. Prior to 2004, Ms. Selwood held various financial positions at Arthur Andersen LLP and Genuity Inc.

Mr. Flynn has been our senior vice president since August 2022 and provides strategic management support, including management of special projects. He previously served as our vice president from July 2019 to July 2022 with supervisory responsibility for our stock-preparation business, which is part of our Industrial Processing segment, and our baling product line, which is part of our Material Handling segment. Prior to July 2019, Mr. Flynn served as the president of our Kadant Black Clawson LLC subsidiary from 2003 to 2019. Kadant Black Clawson manufactures stock-preparation equipment primarily for the pulp and paper industry.

Mr. Blanchard has been our vice president responsible for our Material Handling segment since August 2022, and prior to that, had supervisory responsibility for our conveying and vibratory equipment and fiber-based products businesses from November 2021 to July 2022. Mr. Blanchard previously served as the president of our Syntron Material Handling subsidiaries (SMH) since January 2019 when we acquired SMH. He also served as the president of SMH from June 2014 to January 2019 prior to our acquisition. SMH, which is part of our Material Handling segment, designs and manufactures conveyors and vibratory feeders for bulk material handling in the aggregates, mining and food industries.

Mr. Colwell has been our vice president responsible for our Industrial Processing segment since August 2022, and prior to that, had supervisory responsibility for our wood processing business, which is part of our Industrial Processing segment, from July 2019 to July 2022. He previously had responsibility for our fiber-based products business from July 2019 to November 2021. Mr. Colwell previously served as the president of Kadant Carmanah Design (Carmanah), a division of our subsidiary Kadant Canada Corp., from 2013 to 2019. Carmanah, which is part of our wood processing business, designs and manufactures equipment for the oriented strand board industry. Mr. Colwell previously served as the president and chief executive officer of Carmanah Design and Manufacturing Inc. from April 2010 until its acquisition by us in November 2013.

Mr. Westerhout has been our vice president responsible for our Flow Control segment since November 2021. Mr. Westerhout previously served as the vice president of our flow control subsidiaries in Europe since April 2014.

Item 1A. Risk Factors

Our business, results of operations and financial condition, and an investment in our securities, are subject to a number of risks. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies, including overall economic and industry conditions. Additional risks and uncertainties not currently known to us or that we currently believe are not material may also impair our business, consolidated financial condition and results of operations.

Risks Related to our Business and Industry

Adverse changes in global and local economic conditions may negatively affect our industry, business and results of operations.

We sell products worldwide to global process industries and a significant portion of our revenue is from customers based in North America, Europe and China. Uncertainties in global and regional economic outlooks have negatively affected, and may in the future negatively affect, demand for our customers' products and, as a consequence, our products and services, especially our capital equipment systems and products, and our operating results. Also, uncertainty regarding economic conditions has caused, and may in the future cause, liquidity and credit issues for many businesses, including our customers and suppliers, and may result in their inability to fund projects, capacity expansion plans, and to some extent, routine operations and capital expenditures. These conditions, as well as other global events such as wars or global health crises, have resulted, and may in the future result, in a number of structural changes in process industries, including decreased spending, mill closures, consolidations, and bankruptcies, all of which negatively affect our business, revenue, and profitability. Financial and economic turmoil affecting the worldwide economy or the banking system and financial markets, in particular due to political or economic developments, have negatively affected, and may in the future negatively affect, our business and cause our results of operations to differ materially from our current expectations.

Revenues from the sale of large capital equipment and systems projects are often difficult to predict accurately, especially in periods of economic uncertainty, and large capital equipment projects require significant investment requiring our customers to secure financing, which may be difficult.

We manufacture capital equipment and systems used in process industries, including the paper, fluid handling, wood processing and material handling industries. Approximately 38% of our revenue in 2023 was from the sale of capital equipment to be used in process industries. The demand for capital equipment is variable and depends on a number of factors, including

consumer demand for end products, existing manufacturing capacity, the level of capital spending by our customers and economic conditions. As a consequence, our bookings and revenues for capital projects tend to be variable and hard to predict. It is especially difficult to accurately forecast our operating results during periods of economic uncertainty. Our customers curtail their capital and operating spending during periods of economic uncertainty and are cautious about resuming spending as market conditions improve. Levels of consumer spending on non-durable goods, demand for food and beverage packaging, and demand for new housing and remodeling are all factors that affect paper and wood processing companies' demand for our products. Expansion of bulk material handling capacity and infrastructure spending are factors that affect demand for material handling equipment. Reductions in demand levels in any of these areas can negatively impact our business. As companies in our customers' industries consolidate operations in response to market weakness, they frequently reduce capacity, increase downtime, defer maintenance and upgrades, and postpone or even cancel capacity additions or expansion projects. Capacity growth and investment can be uneven and our customers have delayed, and may in the future delay, additional new capacity start-ups in reaction to softer market conditions. In general, as significant capacity additions come online and the economic growth rate slows, our customers have deferred and could in the future defer further investments or the delivery of previously-ordered equipment until the market absorbs the new production.

Large capital equipment projects require a significant investment and may require our customers to secure financing from external sources. Our financial performance will be negatively impacted if there are delays in customers securing financing or our customers become unable to secure such financing due to any number of factors, including a tightening of monetary policy or regime-based sanctions such as those imposed on Russia and China. Financing delays of our customers can cause us to delay booking pending orders as well as the shipment of some orders. The inability of our customers to obtain credit may affect our ability to recognize revenue and income, particularly on large capital equipment orders from new customers for which we may require letters of credit. We may also be unable to issue letters of credit to our customers, which are required in some cases to guarantee performance, during periods of economic uncertainty. This has negatively affected our bookings and revenues in the past, particularly in China, and may negatively affect our operating results in the future.

Implementing our acquisition strategy involves risks, and our failure to successfully implement this strategy could have a material adverse effect on our business.

We expect that a significant driver of our long-term growth will be the acquisition of businesses and technologies that complement or augment our existing products and services or may involve entry into a new process industry. We continue to actively pursue acquisition opportunities, some of which may be material to our business and financial performance, and involve significant cash expenditures and the incurrence of significant debt. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for a number of reasons, including:

- difficulties identifying and executing acquisitions, including our ability to conduct and complete due diligence, difficulties in negotiations with the counterparty, and inability to obtain regulatory and antitrust approvals;
- competition with other prospective buyers resulting in our inability to complete an acquisition or in our paying a substantial premium over the fair value of the net assets of the acquired business;
- access to and availability of capital;
- difficulty in integrating operations, technologies, products and the key employees of the acquired business;
- inability to maintain existing customers of the acquired business or to sell the products and services of the acquired business to our existing customers;
- inability to retain key management of the acquired business;
- diversion of management's attention from other business concerns;
- inability to improve the revenues and profitability or realize the expected cost savings and synergies;
- assumption of significant liabilities, some of which may be unknown at the time of acquisition; and
- identification of internal control deficiencies of the acquired business.

We are required to record acquisition-related costs in the period incurred. Once completed, acquisitions may involve significant integration costs. These acquisition-related costs could be significant in a reporting period and have an adverse effect on our results of operations.

Any acquisition we complete may be made at a substantial premium over the fair value of the net identifiable assets of the acquired business. We are required to assess the realizability of goodwill and indefinite-lived intangible assets annually, and whenever events or changes in circumstances indicate that goodwill and intangible assets, including definite-lived intangible assets, may be impaired. These events or circumstances would generally include operating losses or a significant decline in earnings associated with the acquired business or assets, and our ability to realize the value of goodwill and intangible assets will depend on the future cash flows of these businesses. We may incur impairment charges to write down the value of our goodwill and acquired intangible assets in the future if the assets are not deemed recoverable, which could have a material adverse effect on our operating results.

Kadant Inc.

We manufacture equipment used in the production of forest products, including lumber and OSB, and our financial performance may be adversely affected by decreased levels of residential construction activity.

We manufacture debarkers, stranders and related equipment used in the production of lumber and OSB. Our customers produce these products principally for new residential construction, home repair and remodeling activities. As such, the operating results for our Industrial Processing segment correlate to a significant degree to the level of this residential construction activity, primarily in North America and, to a lesser extent, in Europe. Residential construction activity is influenced by a number of factors, including the supply of and demand for new and existing homes, new housing starts, unemployment rates, interest rate levels, availability of mortgage financing, mortgage foreclosure rates, availability of construction labor and suitable land, seasonal and unusual weather conditions, general economic conditions and consumer confidence. A significant increase in long-term interest rates, changes in tax policy on the deductibility of mortgage interest, tightened lending standards, high unemployment rates and other factors that reduce the level of residential construction activity could have a negative effect on our financial performance.

The OSB market is highly concentrated and the market for building products is highly competitive. The loss of a significant customer or our customers' reductions in capital spending or OSB production could have a material adverse effect on our financial performance.

The OSB market is highly concentrated and there are a limited number of OSB manufacturers. As a percentage of our Industrial Processing segment revenues, the two largest OSB customers together accounted for 10% in 2023, 13% in 2022, and 11% in 2021. The loss of one or more of these OSB customers to a competitor could adversely affect our revenues and profitability. In addition, the market for building products is highly competitive. Products that compete with OSB include other wood panel products and substitutes for wood building products, such as nonfiber-based alternatives. For example, plastic, wood/plastic or composite materials may be used by builders as alternatives to OSB products. Changes in component prices, such as energy, chemicals, wood-based fibers, and nonfiber alternatives can change the competitive position of OSB relative to other available alternatives and could increase substitution. Our customers' OSB production can be adversely affected by lower-cost producers of other wood panel products and substitutes for wood building products. Lower demand for OSB products or a decline in the profitability of one or more of our customers could result in a reduction in spending on capital equipment or the shutdown or closure of an OSB mill, which could have a material adverse effect on our financial performance.

Our Wood Processing product line can be materially impacted by changes to the global timber supply.

Changes in the environment that affect natural resources such as timber may have significant effects on the sales of wood processing equipment by our Industrial Processing segment. Approximately 21% of our revenue in 2023 was from our Wood Processing product line. Changes in the environment, like wildfires and damage from pests such as the mountain pine beetle, have affected tracts of land in Western Canada that could have otherwise been logged by the forestry industry. Reduction in availability of timber can result in decreased logging activity, mill closures, and lower operating rates at mills, as well as reduced capital expenditures. A reduction in capital expenditures by mills would likely lead to a decrease in demand for new wood processing equipment, which would in turn affect demand for parts, as our wood processing customers are likely to reduce utilization of equipment, reduce inventories, redistribute parts from closed mills and delay rebuilds and other maintenance during industry downturns. In addition to declining orders for wood processing products, adverse economic conditions for our wood processing customers may make it more difficult for us to collect accounts receivable in a timely manner, or at all, which may adversely affect our working capital.

The development and increasing use of digital media has had, and will continue to have, an adverse impact on our Flow Control and Industrial Processing segments.

Developments in digital media have adversely affected demand for newsprint and for printing and writing grades of paper, particularly in North America and Europe, a trend which is expected to continue. Approximately 4% of our revenue in 2023 was from customers producing newsprint and printing and writing grades of paper. Significant declines in the production of printing and writing paper grades have also led to a drop in the construction of recycled tissue mills, as those mills use printing and writing grades of waste paper as their fiber source. The increased use of digital media has had, and will continue to have, an adverse effect on demand for our products in those markets.

Our Material Handling segment can be materially impacted by cyclical economic conditions affecting the global mining industry.

Changes in economic conditions affecting the global mining industry can occur abruptly and unpredictably, which may have significant effects on the sale of equipment by our subsidiary, SMH, which is in our Material Handling segment. Approximately 6% of our consolidated revenue in 2023 was from SMH's mining customers. Cyclicalities for original equipment sales is driven primarily by price volatility of the commodities that are mined using SMH's equipment, including coal, salt,

aggregates, potash, copper, iron ore and trona, or their substitutes, as well as product life cycles, competitive pressures and other economic factors affecting the mining industry, such as company consolidation, increased regulation and competition affecting demand for commodities, and the broader economy, including changes in government monetary or fiscal policies and from market expectations with respect to such policies. Falling commodity prices have in the past and may in the future lead to reduced capital expenditures by SMH's customers, reductions in the production levels of existing mines, a contraction in the number of existing mines and the closure of less efficient mines. Reduced capital expenditures and decreased mining activity by SMH's customers are likely to lead to a decrease in demand for new mining equipment, and may result in a decrease in demand for parts as SMH's customers are likely to reduce utilization of equipment, reduce inventories, redistribute parts from closed mines and delay rebuilds and other maintenance during industry downturns. In addition to declining orders for SMH's products, adverse economic conditions for SMH's customers may make it more difficult for SMH to collect accounts receivable in a timely manner, or at all, which may adversely affect our working capital. As a result of this cyclicality in the global mining industry, SMH may experience significant fluctuations in its business, results of operations and financial condition, and we expect SMH's business to continue to be subject to these fluctuations in the future.

A portion of our Material Handling segment is dependent on continued demand for coal, which is subject to economic and environmental risks.

Approximately 3% and 4% of our Material Handling segment's 2023 revenue came from its thermal and metallurgical coal-mining customers, respectively, which represented in aggregate less than 2% of our consolidated revenue. Many of these customers supply coal for the generation of electricity and/or steel production. Demand for electricity and steel is affected by the global level of economic activity and economic growth. The pursuit of the most cost-effective form of electricity generation continues to take place throughout the world and coal-fired electricity generation faces intense price competition from other energy sources, particularly natural gas. In addition, coal combustion typically generates significant greenhouse gas emissions and governmental and private sector goals and mandates to reduce greenhouse gas emissions may increasingly affect the mix of electricity generation sources. Further developments in connection with legislation, regulations, international agreements or other limits on greenhouse gas emissions and other environmental impacts or costs from coal combustion, both in the United States and in other countries, could diminish demand for coal as a fuel for electricity generation. If lower greenhouse gas emitting forms of electricity generation, such as nuclear, solar, natural gas or wind power, become more prevalent or cost effective, or diminished economic activity reduces demand for electricity and steel, demand for coal will decline. Reduced demand for coal could result in reduced demand for SMH's mining equipment and could adversely affect our overall business, financial condition and results of operations.

Failure of our information systems or breaches of data security and cybertheft could impact our business.

We operate a geographically dispersed business and rely on the electronic storage and transmission of proprietary and confidential information, including technical and financial information, among our operations, customers and suppliers. We also rely on information technology (IT), including IT services from third parties, in certain of our solutions, products, and services for customers as well as our enterprise infrastructure. Despite our security measures and internal controls, our information technology and infrastructure has been and may in the future be vulnerable to unauthorized access or attacks by nation states, hackers or cyber criminals or breaches due to employee error, malfeasance or other disruptions, such as business email compromises, phishing and other cyber-related fraud. Our systems could be compromised by malware (including ransomware), cyberattacks, and other events, ranging from widespread, non-targeted, global cyber threats to targeted advanced persistent threats. These threats could be indicators of an increased risk to our products, solutions, services, manufacturing, and IT infrastructure. Recent global cyberattacks have been perpetuated by the compromise of software updates to widely used software products, including some products that we use, which increases the risk that vulnerabilities or malicious content could be inserted into our products or IT infrastructure. While we continuously seek to improve the security attributes of our products, solutions, services and IT infrastructure, we cannot eliminate risk or ensure that we will not be harmed by cyberattacks or disruptions.

In some global cyberattacks, malware has been spread from one party to another via network connections that the parties had previously authorized. Our business uses IT resources on a dispersed, global basis for a wide variety of functions including development, engineering, manufacturing, sales, accounting, and human resources. Our vendors, partners, employees and customers have access to, and share, information across multiple locations via various digital technologies. In addition, we rely on partners and vendors for a wide range of outsourced activities, including cloud providers, as part of our internal IT infrastructure and our commercial offerings. Secure connectivity is important to these ongoing operations. To a significant extent, the security of systems to which we connect depends on how such systems are designed, installed, protected, configured, updated and monitored, much of which is typically outside of our control. Also, our partners and vendors frequently have access to our confidential information as well as confidential information about our customers, employees, and others. In addition, if a ransomware attack or other cybersecurity incident occurs, either internally or at our vendors or third-party technology service providers, we could be prevented from accessing our data or systems, which may cause interruptions or

delays in our business operations, cause us to incur remediation costs, subject us to demands to pay a ransom, or damage our reputation, regardless of whether we pay the ransom amount. We design our security architecture to reduce the risk that a compromise of our partners' infrastructure, for example a cloud platform, could lead to a compromise of our internal systems or customer networks, but this risk cannot be eliminated and vulnerabilities at third parties could result in unknown risk exposure to our business.

We monitor and manage various information systems that exist within our global operations and upgrade or implement new enterprise resource planning software at our business operations as needed. As we implement and add functionality, problems could arise that we have not foreseen. System failures, network disruptions, and breaches of data security could limit our ability to conduct business as usual, including our ability to communicate and transact business with our customers and suppliers; result in the loss or misuse of this information, including credit card numbers or other personal information, the loss of business or customers, or damage to our brand or reputation; or interrupt or delay reporting of our financial results. Such system failures or unauthorized access could be caused by external theft or attack, misconduct by our employees, suppliers, or competitors, or natural disasters.

In addition, the cost and operational consequences of implementing further data protection measures, such as to comply with local privacy laws such as the European Union's General Data Protection Regulation, or various similar foreign or U.S. federal and state laws, could be significant.

The current cyber threat environment indicates increased risk for all companies. Like other global companies, we have experienced cyber threats and incidents, although none have been material or had a material adverse effect on our business or financial condition. Our information security efforts include programs designed to address security governance, product security, identification and protection of critical assets, insider risk, third-party risk, and cyber defense operations. We believe these measures reduce, but cannot eliminate, the risk of an information security incident. Any significant security incidents could have an adverse impact on sales, harm our reputation and cause us to incur legal liability and increased costs to address such events and related security concerns.

It may be difficult for us to implement our strategies for improving internal growth.

Some of the markets in which we compete are mature and have relatively low growth rates. We pursue a number of strategies to improve our internal growth, including:

- strengthening our presence in selected geographic markets, including emerging markets and existing markets where we see opportunities;
- focusing on parts and consumables sales;
- using low-cost manufacturing bases, such as China, India and Mexico;
- allocating research and development funding to products with higher growth prospects;
- developing new applications for our technologies;
- combining sales and marketing operations in appropriate markets to compete more effectively;
- finding new markets for our products and expanding into different verticals or process industries;
- continuing to develop cross-selling opportunities for our products and services to take advantage of our depth of product offerings; and
- corporate efficiency programs, such as Lean manufacturing and the “80/20” rule (the Pareto Principle).

We may not be able to successfully implement these strategies, or achieve cost savings or desired efficiencies, and these strategies may not result in the expected growth of our business.

Supply chain constraints, inflationary pressure, price increases and shortages in raw materials and components, and dependency upon certain suppliers for such raw materials and components could adversely impact our operating results.

Some of our businesses have been and may continue to be impacted by supply chain constraints, inflationary pressure on material costs, longer lead times, port congestion, and increased freight costs. In addition, current or future governmental policies may increase the risk of inflation which could further increase the costs of raw materials and components for our businesses. Supply chain constraints and inflationary pressure have and may in the future continue to have a negative impact on our results of operations and financial condition, including pressure on our gross profit margins.

We use a variety of raw materials, including a significant amount of stainless steel, carbon steel, commodities and critical components to manufacture our products. Increases in the prices of such raw materials, commodities and critical components could adversely affect our operating results if we were unable to fully offset the effect of these increased costs through price increases, productivity improvements, or cost reduction programs.

Some of our businesses depend on a limited number of suppliers to provide critical components used in the manufacture of our products. If we are unable to obtain sufficient supplies of these components or these sources of supply cease to be available to us, we could experience shortages in critical components or be unable to meet our commitments to customers. Alternative sources of supply could be more expensive, or in some cases, we could be unable to locate such alternative sources.

We believe our current sources of raw materials, commodities and critical components will generally be sufficient for our needs in the foreseeable future. However, our operating results could be negatively impacted if supply is insufficient for our operations or if we are unable to expand supply as needed.

While our businesses are working to alleviate supply chain constraints through various measures, we are unable to predict the impact of these constraints on the timing of revenue and operating costs of our business in the future.

We are subject to intense competition in all our markets.

We believe that the principal competitive factors affecting the markets for our products include technical expertise and process knowledge, product innovation, automation, product quality, and price. Our competitors include a number of large multinational corporations that may have substantially greater financial, marketing, and other resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies, such as those related to factory digitalization, the industrial internet of things, smart technology and artificial intelligence, and changes in customer requirements, or to devote greater resources to the promotion and sale of their services and products. Competitors' technologies may prove to be superior to ours. Our current products, those under development, and our ability to develop new technologies may not be sufficient to enable us to compete effectively.

Changes to tax laws and regulations could affect our profitability.

We derive a significant portion of our revenue and earnings from our international operations, and are subject to income and other taxes in the United States and numerous foreign jurisdictions. Changes in U.S. and foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain revenues or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. A number of factors may cause our effective tax rate to fluctuate, including: changes in tax rates in various jurisdictions; unanticipated changes in the amount of profit in jurisdictions in which the statutory tax rates may be higher or lower than the U.S. tax rate; the resolution of issues arising from tax audits with various tax authorities; changes in the valuation of our deferred tax assets and liabilities; adjustments to income taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including impairments of goodwill in connection with acquisitions; and changes in available tax credits or our ability to utilize foreign tax credits. Any of these factors could cause us to experience an effective tax rate significantly different from that of prior periods or current expectations, which could have an adverse effect on our results of operations or cash flows.

In addition, many countries are implementing legislation and other guidance to align their international tax rules with the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting recommendations and action plan that aim to standardize and modernize global corporate tax policy, including changes to cross-border tax, transfer pricing documentation rules, and nexus-based tax incentive practices. The OECD also released model rules introducing a new 15% global minimum tax for large multinational corporations with an annual global revenue exceeding 750.0 million euros (Pillar Two Rules). Various countries, including the member states of the European Union, have implemented legislation adopting the Pillar Two Rules, which may negatively impact our provision for income taxes, net income and cash flows.

If we are unable to successfully manage our manufacturing operations, our ability to deliver products to our customers could be disrupted and our business, financial condition and results of operations could be adversely affected.

Equipment and operating systems necessary for our manufacturing businesses may break down, perform poorly, or fail. Any such disruption could cause losses in efficiencies, delays in shipments of our products and the loss of sales and customers, and insurance proceeds may not adequately compensate us for our losses.

In order to enhance the efficiency and cost effectiveness of our manufacturing operations, and to better serve customers located in various countries, as we have in the past, we may in the future move product lines from one of our plants to another and consolidate manufacturing operations in certain of our plants. Even if we successfully move our manufacturing processes, there is no assurance that the cost savings and efficiencies we anticipate will be achieved.

Further, changes in zoning laws have impacted and may continue to impact our manufacturing and other operations. For example, in 2022, we received a request by local Chinese authorities to relocate one of our facilities and, after negotiations with the Chinese government, completed the relocation of the facility in 2023. Such relocation, and any relocations required in the future, may increase our costs and could have a material impact on our manufacturing operations.

In addition, our manufacture of certain products is concentrated in specific geographic locations. As a result of such concentration, we may be disproportionately exposed to the impact of any disruptions, regulations or delays that impact those geographic locations, which may negatively impact our ability to manufacture products produced in those locations and have an adverse effect on our business results.

We may be required to reorganize our operations in response to changing conditions in the worldwide economy and the industries we serve, and such actions may require significant expenditures and may not be successful.

We have undertaken various restructuring measures in the past in response to changing market conditions in the countries in which we operate and we may engage in additional cost reduction programs in the future. The costs of these programs may be significant and we may not recoup the costs of these programs. In connection with any future plant closures, delays or failures in the transition of production from existing facilities to facilities in other geographic regions could also adversely affect our results of operations. In addition, it is difficult to accurately forecast our financial performance in periods of economic uncertainty in a region or globally, and the efforts we have made or may make to align our cost structure may not be sufficient or able to keep pace with rapidly changing business conditions. Our profitability may decline if our restructuring efforts do not sufficiently reduce our future costs and position us to maintain or increase our sales.

Our future success is substantially dependent on the continued service of our senior management and other key employees and effective succession planning.

Our future success is substantially dependent on the continued service of our senior management and other key employees. The loss of the services or retirement of our senior management or other key employees could make it more difficult to successfully operate our business and achieve our business goals. We also may be unable to attract qualified personnel or retain existing management, product development, sales, operational and other support personnel that are critical to our success, which could result in harm to key customer relationships, loss of key information, expertise, or know-how, and unanticipated recruitment and training costs. In addition, effective succession planning is also a key factor for our future success. Our failure to continue to enable the effective transfer of knowledge and facilitate smooth transitions with regard to key management employees, including in connection with our succession planning, could adversely affect our long-term strategic planning and execution and negatively affect our business, financial condition, operating results, and prospects. If we fail to enable the effective transfer of knowledge and facilitate smooth transitions for key personnel, the operating results and future growth for our business could be adversely affected, and the morale and productivity of the workforce could be disrupted.

Our inability to protect our intellectual property or defend ourselves against the intellectual property claims of others could have a material adverse effect on our business. In addition, litigation to enforce our intellectual property and contractual rights or defend ourselves could result in significant litigation or licensing expense.

We seek patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and into the marketplace. We own numerous U.S. and foreign patents, and we intend to file additional applications, as appropriate, for patents covering our products. Patents may not be issued for any pending or future patent applications owned by or licensed to us, and the claims allowed under any issued patents may not be sufficiently broad to protect our technology. Any issued patents owned by or licensed to us may be challenged, invalidated, or circumvented, and the rights under these patents may not provide us with competitive advantages. In addition, competitors may design around our technology, copy our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market share. In addition, as our patents expire, we rely on trade secrets and proprietary know-how to protect our products. We cannot be sure the steps we have taken, or will take in the future, will be adequate to deter misappropriation of our proprietary information and intellectual property. Of particular concern are developing countries, such as China and India, where the laws, courts, and administrative agencies may not protect our intellectual property rights as fully as in the United States or Europe.

We seek to protect trade secrets and proprietary know-how, in part, through confidentiality and non-competition agreements with our collaborators, employees, and consultants. These agreements may be breached, we may not have adequate remedies for any breach, and our trade secrets and proprietary know-how may otherwise become known or be independently developed by our competitors, or our competitors may otherwise gain access to our intellectual property.

Others may assert intellectual property infringement claims against us or our customers. We may provide a limited intellectual property indemnity in connection with our terms and conditions of sale to our customers and in other types of contracts with third parties. Indemnification payments and legal expenses to defend claims could be costly.

We could incur substantial costs to defend ourselves in suits brought against us, including for alleged infringement of third-party rights, or in suits in which we may assert our intellectual property or contractual rights against others. An unfavorable outcome of any such litigation could have a material adverse effect on our business and results of operations.

SMH holds numerous U.S. and foreign patents, including foreign counterparts to its U.S. patents, and licenses the trademarked brand name of one of its significant products, Link-Belt®, from a third party. If the third party were to terminate that license agreement, we would lose the right to use the Link-Belt® trademark in the marketplace and cease to benefit from any of its associated goodwill.

Effects of climate change may adversely impact our business.

Climate change may pose environmental risks that could harm our results of operations and affect the way we conduct business. Some of our operations are located in regions that may become increasingly vulnerable due to climate change, which may cause extreme weather conditions such as more intense hurricanes, thunderstorms, tornadoes and snow or ice storms, winds, and rainfall, as well as rising sea levels and increased volatility in seasonal temperatures. Extreme weather conditions or weather-driven natural disasters could impact our ability to maintain our operations in those areas. For example, we have manufacturing locations in the southeastern United States, which region has experienced record hurricanes in recent years reportedly due to the effects of climate change. Increased energy demand to heat or cool our facilities in certain locations may place stresses on local energy infrastructure and potentially constrain local energy supplies, which could have a negative impact on our operations.

Climate change could also affect demand for our products by our customers that are affected by weather and weather-driven events, including seasonal changes in outdoor working conditions and rainfall levels. Climate change has also been cited as contributing to the increased likelihood around the world of hot and dry conditions in which wildfires and invasive species, like the destructive mountain pine beetle, thrive. As a result of the effects of climate change, our customers in the forestry industry may face damage to assets and losses from business interruption, which could lead to the reduced operation or closure of mills, and disruption of supply chains of which we may be a part. These risks could harm our business and results of operations.

Investors, customers and other stakeholders are increasingly focused on the climate-related performance of companies they invest in. As part of our commitment to sustainability, we have set and may in the future set sustainability goals, particularly related to greenhouse gas emissions reductions. There is a risk that we may not be able to meet the goals that we set and strive to meet. If we have not responded in a satisfactory manner and demonstrated our commitment to addressing climate change, investors and customers' willingness to invest in, spend money with and otherwise provide capital to us may also be impacted.

Our insurance coverage may be inadequate or expensive.

We are subject to claims in the ordinary course of business. It is not always possible to prevent or detect activities giving rise to claims, and the precautions we take may not be effective in all cases. We maintain insurance policies that provide limited coverage for some, but not all, potential risks and liabilities associated with our business. We may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. In addition, certain risks generally are not fully insurable. Even where insurance coverage applies, insurers may contest their obligations to make payments. Our financial condition, results of operations and cash flows could be materially and adversely affected by losses and liabilities from uninsured or under-insured events, as well as by delays in the payment of insurance proceeds, or the failure by insurers to make payments.

Risks Related to our Foreign Operations

Our global operations subject us to various risks that may adversely affect our results of operations.

We are a leading global supplier of equipment and critical components used in process industries worldwide. We sell our products globally, including sales to customers in China, South America, Russia and India, and operate multiple manufacturing operations worldwide, including operations in Canada, China, Europe, Mexico, India and Brazil. International revenues and operations are subject to a number of risks which vary by geographic region, including the following:

- agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;
- foreign customers may have longer payment cycles;
- foreign countries may impose additional withholding taxes or otherwise tax our foreign income;
- economic sanctions, trade embargoes, tariffs, currency restrictions or other adverse trade regulations;
- environmental and other regulations can adversely impact our ability to operate our facilities;
- disruption from climate change, natural disaster, including earthquakes and/or tornadoes, fires, war, terrorist activity, and other force majeure events beyond our control;
- changes in zoning laws that may require relocation of our manufacturing operations;

Kadant Inc.

- disruption from fast-spreading health epidemics and pandemics which have and may continue to result in widespread interruptions or restrictions on our employees' and other service providers' ability to travel, temporary closures of our facilities or the facilities of our customers, suppliers or other vendors in our supply chain, potentially including single source suppliers, other disruptions in the supply chain, and related issues, similar to what occurred during the COVID-19 pandemic;
- worsening economic conditions may result in worker unrest, labor actions, and potential work stoppages;
- political and/or civil unrest may disrupt commercial activities of ours or our customers;
- fluctuations in foreign currency exchange rates and foreign interest rates beyond our control;
- it may be difficult to repatriate funds, due to unfavorable domestic and foreign tax consequences or other restrictions or limitations imposed by foreign governments;
- competition, especially in China, has increased as new companies enter the market and existing competitors expand their product lines and manufacturing operations;
- the protection of intellectual property in foreign countries may be more difficult to enforce; and
- any continuing effects on cross border trade and labor, and political and regulatory volatility resulting from the United Kingdom's exit from the European Union.

Operating globally subjects us to various risks that may adversely affect our results of operations in the future.

Policies of the Chinese government may negatively impact our business.

We operate significant manufacturing facilities in China. In 2023, our sales to China were \$81.5 million, or 9%, of our revenue. Our Chinese manufacturing facilities provide low-cost sourcing to many of our subsidiaries. Changes in the policies of the Chinese government, devaluation of the Chinese currency, restrictions on the repatriation of cash, political unrest, unstable economic conditions, or other developments in China or in U.S.-China relations that are adverse to trade, including enactment of protectionist legislation or trade or currency restrictions, could negatively impact our business and operating results. Policies of the Chinese government to target slower economic growth may negatively affect our business in China if customers are unable to expand capacity or obtain financing for expansion or improvement projects. The United States has restricted investment in certain companies with ties to the Chinese military; if such restrictions are expanded, or if investment was otherwise restricted, our business would be negatively affected.

Policies of the Chinese government to advance internal political priorities may potentially negatively affect our business in any number of ways that we may not foresee. For example, the Chinese government has imposed a ban on all recovered paper imports effective as of January 1, 2021. According to Fastmarkets RISI, the Chinese government's actions have led to a severe shortage of recovered paper in China, which has forced mills to incur additional downtime. Chinese containerboard producers have been looking to build capacity for fiber in Southeast Asia, with the intent to ship pulp back to China for further processing. These policies have and could in the future continue to have a significant influence on the price, nature and availability of the type of paper imported into China, could have a negative effect on the operating capacity of our customers in China, and have and may in the future continue to affect the demand for our products and our operating results in China and the surrounding region.

Our sales of capital equipment in China tend to be more variable and are subject to a number of uncertainties.

Our bookings and revenues from China have tended to be more variable than in other geographic regions. The Chinese pulp and paper industry has experienced periods of significant capacity expansion to meet demand followed by periods of reduced activity while overcapacity is absorbed. These cycles result in periods of significant bookings activity for our capital products and increased revenues followed by a significant decrease in bookings or potential delays in shipments and order placements by our customers as they attempt to balance supply and demand.

Orders from customers in China, particularly for large stock-preparation systems that have been tailored to a customer's specific requirements, have credit risks higher than we generally incur elsewhere, and some orders are subject to the receipt of financing approvals from the Chinese government or can be impacted by the availability of credit and more restrictive monetary policies. We generally do not record bookings for signed contracts from customers in China for large stock-preparation systems until we receive the down payments for such contracts. The timing of the receipt of these orders and the down payments are uncertain and there is no assurance that we will be able to recognize revenue on these contracts. We may experience a loss if a contract is canceled prior to the receipt of a down payment if we have commenced engineering or other work associated with the contract or we may not be able to retain a down payment. We typically have inventory awaiting shipment to customers and could incur a loss if contracts are canceled and we cannot re-sell the equipment. In addition, we may experience a loss if the contract is canceled, or the customer does not fulfill its obligations under the contract, prior to the receipt of a letter of credit or final payments covering the remaining balance of the contract, which could represent a significant

portion of the total order. As a result of these factors, our revenues recognized in China have varied, and will in the future vary from period to period and be difficult to predict.

Our results of operations may be adversely affected by currency fluctuations.

As a multinational corporation, we are exposed to fluctuations in currency exchange rates that impact our business in many ways. We are exposed to both translation as well as transaction risk associated with transactions denominated in currencies that differ from our subsidiaries' functional currencies. Although most of our subsidiaries' costs are denominated in the same currency as their revenues, changes in the relative values of currencies occur from time to time and can adversely affect our operating results. Some of the foreign currency translation risk is mitigated when foreign subsidiaries have revenue and expenses in the same foreign currency. Further, certain foreign subsidiaries may hold U.S. dollar assets or liabilities which, as the U.S. dollar strengthens versus the applicable functional currencies, will result in currency transaction gains on assets or losses on liabilities. While some foreign currency transaction risks can be hedged using derivatives or other financial instruments, or may be insurable, such attempts to mitigate these risks may be costly and may not always be successful.

When we translate the local currency results of our foreign subsidiaries into U.S. dollars during a period in which the U.S. dollar is strengthening, our financial results will reflect decreases due to foreign currency translation. In addition, our consolidated financial results are adversely affected when foreign governments devalue their currencies. Our major foreign currency translation exposures involve the currencies in Europe, China, Brazil, Canada, and Mexico. For example, China's central bank has previously devalued the renminbi to boost the Chinese economy, which had a negative translation impact on our consolidated revenue and may in the future have a negative translation impact if this recurs. The overall favorable or unfavorable effect of foreign currency translation on our financial results will vary by quarter. We do not enter into derivatives or other financial instruments to hedge this type of foreign currency translation risk.

Risks Related to Regulation of our Business and Industry

Operating globally subjects us to changes in government regulations and policies in multiple jurisdictions around the world, including those related to tariffs and trade barriers, taxation, exchange controls and political risks.

Changes in government policies, political unrest, economic sanctions, trade embargoes, or other adverse trade regulations can negatively impact our business. Non-U.S. markets contribute a substantial portion of our revenues, and we intend to continue expanding our presence in these regions. For example, we operate businesses in Mexico and Canada, and we benefited from the North American Free Trade Agreement, which has been replaced by the United States-Mexico-Canada Agreement (USMCA), from which we also benefit. If the United States were to withdraw from or materially modify the USMCA or impose significant tariffs or taxes on goods imported into the United States, the cost of our products could significantly increase or no longer be priced competitively, which in turn could have a material adverse effect on our business and results of operations.

In addition, the Office of the United States Trade Representative has imposed tariffs on a wide variety of products from China, including pulp and paper machinery equipment, pursuant to Section 301 of the Trade Act of 1974. The tariffs on pulp and paper machinery are set at 25%. In addition, the U.S. Department of Commerce has imposed tariffs of 25% on numerous categories of steel imports, and 10% on numerous categories of aluminum imports, from most countries under Section 232 of the Trade Expansion Act of 1962. While we try to mitigate the impact of the existing and other proposed tariffs through pricing and sourcing strategies, we cannot be certain how our customers and competitors will react to the actions we take. The tariffs have and could in the future negatively affect our ability to compete against competitors who do not manufacture in China and/or are not subject to the tariffs.

The United States has tightened trade sanctions targeting countries like China and Russia. For example, since 2018 the United States has imposed various trade and economic sanctions targeting certain persons in Russia and certain types of business with Russia. The United States has continued to expand export control restrictions applicable to certain Chinese firms and continued its assessment of new controls for "emerging foundational technologies," escalating U.S.-China tension concerning technology. Moreover, tensions between the U.S. and China have increased and future actions by the U.S. or Chinese governments may impact our operations in and supply from China, as well as sales to and from China. In response, Russia and China have begun considering and, in some cases, implementing trade sanctions that could affect U.S.-owned businesses. The imposition of trade sanctions may make it generally more difficult to do business in Russia and China and cause delays or prevent shipment of products or services performed by our personnel, or to receive payment for products or services.

Additionally, the military conflict between Russia and Ukraine and the global response to it has and may in the future adversely impact our revenues, gross margins and financial results. The United States, the European Union, and many other countries have imposed sanctions on Russia, individuals in Russia and Russian businesses, including several large banks. In 2023, our sales to Russia were \$4.0 million, or less than 1% of our revenue. It is not possible to predict the broader or longer-term consequences of this conflict, which could include further sanctions, embargoes, regional instability, geopolitical shifts

and adverse effects on macroeconomic conditions, security conditions, currency exchange rates and financial markets. Such geopolitical instability and uncertainty has and could continue to have in the future a negative impact on our ability to sell to, ship products to, collect payments from, and support customers in certain regions based on trade restrictions, embargoes and export control law restrictions, and logistics restrictions, and could increase the costs, risks and adverse impacts from these new challenges. The conflict between Russia and Ukraine, as well as other conflicts such as those in the Middle East, may also have the effect of heightening other risks disclosed in this Annual Report on Form 10-K, any of which could materially and adversely affect our business and results of operations. Such risks include, but are not limited to, adverse effects on macroeconomic conditions, including inflation and business and consumer spending; disruptions to our global technology infrastructure, including through cyberattack, ransomware attack, or cyber-intrusion; adverse changes in international trade policies and relations; our ability to maintain or increase our prices, including any fuel surcharges in response to rising fuel costs; the energy crisis resulting from the conflict, particularly in Europe; our ability to implement and execute our business strategy; disruptions in global supply chains; our exposure to foreign currency fluctuations; and constraints, volatility, or disruption in the capital markets. Such restrictions could have a material adverse impact on our business and operating results going forward.

We are required to comply with a wide variety of laws and regulations, and are subject to regulation by various federal, state and foreign agencies.

We are subject to various local, state, federal, foreign and transnational laws and regulations, particularly those relating to environmental protection, the importation and exportation of products, tariffs and trade barriers, taxation, exchange controls, current good manufacturing practices, data protection, health and safety and our business practices in the U.S. and abroad, such as anti-corruption and anti-competition laws, and, in the future, any changes to such laws and regulations could adversely affect us. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could result in criminal, civil and administrative penalties and could have an adverse effect on our results of operations.

We are subject to risks and costs associated with environmental laws and regulations.

The manufacturing of our products requires the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Our failure to manage the use, transportation, emissions, discharge, storage, recycling, or disposal of hazardous materials could lead to increased costs or regulatory penalties, fines and legal liability. Our ability to expand, modify or operate our manufacturing facilities in the future may be impeded by environmental regulations, such as air quality, wastewater requirements, and energy supply and use restrictions. The Chinese government has pledged to tackle the country's hazardous smog and improve air quality conditions, which has prompted authorities to impose strict pollution control measures when certain pollution levels are detected and ahead of high-profile events. Regulators have in the past and may in the future temporarily restrict the operations of our manufacturing facilities in a particular geographic location as a result of attempts to control pollution levels, or energy supply or use restrictions in China. Environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify product designs, or incur other expenses. New regulations promulgated in reaction to climate change could result in increased manufacturing costs associated with air pollution control or energy requirements, and increased or new monitoring, recordkeeping, and reporting of greenhouse gas emissions. We also see the potential for higher energy costs driven by climate change regulations. Implementation of such new regulations could increase our costs or require us to modify our operations and negatively impact our business and results of operations.

Since 2020, we have set annual goals related to environmental, social and governance (ESG) issues. Some or all of our current or future ESG goals may be difficult to achieve and may be subject to factors beyond our reasonable control, including without limitation, actions of our customers and suppliers, technological advances with respect to replacing natural gas with renewable energy sources for industrial applications, and the availability of renewable energy sources for our facilities and applications. Failure to achieve our ESG goals could negatively impact our reputation, which could have an adverse impact on our overall business and stock price.

Environmental, health and mine safety laws and regulations impacting the mining industry may adversely affect demand for products manufactured by our Material Handling segment.

SMH, which is in our Material Handling segment, supplies equipment to mining companies operating in major mining regions throughout the world. SMH's customers' operations are subject to or affected by a wide array of regulations in the jurisdictions where they operate, including those directly impacting mining activities and those indirectly affecting their businesses, such as applicable environmental and mine safety laws. New environmental and health legislation or administrative regulations relating to mining or affecting demand for mined materials or more stringent interpretations of existing laws and regulations, may require SMH's customers to significantly change or curtail their operations. The mining industry has also

encountered increased scrutiny as it relates to safety regulations. New legislation or regulations and the high cost of compliance with such regulations relating to mine safety standards may induce customers to discontinue or limit their mining operations and may discourage companies from developing new mines or maintaining existing mines, which in turn could diminish demand for our products and services. As a result of these factors, demand for SMH's mining equipment could be adversely affected by environmental and health regulations directly or indirectly impacting the mining industry. Any reduction in demand for SMH's products as a result of environmental, health or mine safety regulations could have an adverse effect on SMH's and our overall business, financial condition or results of operations.

Risks Related to Indebtedness and our Credit Agreement

Our debt may adversely affect our cash flow and may restrict our investment opportunities.

We have borrowed amounts under our five-year, unsecured multi-currency revolving credit facility (Credit Agreement) and under other agreements to fund our operations and our acquisition strategy. Our borrowing capacity under the Credit Agreement may decrease as a result of the impact that foreign exchange rate fluctuations could have on our foreign-denominated borrowings.

Pursuant to the Credit Agreement, we have a borrowing capacity of \$400.0 million with an uncommitted, unsecured incremental borrowing facility of \$200.0 million with a maturity date of November 30, 2027. In 2018, we also issued \$10.0 million in senior notes under our Multi-Currency Note Purchase and Private Shelf Agreement with Prudential Private Capital, a unit of PGIM, Inc., and affiliate of Prudential Financial, Inc. (Note Purchase Agreement). We may also in the future obtain additional long-term debt and working capital lines of credit to meet future financing needs, which would have the effect of increasing our total leverage. Our indebtedness could have negative consequences, including:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- limiting our ability to pay dividends on or to repurchase our capital stock;
- limiting our ability to complete a merger or an acquisition or acquire new products and technologies through acquisitions or licensing agreements; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete.

The majority of our existing indebtedness bears interest at floating rates, and as a result, our interest payment obligations on our indebtedness will fluctuate if interest rates increase or decrease.

In addition, the Tax Cuts and Jobs Act of 2017 (2017 Tax Act) places certain limitations on the deductibility of interest expense as a percentage of adjusted taxable income. If interest rates or the level of our debt increase, to the extent that the associated interest expense exceeds the limitation established by the 2017 Tax Act, the amount of interest expense that we would not be able to deduct for income tax purposes, if significant, could adversely affect our financial results and cash flows.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive, and other factors beyond our control. Our business may not generate sufficient cash flows to meet these obligations or to successfully execute our business strategy. If we were unable to service our debt and fund our business, we could be forced to reduce or delay capital expenditures or research and development expenditures, seek additional financing or equity capital, restructure or refinance our debt, curtail or eliminate our cash dividend to stockholders, or sell assets.

Restrictions in our Credit Agreement and Note Purchase Agreement may limit our activities.

Our Credit Agreement and the Note Purchase Agreement contain, and future debt instruments to which we may become subject may contain, restrictive covenants that limit our ability to engage in activities that could otherwise benefit us, including restrictions on our ability (including the ability of our subsidiaries) to: incur additional indebtedness; pay dividends on, redeem, or repurchase our capital stock; make investments; create liens; sell assets; enter into transactions with affiliates; and consolidate, merge, or transfer all or substantially all of our assets and the assets of our subsidiaries.

We are also required to meet specified financial covenants under the terms of our Credit Agreement and the Note Purchase Agreement. Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control. Our failure to comply with any of these restrictions or covenants may result in an event of default under our Credit Agreement, the Note Purchase Agreement and other loan and note obligations, which could permit acceleration of the debt under those instruments and require us to repay the debt before its scheduled due date. If an event of default were to occur, we might not have sufficient funds available to make the payments required under our indebtedness. In addition, our inability to borrow funds under our Credit Agreement would have significant consequences for our business, including reducing funds

available for acquisitions and other investments in our business; and impacting our ability to pay dividends and meet other financial obligations.

Furthermore, our Credit Agreement requires that any amounts borrowed under the facility be repaid by the maturity date in 2027. If we are unable to roll over the amounts borrowed into a new credit facility and we do not have sufficient cash to repay our borrowings, we may default under the Credit Agreement. We may need to repatriate cash from our overseas operations, which may not be possible, to fund the repayment and we may be required to pay taxes on the repatriated amounts. Such repatriation would have an adverse effect on our effective tax rate and cash flows.

Adverse changes to the soundness of financial institutions could affect us.

We have relationships with many financial institutions, including lenders under our credit facilities and insurance underwriters, and from time to time we execute transactions with counterparties in the financial industry, such as hedging transactions. In addition, our subsidiaries in China often hold banker's acceptance drafts that are received from customers in the normal course of business. These drafts may be discounted or used to pay vendors prior to the scheduled maturity date or submitted to an acceptance bank for payment at the scheduled maturity date. These financial institutions or counterparties could be adversely affected by volatile conditions in the financial markets, economic downturns, and difficult economic conditions. These conditions could result in financial instability, bankruptcy, or other adverse effects at these financial institutions or counterparties. We may not be able to access credit facilities in the future, complete transactions as intended, or otherwise obtain the benefit of the arrangements we have entered into with such financial parties, which could adversely affect our business and results of operations.

Risks Related to Ownership of our Capital Stock

Our share price fluctuates and experiences price and volume volatility.

Stock markets in general and our common stock in particular experience significant price and volume volatility from time to time. The market price and trading volume of our common stock may continue to be subject to significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our operations, business prospects, or future funding. Given the nature of the markets in which we participate and the volatility of orders, we may not be able to reliably predict future revenues and profitability, and unexpected changes may cause us to adjust our operations. A large proportion of our costs are fixed, due in part to our significant selling, general and administrative, research and development, and manufacturing costs. Thus, small declines in revenues could disproportionately affect our operating results. Other factors that could affect our share price and quarterly operating results include:

- changes in the assumptions used for revenue recognized over time;
- fluctuations in revenues due to customer-initiated delays in product shipments;
- failure of a customer to comply with an order's contractual obligations or inability of a customer to provide financial assurances of performance;
- adverse changes in demand for and market acceptance of our products;
- failure of our products to pass contractually agreed upon acceptance tests, which could delay or prohibit recognition of revenues under applicable accounting guidelines;
- competitive pressures resulting in lower sales prices for our products;
- adverse changes in the process industries we serve;
- delays or problems in our introduction of new products or in the manufacture of our products;
- our competitors' announcements of new products, services, or technological innovations;
- contractual liabilities incurred by us related to guarantees of our product performance;
- increased costs of raw materials or supplies, including the cost of energy;
- changes in the timing of product orders;
- changes in the estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, or expenses;
- the impact of acquisition accounting and the treatment of acquisition and restructuring costs as period costs;
- fluctuations in our outstanding indebtedness and associated interest expense;
- fluctuations in our effective tax rate;
- fluctuations in foreign currency exchange rates;
- the operating and share price performance of companies that investors consider to be comparable to us; and
- changes in global financial markets and global economies and general market conditions.

Anti-takeover provisions in our charter documents and under Delaware law could prevent or delay transactions that our shareholders may favor.

Provisions of our charter and bylaws may discourage, delay, or prevent a merger or acquisition that our shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares. For example, these provisions:

- authorize the issuance of "blank check" preferred stock without any need for action by shareholders;
- provide for a classified board of directors with staggered three-year terms;
- require supermajority shareholder voting to effect various amendments to our charter and bylaws;
- eliminate the ability of our shareholders to call special meetings of shareholders;
- prohibit shareholder action by written consent; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

Our board of directors could adopt a shareholder rights plan in the future that could have anti-takeover effects and might discourage, delay, or prevent a merger or acquisition that our board of directors does not believe is in our best interest and those of our shareholders, including transactions in which shareholders might otherwise receive a premium for their shares.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

We are regularly subject to attempted cyberattacks and other cyber incidents and, therefore, cybersecurity is an important element of our business and our overall enterprise risk management program. Like other global companies, we have experienced cyber threats and incidents, although none to date have been material or had a material adverse effect on our business or financial condition. We have a multilayered approach for assessing, identifying, preventing, evaluating, managing and monitoring cybersecurity risks, that is designed to help prevent such attacks and protect our information, systems, assets and operations from internal and external cyber threats and to help mitigate risks of cyber incidents. Our board of directors delegated authority to the risk oversight and sustainability committee to assist in fulfilling its oversight responsibilities with respect to management's identification, prevention, evaluation, management, and monitoring of our critical enterprise risks. The risk oversight and sustainability committee is briefed by our Head of Global IT or counsel on a quarterly basis regarding cybersecurity risks and mitigation strategies. We continually invest in efforts to protect, monitor, and mitigate cybersecurity risks, including through our robust information security function, training and compliance programs, and regular employee training.

We devote significant resources to protecting the security of our computer systems, software, networks and other technology assets, and our cybersecurity risk management processes include physical, procedural and technical safeguards. Our cybersecurity policies, standards and procedures include incident response plans designed to help coordinate our response to cybersecurity incidents, and includes processes to triage, assess the severity of, escalate, contain, investigate, and remediate incidents. We seek to enhance our policies and practices to better protect our platform, adapt to changes in regulations, identify potential and emerging security risks and develop mitigations for those risks, including conducting cyber incident tabletop exercises with our management team.

We engage external parties, including consultants, network security firms and other experts, to help us assess and enhance our cybersecurity oversight. For example, we have hired an external security vendor to conduct penetration and vulnerability testing on our networks and receive regular updates about industry cyber risks.

In order to oversee and identify risks from cybersecurity threats associated with our use of third-party service providers, we perform third-party risk assessments designed to help protect against the misuse of IT by third parties and business partners and generally request that third-party service providers provide us information about their security policies and procedures. We monitor security incidents involving our third-party providers and adjust our procedures as necessary.

We do not believe that there have been or are currently any known risks from cybersecurity threats that are reasonably likely to materially affect us or our business strategy, results of operations or financial condition.

Cybersecurity Governance and Oversight

Our board of directors has delegated oversight of cybersecurity to the risk oversight and sustainability committee. The risk oversight and sustainability committee receives quarterly updates from management and provides feedback regarding cybersecurity, including updates regarding recent incidents in the industry and the cyber threat landscape, and is notified

between such updates regarding significant new cybersecurity threats or incidents as necessary. The board of directors receives regular reports from the risk oversight and sustainability committee.

We have a Head of Global IT whose global information security team (IT Security Team) is responsible for leading organization-wide cybersecurity strategy, policy, standards and processes and works across relevant operating entities to assess and prepare us to address cybersecurity risks. Our Head of Global IT and IT Security Team perform due diligence on the IT security systems and processes of all potential acquisition targets, and newly acquired companies are not permitted access into our IT networks or systems until they have met the necessary security standards. The Head of Global IT's cybersecurity experience includes managing the network, infrastructure security and a cyber security team of a global consumer products company with a heavy online presence and with sales of services and goods to the U.S. government. In addition, our IT Security Team consists of employees that have security certifications from reputable cybersecurity training organizations, including CompTIA, and over 20 years of combined infrastructure architecture experience, including PCI, SOC1 and SOC2 level compliance.

We have also established a cross-functional Corporate Incident Response Team (CIRT) led by our General Counsel and consisting of various leaders, including our Head of Global IT, that is responsible for coordinating our response to cybersecurity incidents that present significant risk to us. The board of directors will be notified if the CIRT has been activated and provided periodic updates concerning the incident.

In an effort to deter and detect cyber threats, we require all employees who use an official company email account to conduct business to complete regular trainings on data protection, cybersecurity, incident response and prevention, which covers timely and relevant topics, including social engineering, phishing, password protection, confidential data protection, asset use and mobile security, and educates employees on the importance of reporting all incidents immediately. We also use technology-based tools to mitigate cybersecurity risks.

Item 2. Properties

We believe that our facilities are in good condition and are suitable and adequate for our present operations. We do not anticipate significant difficulty in obtaining lease renewals or alternative space as needed.

The location and general character of our principal properties are as follows:

Flow Control Segment

We own approximately 1,013,000 square feet and lease approximately 212,000 square feet, under leases expiring on various dates ranging from 2024 to 2028, of manufacturing, engineering, and office space. In addition, in China, we lease the land associated with our buildings under long-term leases, which expire on dates ranging from 2050 to 2062. Our principal engineering and manufacturing facilities are located in Valinhos, Brazil; Three Rivers, Michigan, United States; Anderson, South Carolina, United States; Hückeswagen, Germany; Auburn, Massachusetts, United States; Weesp, The Netherlands; Wuxi, China; Moers, Germany; Guadalajara, Mexico; Bury, England; Huskvarna, Sweden and Kamienna Gora, Poland.

Industrial Processing Segment

We own approximately 1,356,000 square feet and lease approximately 154,000 square feet, under leases expiring on various dates ranging from 2024 to 2028 of manufacturing, engineering, and office space. In addition, in China, we lease the land associated with our building under a long-term lease, which expires in 2071. In addition, in Sidney, British Columbia, Canada, we lease the land associated with our building under a long-term lease, which expires in 2032. Our principal engineering and manufacturing facilities are located in Jining, China; Vitry-le-François, France; Lebanon, Ohio, United States; Sidney, British Columbia, Canada; Lohja, Finland; Surrey, British Columbia, Canada and Tualatin, Oregon, United States.

Material Handling Segment

We own approximately 342,000 square feet and lease approximately 519,000 square feet, under leases expiring on various dates ranging from 2024 to 2034. Our principal manufacturing and office space is located in Saltillo, Mississippi, United States; Georgsmarienhütte, Germany; Burlson, Texas, United States; Crown Point, Indiana, United States; Green Bay, Wisconsin, United States and Alfreton, England.

Corporate

We lease approximately 18,000 square feet in Westford, Massachusetts, United States, for our corporate headquarters under a lease that expires in 2026.

Item 3. Legal Proceedings

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Price of Common Stock

Our common stock trades on the New York Stock Exchange under the symbol "KAI." The closing market price on the New York Stock Exchange for our common stock on February 16, 2024 was \$339.08 per share.

Holder of Common Stock

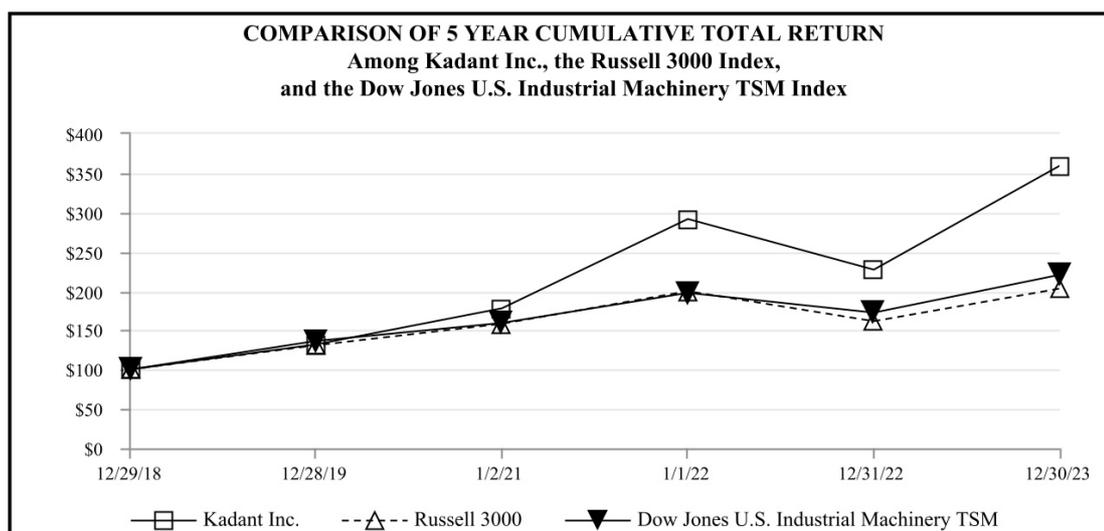
As of February 16, 2024, we had approximately 1,771 holders of record of our common stock. This does not include holdings in street or nominee name.

Issuer Purchases of Equity Securities

On May 18, 2023, our board of directors approved the repurchase of up to \$50.0 million of our equity securities during the period from May 18, 2023 to May 18, 2024. We have not repurchased any shares of our common stock under this authorization or under our previous \$50.0 million authorization, which expired on May 19, 2023.

Performance Graph

This performance graph compares the cumulative, five-year total shareholder return assuming an investment of \$100 (and the reinvestment of dividends) in our common stock, the Russell 3000 Stock Index, and the Dow Jones U.S. Industrial Machinery TSM Index. Because our fiscal year ends on a Saturday, the graph values are calculated using the last trading day prior to the end of our fiscal year.



	12/29/2018	12/28/2019	1/2/2021	1/1/2022	12/31/2022	12/30/2023
Kadant Inc.	\$ 100.00	\$ 131.76	\$ 177.36	\$ 291.60	\$ 226.24	\$ 359.00
Russell 3000	100.00	131.02	158.39	199.03	160.80	202.54
Dow Jones U.S. Industrial Machinery TSM	100.00	136.01	158.69	197.34	172.24	219.97

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the consolidated financial statements and related notes set forth in [Item 8](#), "Financial Statements and Supplementary Data." The following discussion also contains forward-looking statements, including the outlook for our business, that involve a number of risks and uncertainties. See [Part I](#), "Forward-Looking Statements," for a discussion of the forward-looking statements contained below and [Part I, Item 1A](#), "Risk Factors," for a discussion of certain risks that could cause our actual results to differ materially from the results anticipated in such forward-looking statements.

A detailed discussion of the year-over-year results for 2022 compared with 2021 can be found in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC.

Overview*Company Background*

We are a global supplier of technologies and engineered systems that drive Sustainable Industrial Processing. Our products and services play an integral role in enhancing efficiency, optimizing energy utilization, and maximizing productivity in process industries while helping our customers advance their sustainability initiatives with products that reduce waste or generate more yield with fewer inputs, particularly fiber, energy, and water. Producing more while consuming less is a core aspect of Sustainable Industrial Processing and a major element of the strategic focus of our businesses.

Our financial results are reported in three reportable operating segments: Flow Control, Industrial Processing, and Material Handling. The Flow Control segment consists of our fluid-handling and doctoring, cleaning, & filtration product lines; the Industrial Processing segment consists of our wood processing and stock-preparation product lines; and the Material Handling segment consists of our conveying and vibratory, baling, and fiber-based product lines. See [Note 12](#), Business Segment and Geographical Information, in the accompanying consolidated financial statements for a description and financial information of our reportable operating segments.

Industry and Business Overview

Bookings were \$917.4 million in 2023, including record parts and consumables bookings, which represented 64% of consolidated bookings. Bookings decreased 4% compared to record bookings in 2022, which included exceptionally strong demand for capital equipment at our Industrial Processing segment in the first half of the year. The bookings decrease occurred across various regions. In Europe, weak macroeconomic conditions impacted demand for our products, including in Germany, Europe's largest economy, which experienced a more significant decline in industrial production than anticipated. A decline in domestic and foreign confidence in China's market, along with persistent debt pressures, particularly in the property market, have constrained growth, which has lengthened the timing of capital orders. In North America, we experienced steady demand for our capital and aftermarket products following the exceptionally strong demand in the first two quarters of 2022. In 2024, we expect steady demand in our key end markets to continue at current levels, along with healthy contributions from our recent acquisitions. An overview of our business by segment is as follows:

- *Flow Control* – Our Flow Control segment bookings remained flat compared to 2022. In North America, there was constrained capital spending as mills took downtime and paper and containerboard producers consolidated or moved locations to align capacity with demand. In Europe, there was continued uncertainty in the end markets we serve primarily due to weak macroeconomic conditions caused by elevated inflation and high interest rates. However, many of the end markets in our Flow Control segment remain strong despite the general sluggishness in the manufacturing sector, and we expect bookings in 2024 to remain stable.
- *Industrial Processing* – Our Industrial Processing segment bookings decreased 13% compared to 2022 due to strong demand for our wood processing capital equipment in the first half of 2022. This was fueled by a robust U.S. housing market and high demand for lumber, OSB and plywood, which drove new capital equipment investment. Demand in our wood processing business returned to and has continued at a more typical level. While there is still a healthy level of quote activity, there has been an increase in the quote to order times. Demand for our stock-preparation products declined 9% compared to 2022 due to weaker market conditions in most regions. In Europe, macroeconomic conditions led to a pullback in capital investments and paper mill shutdowns. Market-related downtime at our customers in the U.S. contributed to weaker demand for our products. In China, overall market conditions were sluggish as changes to monetary policy impacted the timing of capital investments and mills focused on bringing capacity online. We expect that our Industrial Processing segment will have higher bookings in 2024 due in large part to contributions from our recent acquisition of Key Knife, which we anticipate will also result in an incrementally higher percentage of parts and consumables. In addition, we expect higher demand for our stock-preparation capital equipment driven by projects focused on energy savings and reduced water consumption.

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- **Material Handling** – Our Material Handling segment had record bookings in 2023. Bookings increased 3% compared to 2022 led by record parts and consumables bookings and a \$12 million capital order for the longest conveying line in North America. The largest contributor to our 2023 bookings increase was our conveying and vibratory business due in part to the positive impact on the aggregates industry from new government legislation. The aggregates industry significantly expanded plant production capacity to meet demand and, as a result, we expect some slowing in capital expenditures in the near term. We expect that our Material Handling segment will have higher bookings in 2024 due to contributions from our recent acquisition of KWS and increased demand at our European baling business due in part to government programs aimed at stimulating capital investment.

Our global operations have been and continue to be impacted by complex market conditions fueled by inflationary pressures, geopolitical tensions, labor availability, and softening markets. While the U.S. economy has proven more resilient than predicted, growth in the European economy has slowed due to high interest rates and elevated inflation, and China's manufacturing industry has contracted. We expect our operating environment to continue to be challenging, which creates continued uncertainty for 2024. However, we believe that the fundamentals of our business remain strong, particularly given our solid market position in key product lines, strong global operations teams, and long-term strength of our end markets. In addition, we see growth opportunity from different legislation in the U.S. and abroad aimed at fueling investment, including those targeting environmental initiatives.

International Sales

More than half of our sales are to customers outside the United States, mainly in Europe, Asia, and Canada. As a result, our financial performance can be materially affected by currency exchange rate fluctuations between the U.S. dollar and foreign currencies. To mitigate the impact of foreign currency fluctuations, we generally seek to charge our customers in the same currency in which our operating costs are incurred. Additionally, we may enter into forward currency exchange contracts to hedge certain firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies. We currently do not use derivative instruments to hedge our exposure to exchange rate fluctuations created by the translation into the U.S. dollar of our foreign subsidiaries' results that are in functional currencies other than the U.S. dollar.

Global Trade

The United States imposes tariffs on certain imports from China, which has and will continue to increase the cost of some of the equipment that we import. Although we are working to mitigate the impact of tariffs through pricing and sourcing strategies, we cannot be sure these strategies will effectively mitigate the impact of these costs. For more information on risks associated with our global operations, including tariffs, please see [Part I, Item 1A](#), "Risk Factors."

Acquisitions

We expect that a significant driver of our long-term growth will be through the acquisition of businesses and technologies that complement or augment our existing products and services or may involve entry into a new process industry. We have acquired several businesses in recent years and continue to pursue acquisition opportunities.

On January 1, 2024, we acquired Key Knife pursuant to a securities purchase agreement dated December 22, 2023, for approximately \$156.0 million in cash, subject to certain customary adjustments. Key Knife is part of our Industrial Processing segment.

On January 24, 2024, we acquired all of the outstanding equity securities of KWS for approximately \$84.0 million in cash, subject to certain customary adjustments. KWS is part of our Material Handling segment.

We completed several smaller acquisitions in 2022 and 2023. In 2021, we acquired The Clouth Group of Companies, which is part of our Flow Control segment, and East Chicago Machine Tool Corporation, which is part of our Material Handling segment, for an aggregate \$146.4 million, net of cash acquired and debt assumed.

See [Note 2](#), Acquisitions, and [Note 15](#), Subsequent Events, in the accompanying consolidated financial statements for further details.

Results of Operations**2023 Compared to 2022****Revenue**

The following table presents changes in revenue by segment between 2023 and 2022, and those changes excluding the effect of foreign currency translation and acquisitions, which we refer to as change in organic revenue. Organic revenue excludes the effect of acquisitions for the four quarterly reporting periods following the date of the acquisition. The presentation of the change in organic revenue is a non-GAAP measure. We believe this non-GAAP measure helps investors gain an understanding of our underlying operations consistent with how management measures and forecasts its performance,

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especially when comparing such results to prior periods. This non-GAAP measure should not be considered superior to or a substitute for the corresponding GAAP measure.

Revenue by segment in 2023 and 2022 is as follows:

(In thousands, except percentages)	December 30, 2023	December 31, 2022	Total Increase	% Change	Currency Translation	Acquisition	(Non-GAAP) Change in Organic Revenue	
							Increase	% Change
Flow Control	\$ 363,451	\$ 349,107	\$ 14,344	4 %	\$ 1,969	\$ —	\$ 12,375	4 %
Industrial Processing	354,703	353,698	1,005	— %	(5,417)	3	6,419	2 %
Material Handling	239,518	201,934	37,584	19 %	1,411	—	36,173	18 %
Consolidated	<u>\$ 957,672</u>	<u>\$ 904,739</u>	<u>\$ 52,933</u>	6 %	<u>\$ (2,037)</u>	<u>\$ 3</u>	<u>\$ 54,967</u>	6 %

Both consolidated revenue and organic revenue increased 6% in 2023 with relatively equal contributions from parts and consumables products and capital equipment products. The majority of the revenue increase was due to higher demand at our Material Handling segment, especially for our bulk material handling products and, to a lesser extent, increased demand for our parts and consumables products at our Flow Control and Industrial Processing segments. From a regional perspective, the majority of the revenue increase was driven by higher demand in North America. In addition, modestly higher demand in Europe was offset by softening demand in China.

Revenue at our Flow Control segment increased 4% in 2023 primarily due to higher demand for parts and consumables products and, to a lesser extent, capital equipment products in North America driven by continued strength in the U.S. economy and underlying packaging industry. While there was increased demand for our capital equipment products in Europe from customers seeking to mitigate high energy prices, demand for our parts and consumables products was modestly higher than 2022 reflecting the challenging market conditions. In China, a slowdown in manufacturing activity resulted in weaker demand for our capital equipment products.

Revenue at our Industrial Processing segment remained flat in 2023, while organic revenue increased 2%. Organic revenue increased primarily due to higher demand for our capital equipment products and parts and consumable products at our wood processing businesses in North America where the U.S. economy and housing market continued to demonstrate resiliency against inflationary pressures. Additionally, demand increased for parts and consumable products in our stock-preparation business in Europe due to maintenance requirements at many of our customers. This increase was largely offset by softening demand at our stock-preparation businesses in China as manufacturing activity has contracted and mills focus on installing and optimizing capital equipment purchased in prior periods.

Revenue at our Material Handling segment increased 19% in 2023 due to higher demand for our capital equipment products and, to a lesser extent, parts and consumables products at our conveying and vibratory business in North America. This was due in large part to expansion projects related to the mining of minerals that led to increased demand for our conveying systems, including an expansion project for the longest conveying line in North America. Revenue also increased, but to a lesser extent, at our baling business due to higher demand for our products as more industries focus on waste reduction and recycling.

Gross Profit Margin

Gross profit margin by segment in 2023 and 2022 is as follows:

	December 30, 2023	December 31, 2022	Basis Point Change
Flow Control	51.8%	52.0%	(20) bps
Industrial Processing	40.2%	39.2%	100 bps
Material Handling	35.7%	34.4%	130 bps
Consolidated	43.5%	43.1%	40 bps

Consolidated gross profit margin increased to 43.5% in 2023 compared with 43.1% in 2022 due to higher margins achieved on parts and consumable products, especially at our Material Handling segment. In addition, higher margins achieved on our capital equipment products were offset by a lower proportion of parts and consumables revenue, which decreased to 62% in 2023 compared to 63% in 2022.

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Within our operating segments, gross profit margin:

- Decreased to 51.8% at our Flow Control segment from 52.0% in 2022 primarily due to higher margins achieved on our capital equipment products, offset by a decrease in margins for our parts and consumables products.
- Increased to 40.2% at our Industrial Processing segment from 39.2% in 2022 primarily due to higher margins achieved on our parts and consumable products and, to a lesser extent, an increase in the proportion of higher-margin stock-preparation parts and consumables revenue.
- Increased to 35.7% at our Material Handling segment from 34.4% in 2022 primarily due to higher margins achieved for our parts and consumables products, partially offset by a decrease in the proportion of higher-margin conveying and vibratory parts and consumables products revenue.

Selling, General, and Administrative Expenses

Selling, general, and administrative (SG&A) expenses by segment in 2023 and 2022 is as follows:

(In thousands, except percentages)	December 30, 2023	December 31, 2022	Increase	% Change
Flow Control	\$ 87,427	\$ 86,458	\$ 969	1%
Industrial Processing	66,384	61,885	4,499	7%
Material Handling	43,008	40,067	2,941	7%
Corporate	39,445	35,995	3,450	10%
Consolidated	\$ 236,264	\$ 224,405	\$ 11,859	5%
Consolidated as a Percentage of Revenue	25%	25%		

Consolidated SG&A expenses as a percentage of revenue was 25% in both 2023 and 2022. Consolidated SG&A expenses increased \$11.9 million, or 5%, in 2023 compared to 2022, which included a decrease of \$1.2 million in indemnification asset reversals related to the release of tax reserves. Excluding the decrease in indemnification asset reversals, consolidated SG&A expenses increased \$13.1 million, or 6%, primarily due to annual wage increases, as well as incremental travel and consulting costs.

Within our operating segments, SG&A expenses:

- Increased \$1.0 million at our Flow Control segment primarily due to annual wage increases, incremental travel and trade show costs, and an unfavorable effect of foreign currency translation of \$0.7 million. These increases were partially offset by a decrease in bad debt expense, acquisition costs, and the inclusion of an indemnification asset reversal related to the release of tax reserves of \$0.7 million in 2022.
- Increased \$4.5 million at our Industrial Processing segment principally due to increased compensation expense associated with existing and new personnel, incremental travel and trade show costs, and \$1.1 million of acquisition costs. These increases were partially offset by a \$1.0 million favorable effect of foreign currency translation and the inclusion of an indemnification asset reversal related to the release of tax reserves of \$0.6 million in 2022.
- Increased \$2.9 million at our Material Handling segment due to increased compensation expense associated with existing and new personnel and increased selling-related costs, partially offset by a decrease of \$0.5 million in acquisition-related costs.
- Increased \$3.5 million at Corporate due to annual wage increases and consulting costs.

Gain on Sale and Other Items, Net

The components of gain on sale and other items, net in 2023 and 2022 are as follows:

(In thousands)	December 30, 2023	December 31, 2022
Gain on Sale of Assets	\$ —	\$ (20,190)
Other Income	(841)	—
Relocation Costs	798	—
Restructuring Costs	730	603
Impairment Costs	36	731
	\$ 723	\$ (18,856)

Gain on Sale of Assets

We entered into several agreements with the local government in China to sell our then existing manufacturing building and land use rights of one of our subsidiaries in China for \$25.2 million and relocate to a new facility (China Transaction). The agreements became effective in the first quarter of 2022 after a 31% down payment was received, including 25% in 2021 and 6% in the first quarter of 2022, and a land use right in a new location was secured. As a result, we recognized a gain on the China Transaction of \$20.2 million, or \$15.1 million, net of deferred taxes of \$5.0 million, in the first quarter of 2022. Our subsidiary, which is part of the Industrial Processing segment, relocated to its new facility during the third quarter of 2023. See [Note 8](#), Gain on Sale and Other Items, Net in the accompanying consolidated financial statements for further details.

Other Income and Relocation Costs

In 2023, in connection with the China Transaction, we recognized income of \$0.8 million from outsourcing the demolition and cleanup of the then existing manufacturing building in China and sale of the remaining fixed assets. In addition, we incurred costs of \$0.8 million related to the relocation of machinery and equipment and administrative offices to the new manufacturing facility.

Restructuring and Impairment Costs

2023 Restructuring Plans

- Restructuring and impairment costs of \$0.4 million in 2023 within our Flow Control segment related to our restructuring plan to consolidate a small manufacturing operation into a larger facility in Germany. Restructuring and impairment costs related to this plan consisted of severance costs for the termination of 10 employees, facility and other closure costs, and asset-write downs.
- Restructuring costs of \$0.4 million in 2023 within our Flow Control segment related to the termination of a contract at one of our operations in Germany.

2021 Restructuring Plan

- Restructuring costs of \$0.6 million in 2022 within our Flow Control segment related to our 2021 restructuring plan to eliminate a redundant ceramic blade manufacturing operation in France. Restructuring costs related to this plan consisted of severance costs for the termination of five employees and facility and other closure costs.

Other Impairment Costs

- Impairment costs of \$0.7 million in 2022 within our Industrial Processing segment consisted of \$0.5 million primarily related to the write-down of inventory at our business in Russia and \$0.2 million associated with the China Transaction related to the write-down of certain fixed assets that were not moved to the new manufacturing facility.

Interest Expense

Interest expense increased to \$8.4 million in 2023 from \$6.5 million in 2022 primarily due to a higher weighted-average interest rate, offset in part by lower average debt outstanding in 2023 compared with 2022. We expect interest expense will increase significantly in 2024 as a result of the \$230.0 million borrowed in January 2024 to fund our Key Knife and KWS acquisitions.

Provision for Income Taxes

Our provision for income taxes decreased to \$42.2 million in 2023 from \$43.9 million in 2022. The effective tax rate of 27% in both 2023 and 2022 was higher than our statutory rate of 21% primarily due to the distribution of our worldwide earnings, state taxes, and nondeductible expenses.

Net Income

Net income decreased to \$116.8 million in 2023 from \$121.7 million in 2022 primarily due to a \$5.5 million decrease in operating income and a \$1.9 million increase in interest expense, offset in part by a \$1.7 million decrease in provision for income taxes. Net income in 2022 included a \$15.1 million after-tax gain on the sale of a building related to the China Transaction (see discussions above for further details).

Non-GAAP Key Performance Indicators

In addition to the financial measures prepared in accordance with GAAP, we use certain non-GAAP financial measures, including organic revenue (defined as revenue excluding the effect of foreign currency translation and acquisitions), adjusted operating income, earnings before interest, taxes, depreciation, and amortization (EBITDA), adjusted EBITDA,

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adjusted EBITDA margin (defined as adjusted EBITDA divided by revenue), and free cash flow (defined as net cash provided by operating activities less capital expenditures).

We use organic revenue in order to understand our trends and to forecast and evaluate our financial performance and compare revenue to prior periods (see discussion in *Revenue* above). Adjusted operating income, adjusted EBITDA, and adjusted EBITDA margin exclude restructuring and impairment costs, acquisition costs, relocation costs, amortization expense related to acquired profit in inventory and backlog, and other income and expense, as indicated. These items are excluded as they are not indicative of our core operating results and are not comparable to other periods, which have differing levels of incremental costs, expenditures or income, or none at all. Additionally, we use free cash flow in order to provide insight on our ability to generate cash for acquisitions and debt repayments, as well as for other investing and financing activities.

We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our core business, operating results, or future outlook. We believe that the inclusion of such measures helps investors gain an understanding of our underlying operating performance and future prospects, consistent with how management measures and forecasts our performance, especially when comparing such results to previous periods or forecasts and to the performance of our competitors. Such measures are also used by us in our financial and operating decision-making and for compensation purposes. We also believe this information is responsive to investors' requests and gives them an additional measure of our performance.

Our non-GAAP financial measures are not meant to be considered superior to or a substitute for the results of operations or cash flows prepared in accordance with GAAP. In addition, our non-GAAP financial measures have limitations associated with their use as compared to the most directly comparable GAAP measures, in that they may be different from, and therefore not comparable to, similar measures used by other companies.

A reconciliation of adjusted operating income, adjusted EBITDA, and adjusted EBITDA margin from net income attributable to Kadant is as follows:

(In thousands, except percentages)	December 30, 2023	December 31, 2022	January 1, 2022
Net Income Attributable to Kadant	\$ 116,069	\$ 120,928	\$ 84,043
Net Income Attributable to Noncontrolling Interest	737	802	838
Provision for Income Taxes	42,210	43,906	27,171
Interest Expense, Net	6,640	5,574	4,554
Other Expense, Net	101	72	104
Operating Income	165,757	171,282	116,710
Gain on Sale and Other Income (a)	(841)	(20,190)	(515)
Acquisition Costs	1,442	668	3,655
Indemnification Asset Reversals (b)	102	1,316	—
Relocation Costs	798	—	—
Restructuring and Impairment Costs	766	1,334	980
Acquired Backlog Amortization (c)	—	703	1,326
Acquired Profit in Inventory Amortization (d)	—	(218)	4,284
Adjusted Operating Income (<i>non-GAAP measure</i>)	168,024	154,895	126,440
Depreciation and Amortization	33,297	34,233	32,976
Adjusted EBITDA (<i>non-GAAP measure</i>)	\$ 201,321	\$ 189,128	\$ 159,416
Adjusted EBITDA Margin (<i>non-GAAP measure</i>)	21.0 %	20.9 %	20.3%

A reconciliation of free cash flow from net cash provided by operating activities is as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Net Cash Provided by Operating Activities	\$ 165,545	\$ 102,625	\$ 162,420
Less: Capital Expenditures (e)	(31,850)	(28,199)	(12,771)
Free Cash Flow (<i>non-GAAP measure</i>)	\$ 133,695	\$ 74,426	\$ 149,649

(a) Includes a \$20.2 million gain in 2022 on the China Transaction in our Industrial Processing segment.

(b) Represents indemnification asset reversals related to the release of tax reserves associated with uncertain tax positions.

(c) Represents intangible amortization expense associated with acquired backlog.

(d) Represents (income) expense within cost of revenue associated with amortization of acquired profit in inventory.

(e) Includes capital expenditures of \$7.4 million in 2023 and \$10.4 million in 2022 associated with the China Transaction.

Liquidity and Capital Resources

Consolidated working capital was \$225.8 million at December 30, 2023, compared with \$201.9 million at December 31, 2022. Cash and cash equivalents were \$103.8 million at December 30, 2023, compared with \$76.4 million at December 31, 2022, which included cash and cash equivalents held by our foreign subsidiaries of \$94.6 million at December 30, 2023 and \$75.8 million at December 31, 2022.

Cash Flow

Cash flow information is as follows:

(In thousands)	December 30, 2023	December 31, 2022
Net Cash Provided by Operating Activities	\$ 165,545	\$ 102,625
Net Cash Used in Investing Activities	(30,790)	(29,520)
Net Cash Used in Financing Activities	(111,111)	(80,569)
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	3,084	(6,972)
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	<u>\$ 26,728</u>	<u>\$ (14,436)</u>

Operating Activities

Cash provided by operating activities increased to \$165.5 million in 2023 from \$102.6 million in 2022 primarily due to a reduction in cash used for working capital. Our operating cash flows are primarily generated from cash received from customers, offset by cash payments for items such as inventory, employee compensation, operating leases, income taxes, and interest payments on outstanding debt obligations.

During 2023, significant cash inflows associated with working capital related to inventory, other liabilities and unbilled revenue. Shipments of inventory provided cash of \$14.1 million and increases in other liabilities provided cash of \$9.2 million due to the timing of payments to subcontractors and outside vendors. In addition, a reduction in unbilled revenue provided cash of \$6.5 million. These sources of cash were offset in part by \$28.9 million of cash outflows associated with accounts payable and customer deposits primarily due to the timing of payments.

During 2022, significant cash outflows associated with working capital related to inventory and accounts receivable. Increases in inventories and accounts receivable used cash of \$54.6 million, including \$36.1 million for inventory primarily related to capital equipment orders that shipped in 2023. These uses of cash were offset in part by \$14.4 million of cash received from customer deposits.

Investing Activities

Cash used in investing activities was \$30.8 million in 2023 compared to \$29.5 million in 2022. Capital expenditures were \$31.9 million in 2023 and \$28.2 million in 2022, including capital expenditures associated with the China Transaction of \$7.4 million in 2023 and \$10.4 million in 2022.

Financing Activities

Cash used in financing activities was \$111.1 million in 2023 compared to \$80.6 million in 2022. Repayments of short- and long-term obligations were \$94.0 million in 2023 compared to repayments of short- and long-term obligations of \$85.5 million, partially offset by borrowings under our revolving credit facility of \$22.1 million in 2022. Cash dividends paid to stockholders were \$13.2 million in 2023 and \$12.0 million in 2022. In addition, taxes paid related to the vesting of equity awards were \$3.9 million in 2023 compared to \$4.6 million in 2022.

Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash

The exchange rate effect on cash, cash equivalents, and restricted cash represents the impact of translation of cash balances at our foreign subsidiaries. The \$3.1 million increase in cash, cash equivalents, and restricted cash in 2023 related to exchange rates was primarily attributable to the weakening of the U.S. dollar against the euro, the Canadian dollar, and Mexican peso. The \$7.0 million reduction in cash, cash equivalents and restricted cash in 2022 related to exchange rates was primarily attributable to the strengthening of the U.S. dollar against the Chinese renminbi, euro, and British pound sterling.

Borrowing Capacity and Debt Obligations

On November 30, 2022, we entered into a sixth amendment to our unsecured multi-currency revolving credit facility, originally entered into on March 1, 2017 (as amended and restated to date, the Credit Agreement). Among other things, this amendment extended the maturity date to November 30, 2027, and increased our uncommitted, unsecured incremental borrowing facility from \$150.0 million to \$200.0 million.

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We have a total borrowing capacity of \$400.0 million under our Credit Agreement. As of December 30, 2023, we had \$301.1 million of borrowing capacity available under our Credit Agreement, in addition to the \$200.0 million uncommitted, unsecured incremental borrowing facility. Under our debt agreements, our leverage ratio must be less than 3.75 or, if we elect, for the quarter during which a material acquisition occurs and for the three fiscal quarters thereafter, must be less than 4.25. As of December 30, 2023, our leverage ratio was 0.27 and we were in compliance with our debt covenants. See [Note 6](#), Short- and Long-Term Obligations, in the accompanying consolidated financial statements for additional information regarding our debt obligations.

In January 2024, we borrowed \$230.0 million under our revolving credit facility to fund the acquisitions of Key Knife and KWS. Borrowings under our revolving credit facility bear variable rates of interest and adjust frequently based on prevailing market rates and the terms of our Credit Agreement. The weighted average interest related to this debt was 6.45% at the time of borrowing. Following these acquisitions, we had borrowing capacity of \$71.1 million under our Credit Agreement, in addition to the \$200.0 million uncommitted, unsecured incremental borrowing facility. See [Note 6](#), Short- and Long-term Obligations, and [Note 15](#), Subsequent Events, in the accompanying consolidated financial statements for additional information.

Additional Liquidity and Capital Resources

In addition to the obligations on our consolidated balance sheet at December 30, 2023, which include, but are not limited to, short- and long-term obligations ([Note 6](#)), unrecognized tax benefits ([Note 5](#)), and leases ([Note 9](#)), we have outstanding letters of credit and bank guarantees of \$23.4 million at December 30, 2023, primarily relating to performance obligations and customer deposit guarantees ([Note 7](#)).

On May 18, 2023, our board of directors approved the repurchase of up to \$50.0 million of our equity securities during the period from May 18, 2023 to May 18, 2024. We have not repurchased any shares of our common stock under this authorization or under our previous \$50.0 million authorization that expired on May 19, 2023.

We paid cash dividends of \$13.2 million in 2023. On November 16, 2023, we declared a quarterly cash dividend of \$0.29 per share totaling \$3.4 million that was paid on February 1, 2024. Future declarations of dividends are subject to our board of directors' approval and may be adjusted as business needs or market conditions change. The declaration of cash dividends is also subject to our compliance with the covenant in our Credit Agreement related to our consolidated leverage ratio.

We plan to make capital expenditures of approximately \$29.0 to \$31.0 million during 2024 for property, plant, and equipment, including \$2.0 million related to final payments for the China Transaction.

As of December 30, 2023, we had approximately \$285.0 million of total unremitted foreign earnings. It is our intent to indefinitely reinvest \$253.5 million of these earnings to support the current and future capital needs of our foreign operations, including debt repayments, if any. In 2023, we recorded withholding taxes on the earnings in certain foreign subsidiaries that we plan to repatriate in the foreseeable future. The foreign withholding taxes that would be required if we were to remit the indefinitely-reinvested foreign earnings to the United States would be approximately \$5.2 million.

We believe that our existing cash and cash equivalents, along with cash generated from operations, our existing borrowing capacity, and continued access to debt markets, will be sufficient to meet the capital requirements of our operations for the next 12 months and the foreseeable future.

Application of Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Our actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are defined as those that entail significant judgments and uncertainties and could potentially result in materially different results under different assumptions and conditions. For a discussion on the application of these estimates and other accounting policies, see [Note 1](#), Nature of Operations and Summary of Significant Accounting Policies, in the accompanying consolidated financial statements. We believe that our most critical accounting policies and estimates upon which our financial position depends, and which involve the most complex or subjective decisions or assessments, are those described below.

Income Taxes

We operate in numerous countries under many legal forms and, as a result, are subject to the jurisdiction of numerous domestic and non-U.S. tax authorities, as well as to tax agreements and treaties among these governments. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and

assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and available tax credits. Changes in tax laws, regulations, agreements and treaties, currency-exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact upon the amount of current and deferred tax balances and our results of operations.

We compute our provision for income taxes using the asset and liability method, and we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for tax loss or credit carryforwards. We measure deferred tax assets and liabilities using the currently enacted tax rates that are expected to apply to taxable income in the years in which we expect to realize those deferred tax assets and liabilities. We estimate the degree to which our deferred tax assets on deductible temporary differences and tax loss or credit carryforwards will result in an income tax benefit based on the expected profitability by tax jurisdiction, and we provide a valuation allowance for these deferred tax assets if it is more likely than not that they will not be realized in the future. If it were to become more likely than not that these deferred tax assets would be realized, we would reverse the related valuation allowance. Should our actual future taxable income by tax jurisdiction vary from our estimates, additional valuation allowances or reversals thereof may be necessary. When assessing the need for a valuation allowance in a tax jurisdiction, we evaluate the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. As part of this evaluation, we consider our cumulative three-year history of earnings before income taxes, taxable income in prior carryback years, future reversals of existing taxable temporary differences, prudent and feasible tax planning strategies, and expected future results of operations. At year-end 2023, we maintained a valuation allowance against a portion of our state operating loss carryforwards in the United States and a valuation allowance in certain foreign jurisdictions due to the uncertainty of future profitability in the state and those foreign jurisdictions. Our tax valuation allowance was \$7.8 million at year-end 2023.

In the ordinary course of business there are inherent uncertainties and judgements required in quantifying our income tax positions. It is our policy to provide for uncertain tax positions and the related interest and penalties based upon our assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. On a quarterly basis, we evaluate our uncertain tax positions against various factors, including changes in facts or circumstances, tax laws, or the status of audits by tax authorities. We believe that we have appropriately accounted for any liability for unrecognized tax benefits, and at year-end 2023, our liability for these unrecognized tax benefits, including an accrual for the related interest and penalties, totaled \$13.2 million. To the extent we prevail in matters for which a liability for an unrecognized tax benefit is established or are required to pay amounts in excess of the liability, our effective tax rate in a given financial statement period may be affected.

We intend to repatriate the distributable reserves of select foreign subsidiaries back to the United States and, during 2023, we recorded \$0.7 million of tax expense associated with these foreign earnings that we plan to repatriate in 2024. Except for these select foreign subsidiaries, we intend to reinvest indefinitely the earnings of our international subsidiaries in order to support the current and future capital needs of their operations, including the repayment of our foreign debt.

In December 2021, the OECD released the Pillar Two Rules. Since the release of the Pillar Two Rules, the OECD has issued three tranches of administrative guidance, as well as guidance on transitional safe harbor relief. Various countries, including the member states of the European Union, have adopted Pillar Two Rules into their domestic laws, with certain rules coming into effect for fiscal years beginning in 2024. Some countries are in the process of drafting legislation for adoption in future years. While the Pillar Two Rules serve as a framework for implementing the minimum tax, countries may enact domestic laws that vary slightly from the Pillar Two Rules and may also adjust domestic tax incentives to align with the Pillar Two Rules on different timelines. We are monitoring developments of the Pillar Two Rules and are evaluating the potential impact they may have on the jurisdictions in which we operate.

Revenue Recognition

Approximately 90% of our revenue is recognized at a point in time following the transfer of control of the goods or service to the customer, primarily relating to our products that require minimal customization for the customer. The remaining portion of our revenue is recognized on an over time basis using an input method that compares the costs incurred to date to the total expected costs required to satisfy the performance obligation. Most revenue recognized on an over time basis is for large capital products that are highly customized for the customer and, as a result, would include significant cost to rework in the event of cancellation. The over time basis of accounting requires significant judgment in determining applicable contract costs and the corresponding revenue to be recognized, which could be different if there were to be changes to the circumstances of the contract. When adjustments to revenue and costs are required, the adjustments are included in earnings in the period of the change. Judgment is also required for contracts involving variable consideration and multiple performance obligations.

Valuation of Goodwill and Intangible Assets

We use assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination, including the determination of the fair value of intangible assets acquired, which represents a significant portion

of the purchase price in many of our acquisitions. We estimate the fair value of intangible assets primarily based on projections of discounted cash flows which we expect to arise from identifiable intangible assets of acquired businesses. The determination of the allocation of the purchase price for the fair value of intangible assets acquired requires significant judgment as to whether such intangibles are amortizable or non-amortizable and, if amortizable, the amortization period of the intangible asset.

Beginning in 2023, we evaluate the recoverability of goodwill and indefinite-lived intangible assets as of the first day of our fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate that the carrying value of an asset might be impaired. Prior to 2023, this evaluation was performed as of the end of each fiscal year or more frequently if events or changes in circumstances indicate that the carrying value of an asset might be impaired. Potential impairment indicators include a significant decline in sales, earnings, or cash flows, material adverse changes in the business climate, and a significant decline in the market capitalization due to a sustained decrease in our stock price. We are permitted to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If the qualitative impairment analysis (Step 0) results in a determination that the fair value of a reporting unit or an indefinite lived intangible asset is more likely than not less than its carrying amount, we perform a quantitative impairment analysis (Step 1). We may bypass the qualitative assessment and proceed directly to the quantitative assessment. Estimates of discounted future cash flows arising from intangible assets acquired require assumptions related to revenue and operating income growth rates, discount rates, and other factors. Different assumptions from those made in our analysis could materially affect projected cash flows and our evaluation of goodwill and indefinite-lived intangible assets for impairment.

At October 1, 2023 (the first day of the fourth quarter of 2023), we performed a quantitative impairment analysis on our goodwill and indefinite-lived intangible assets. Based on these analyses, we determined goodwill and indefinite-lived intangible assets were not impaired. Goodwill totaled \$384.3 million and indefinite-lived intangible assets totaled \$28.2 million at October 1, 2023. At year-end 2023, no factors were identified that would alter the conclusions of our October 1, 2023 analysis. Goodwill totaled \$392.1 million and indefinite-lived intangible assets totaled \$28.6 million at year-end 2023.

Definite-lived intangible assets are evaluated for impairment if events or changes in circumstances indicate that the carrying value of an asset might be impaired, such as a significant reduction in cash flows associated with the assets. Actual cash flows arising from a particular intangible asset could vary from projected cash flows which could imply different carrying values from those established at the dates of acquisition and which could result in impairment of such asset. No indicators of impairment were identified in 2023 and 2022. Definite-lived intangible assets were \$130.7 million at year-end 2023.

A material adverse change in the business climate including a prolonged economic downturn and weakness in demand for our products could negatively affect the revenue and profitability assumptions used in our assessment of goodwill and intangible assets, which may result in impairment charges. Any future impairment charges could have a material adverse effect on our results of operations in the period in which an impairment is determined to exist.

Inventories

We value our inventory at the lower of the actual cost (on a first-in, first-out; or weighted average basis) or net realizable value and include materials, labor, and manufacturing overhead. The valuation of inventory requires us to make judgments, based on currently available information, about the forecasted usage of and demand for each particular product or product line. Assumptions about future dispositions of inventory are inherently uncertain and, although we make every effort to ensure the accuracy of our forecasts of future product usage and demand, any changes in those assumptions may result in a write-down of inventory in the period in which inventory is deemed excessive or obsolete, which could adversely affect our results of operations.

Recent Accounting Pronouncements

See [Note 1](#), Nature of Operations and Summary of Significant Accounting Policies, under the heading *Recent Accounting Pronouncements Not Yet Adopted*, in the accompanying consolidated financial statements for further details.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates and foreign currency exchange rates, which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities. From time to time, we have entered into swap agreements to hedge a portion of our exposure to variable rate long-term debt. Additionally, we use short-term forward contracts to manage certain exposures to foreign currencies. We enter into forward currency-exchange contracts to hedge firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies. We do not engage in extensive foreign currency hedging activities. However, when we do enter into foreign currency hedging activities, the purpose is to protect our functional currency cash flows related to these commitments from fluctuations in foreign exchange rates. Our forward currency-exchange contracts hedge transactions primarily denominated in U.S. dollars, Canadian dollars, and euros. Gains and losses arising from forward

contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. We do not hold or engage in transactions involving derivative instruments for purposes other than risk management.

Interest Rates

Our exposure to changes in interest rates relates primarily to our long-term debt. Our borrowings under the Credit Agreement of \$98.8 million at year-end 2023 bear variable rates of interest, which adjust frequently based on prevailing market rates. Assuming year-end borrowing levels, a 10% increase in interest rates on our variable-rate debt would have increased our annual pre-tax interest expense by \$0.4 million in 2023. In January 2024, we borrowed \$230.0 million under our revolving credit facility to fund the Key Knife and KWS acquisitions. As a result, we expect interest expense will increase significantly in 2024.

Currency Exchange Rates

We generally view our investment in foreign subsidiaries in a functional currency other than our reporting currency as long-term. Our investment in foreign subsidiaries is sensitive to fluctuations in foreign currency exchange rates. The functional currencies of our foreign subsidiaries are principally denominated in euros, British pounds sterling, Mexican pesos, Canadian dollars, Chinese renminbi, Brazilian reals, and Swedish krona. The effect of changes in foreign exchange rates on our net investment in foreign subsidiaries is reflected in the "accumulated other comprehensive items" component of stockholders' equity. A 10% decrease in functional currencies relative to the U.S. dollar, would have resulted in a reduction in stockholders' equity of \$43.8 million at year-end 2023.

At year-end 2023, we had \$75.8 million of euro-denominated borrowings outstanding. The translation of our foreign-denominated debt impacts our borrowing capacity available under our Credit Agreement, which is calculated in U.S. dollars. A 10% increase in the euro foreign exchange rate against the U.S. dollar would have decreased our borrowing capacity by approximately \$7.6 million at year-end 2023.

The fair value of forward currency-exchange contracts is sensitive to fluctuations in foreign currency exchange rates. The fair value of forward currency-exchange contracts is the estimated amount that we would pay or receive upon termination of the contracts. A 10% adverse change in year-end 2023 foreign currency exchange rates related to our foreign currency exchange contracts would have had an immaterial effect on our results of operations in 2023. Any adverse change related to foreign currency contracts would have been largely offset by the corresponding change in the fair value of the underlying hedged items.

Item 8. Financial Statements and Supplementary Data

This data is submitted as a separate section to this report and incorporated herein by reference. See [Item 15](#), "Exhibits and Financial Statement Schedules."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures at year-end 2023. The term "disclosure controls and procedures," as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the evaluation of our disclosure controls and procedures at year-end 2023, our Chief Executive Officer and Chief Financial Officer concluded that at year-end 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f). Our management assessed the effectiveness of our internal control over financial reporting at year-end 2023. In making this assessment, our management used the criteria set forth in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management believes that at year-end 2023 our internal control over financial reporting was effective based on the criteria issued by COSO.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our independent registered public accountants, KPMG LLP, have issued an audit report on our internal control over financial reporting, which is included herein on pages F-2 and F-3 and incorporated into this Item 9A by reference.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal quarter ended December 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Insider Trading Arrangements and Policies

None of our directors or officers adopted or terminated a Rule 10b5-1 trading arrangement or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the fiscal quarter ended December 30, 2023.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Information about our Directors

This information will be included under the heading "Election of Directors" in our 2024 proxy statement for our 2024 Annual Meeting of Shareholders and is incorporated in this report by reference, except for the information concerning executive officers, which is included under the heading "Information about our Executive Officers" in [Part I, Item 1](#) of this report.

Section 16(a) Beneficial Ownership Reporting Compliance

The information required under Item 405 of Regulation S-K will be included under the heading "Stock Ownership—Delinquent Section 16(a) Reports" in our 2024 proxy statement and is incorporated in this report by reference.

Corporate Governance

The information required under Items 406 and 407 of Regulation S-K will be included under the heading "Corporate Governance" in our 2024 proxy statement and is incorporated in this report by reference.

Item 11. Executive Compensation

This information will be included under the headings "Executive Compensation," "Corporate Governance - Compensation Committee Interlocks and Insider Participation," and "Compensation Discussion and Analysis" in our 2024 proxy statement and is incorporated in this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This information will be included under the heading "Stock Ownership" and "Equity Compensation Plan Information" in our 2024 proxy statement and is incorporated in this report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

This information will be included under the heading "Corporate Governance" in our 2024 proxy statement and is incorporated in this report by reference.

Item 14. Principal Accountant Fees and Services

Our independent registered public accounting firm is KPMG LLP, located in Boston, Massachusetts, auditor firm ID:185. The information required by this item will be included under the heading "Independent Registered Public Accounting Firm" in our 2024 proxy statement and is incorporated in this report by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements (see Index on Page F-1 of this report):

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheet
Consolidated Statement of Income
Consolidated Statement of Comprehensive Income
Consolidated Statement of Cash Flows
Consolidated Statement of Stockholders' Equity
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not applicable or not required, or because the required information is shown either in the consolidated financial statements or in the notes thereto.

(3) Exhibits filed herewith or incorporated in this report by reference are set forth in the [Exhibit Index](#) beginning on page 37. This list of exhibits identifies each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

(b) Exhibits

Exhibit Number	Description of Exhibit
2.1	Securities Purchase Agreement dated as of December 22, 2023, by and among Key Knife, Inc., Key Knife Canadian Investments Corporation, Key Knife, Inc., Employee Stock Ownership Trust, Kadant Inc. and Kadant Canada Corp. (1)
3.1	Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 001-11406] and incorporated in this document by reference).
3.2	Amended and Restated Bylaws of the Registrant effective November 20, 2014 (filed as Exhibit 3.1 to the Registrant's Form 8-K [File No. 001-11406] filed with the Commission on November 25, 2014 and incorporated in this document by reference).
4.1	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934 (filed as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2019 [File No. 001-11406] and incorporated in this document by reference).
10.1*	Form of Indemnification Agreement between the Registrant and its directors and officers (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 001-11406] and incorporated in this document by reference).
10.2*	Form of Amended and Restated Executive Retention Agreement (change in control agreement) between the Registrant and its named executive officers, as amended and restated on December 9, 2008 (filed as Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended January 3, 2009 [File No. 001-11406] and incorporated in this document by reference).
10.3*	Form of Executive Retention Agreement (change in control agreement) between the Registrant and its executive officers for new agreements entered into from and after November 16, 2016 (filed as Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 [File No. 001-11406] and incorporated in this document by reference).
10.4*	Employment Agreement between Kadant Johnson Europe B.V. and Fredrik Westerhout dated May 16, 2022 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 2, 2022 [File No. 011-11406] and incorporated in this document by reference).
10.5*	Amended and Restated 2006 Equity Incentive Plan of the Registrant effective as of May 17, 2017 (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2017 [File No. 011-11406] and incorporated in this document by reference).
10.6*	Cash Incentive Plan of the Registrant, Amended and Restated as of March 9, 2022 (filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K [File No. 001-11406] filed with the Commission on March 15, 2022 and incorporated in this document by reference).
10.7*	Summary of non-employee director compensation of the Registrant (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2022 [File No. 001-11406] and incorporated in this document by reference).
10.8*	Form of Performance-Based Restricted Stock Unit Award Agreement between the Registrant and its executive officers used for restricted stock unit awards on or after March 5, 2014 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 [File No. 001-11406] and incorporated in this document by reference).
10.9*	Form of Time-Based Restricted Stock Unit Award Agreement between the Registrant and its executive officers used for restricted stock unit awards on or after March 5, 2014 (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 [File No. 001-11406] and incorporated in this document by reference).

Exhibit Number	Description of Exhibit
10.10*	<u>Form of Performance-Based Restricted Stock Unit Award Agreement between the Registrant and its executive officers used for restricted stock unit awards on or after March 5, 2014 (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 [File No. 011-11406] and incorporated in this document by reference).</u>
10.11*	<u>Form of Time-Based Restricted Stock Unit Award Agreement between the Registrant and its executive officers used for restricted stock unit awards on or after March 5, 2014 (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 [File No. 011-11406] and incorporated in this document by reference).</u>
10.12*	<u>Form of Directors Restricted Stock Unit Award Agreement between the Registrant and its non-employee directors used for restricted stock unit awards on or after March 5, 2014 (filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 [File No. 011-11406] and incorporated in this document by reference).</u>
10.13	<u>Amended and Restated Credit Agreement dated as of March 1, 2017, among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K [File No. 001-11406] filed with the Commission on March 7, 2017 and incorporated in this document by reference).</u>
10.14	<u>First Amendment and Limited Consent, dated as of May 24, 2017, to the Amended and Restated Credit Agreement dated as of March 1, 2017 by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2017 [File No. 011-11406] and incorporated in this document by reference).</u>
10.15	<u>Limited Consent, dated as of December 9, 2018, to the Amended and Restated Credit Agreement dated as of March 1, 2017 by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 [File No. 001-11406] and incorporated in this document by reference).</u>
10.16	<u>Second Amendment, dated as of December 14, 2018, to the Amended and Restated Credit Agreement dated as of March 1, 2017 by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2018 [File No. 001-11406] and incorporated in this document by reference).</u>
10.17	<u>Third Amendment, dated as of March 16, 2020, to the Amended and Restated Credit Agreement dated as of March 1, 2017 by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2020 [File No. 001-11406] and incorporated in this document by reference).</u>
10.18	<u>Fourth Amendment, dated as of May 4, 2021, to the Amended and Restated Credit Agreement, dated as of March 1, 2017, by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, and Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2021 [File No. 001-11406] and incorporated in this document by reference).</u>

Exhibit Number	Description of Exhibit
10.19	Joinder Agreement, dated as of May 4, 2021, to the Amended and Restated Credit Agreement, dated as of March 1, 2017, by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, and Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2021 [File No. 001-11406] and incorporated in this document by reference).
10.20	Fifth Amendment, dated as of December 9, 2021, to the Amended and Restated Credit Agreement, dated as of March 1, 2017, by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, and Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2022 [File No. 001-11406] and incorporated in this document by reference).
10.21	Sixth Amendment, dated as of November 30, 2022, to the Amended and Restated Credit Agreement, dated as of March 1, 2017, by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, and Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent (filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2022 [File No. 001-11406] and incorporated in this document by reference).
10.22	Amended and Restated Guarantee Agreement dated as of March 1, 2017, among the Registrant, as Borrower, and each of the Subsidiary Guarantors, in favor of Citizens Bank, N.A., as Administrative Agent and as Multicurrency Administrative Agent for the bank and other financial institutions or entities from time to time parties to the Amended and Restated Credit Facility (filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K [File No. 001-11406] filed with the Commission on March 7, 2017 and incorporated in this document by reference).
10.23	Guarantee Agreement dated as of March 1, 2017, by Kadant Cayman Ltd. in favor of Citizens Bank, N.A., as Administrative Agent and as Multicurrency Administrative Agent for the banks and other financial institutions or entities from time to time parties to the Amended and Restated Credit Facility (filed as Exhibit 99.3 to the Registrant's Current Report on Form 8-K [File No. 001-11406] filed with the Commission on March 7, 2017 and incorporated in this document by reference).
10.24	Multi-Currency Note Purchase and Private Shelf Agreement, dated as of December 14, 2018 among the Registrant, PGIM, Inc. and the Purchasers as defined therein (filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 [File No. 001-11406] and incorporated in this document by reference).
21	Subsidiaries of the Registrant.
23	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
24	Power of Attorney (included on the signatures page to the Annual Report on Form 10-K).
31.1	Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
97	Dodd-Frank Compensation Recovery Policy (adopted May 2023).

Exhibit Number	Description of Exhibit
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Management contract or compensatory plan or arrangement.

(1) The schedules to this document have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of any of the schedules to the U.S. Securities and Exchange Commission upon request.

Item 16. Form 10-K Summary

Not applicable.

Kadant Inc.
Annual Report on Form 10-K
Index to Consolidated Financial Statements and Schedule

The following Consolidated Financial Statements of the Registrant and its subsidiaries are required to be included in Item 8:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheet as of December 30, 2023 and December 31, 2022	F-4
Consolidated Statement of Income for the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022	F-5
Consolidated Statement of Comprehensive Income for the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022	F-6
Consolidated Statement of Cash Flows for the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022	F-7
Consolidated Statement of Stockholders' Equity for the fiscal years ended December 30, 2023, December 31, 2022, and January 1, 2022	F-8
Notes to Consolidated Financial Statements	F-9

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Kadant Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kadant Inc. and subsidiaries (the Company) as of December 30, 2023 and December 31, 2022, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the fiscal years in the three-year period ended December 30, 2023, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 30, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2023 and December 31, 2022, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 30, 2023, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2023 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Report of Independent Registered Public Accounting Firm (continued)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of uncertain tax positions

As discussed in Note 1 to the consolidated financial statements, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As disclosed in Note 5 to the consolidated financial statements, the Company has recognized uncertain tax positions amounting to \$11,212,000 as of December 30, 2023. The Company's tax positions are subject to audit by local taxing authorities across multiple global jurisdictions. Tax law can be complex and tax audits can take an extended period of time to resolve, and accordingly, the ultimate outcome with respect to taxes the Company may owe may differ from the amounts recognized.

We identified the assessment of specific uncertain tax positions as a critical audit matter. Complex auditor judgment, including specialized skills and knowledge, was required in evaluating the Company's interpretation of, and compliance with, tax law globally and the estimate of the amount of tax benefits expected to be realized.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process to assess specific uncertain tax positions. This included controls related to the evaluation of those uncertain tax positions, interpretation of tax law and its application in the liability estimation process. We involved tax professionals with specialized skills and knowledge, who assisted in evaluating the Company's intercompany transfer pricing studies for compliance with applicable tax laws and regulations, evaluating the impact of intercompany transfer pricing policies on its uncertain tax positions, and assessing the expiration of statutes of limitations with applicable laws and regulations.

/s/ KPMG LLP

We have served as the Company's auditor since 2012.

Boston, Massachusetts
February 27, 2024

Consolidated Balance Sheet

(In thousands, except share and per share amounts)	December 30, 2023	December 31, 2022
Assets		
Current Assets:		
Cash and cash equivalents	\$ 103,832	\$ 76,371
Restricted cash	2,621	3,354
Accounts receivable, net of allowances of \$4,090 and \$3,595	133,929	130,297
Inventories	152,677	163,672
Contract assets	8,366	14,898
Other current assets	38,757	26,818
Total Current Assets	440,182	415,410
Property, Plant, and Equipment, Net	140,504	118,855
Other Assets	43,609	54,516
Intangible Assets, Net (Notes 1 and 2)	159,286	175,645
Goodwill (Notes 1 and 2)	392,084	385,455
Total Assets	\$ 1,175,665	\$ 1,149,881
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations (Note 6)	\$ 3,209	\$ 3,821
Accounts payable	42,104	58,060
Accrued payroll and employee benefits	41,855	35,672
Customer deposits	62,641	64,361
Advanced billings	12,194	7,966
Other current liabilities	52,406	43,581
Total Current Liabilities	214,409	213,461
Long-Term Obligations (Note 6)	107,666	197,340
Long-Term Deferred Income Taxes (Note 5)	36,398	38,745
Other Long-Term Liabilities	40,952	44,764
Commitments and Contingencies (Note 7)		
Stockholders' Equity (Notes 3 and 4):		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, \$.01 par value, 150,000,000 shares authorized; 14,624,159 shares issued	146	146
Capital in excess of par value	124,940	119,924
Retained earnings	763,131	660,644
Treasury stock at cost, 2,915,978 and 2,949,997 shares	(71,453)	(72,287)
Accumulated other comprehensive items (Note 14)	(43,062)	(54,578)
Total Kadant Stockholders' Equity	773,702	653,849
Noncontrolling interest	2,538	1,722
Total Stockholders' Equity	776,240	655,571
Total Liabilities and Stockholders' Equity	\$ 1,175,665	\$ 1,149,881

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

Consolidated Statement of Income

(In thousands, except per share amounts)

	December 30, 2023	December 31, 2022	January 1, 2022
Revenue (Notes 1 and 12)	\$ 957,672	\$ 904,739	\$ 786,579
Costs and Operating Expenses:			
Cost of revenue	541,366	515,184	449,214
Selling, general, and administrative expenses	236,264	224,405	208,787
Research and development expenses	13,562	12,724	11,403
Gain on sale and other items, net (Note 8)	723	(18,856)	465
	<u>791,915</u>	<u>733,457</u>	<u>669,869</u>
Operating Income	165,757	171,282	116,710
Interest Income	1,758	904	267
Interest Expense	(8,398)	(6,478)	(4,821)
Other Expense, Net	(101)	(72)	(104)
Income Before Provision for Income Taxes	159,016	165,636	112,052
Provision for Income Taxes (Note 5)	42,210	43,906	27,171
Net Income	116,806	121,730	84,881
Net Income Attributable to Noncontrolling Interest	(737)	(802)	(838)
Net Income Attributable to Kadant	<u>\$ 116,069</u>	<u>\$ 120,928</u>	<u>\$ 84,043</u>
Earnings per Share Attributable to Kadant (Note 13)			
Basic	\$ 9.92	\$ 10.38	\$ 7.26
Diluted	\$ 9.90	\$ 10.35	\$ 7.21
Weighted Average Shares (Note 13)			
Basic	11,700	11,654	11,579
Diluted	11,729	11,688	11,655

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

Consolidated Statement of Comprehensive Income

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Net Income	<u>\$ 116,806</u>	<u>\$ 121,730</u>	<u>\$ 84,881</u>
Other Comprehensive Items:			
Foreign currency translation adjustment	11,554	(25,522)	(11,324)
Pension and other post-retirement liability adjustments, net (net of tax of \$45, \$225, and \$(1))	137	644	(22)
Deferred (loss) gain on cash flow hedges (net of tax of \$(32), \$147, and \$118)	(96)	520	366
Other Comprehensive Items	<u>11,595</u>	<u>(24,358)</u>	<u>(10,980)</u>
Comprehensive Income	<u>128,401</u>	<u>97,372</u>	<u>73,901</u>
Comprehensive Income Attributable to Noncontrolling Interest	<u>(816)</u>	<u>(672)</u>	<u>(716)</u>
Comprehensive Income Attributable to Kadant	<u><u>\$ 127,585</u></u>	<u><u>\$ 96,700</u></u>	<u><u>\$ 73,185</u></u>

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

Consolidated Statement of Cash Flows

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Operating Activities			
Net income attributable to Kadant	\$ 116,069	\$ 120,928	\$ 84,043
Net income attributable to noncontrolling interest	737	802	838
Net income	116,806	121,730	84,881
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,297	34,936	34,302
Stock-based compensation expense	9,765	8,576	8,527
Provision for losses on accounts receivable	531	1,165	5
Gain on sale of assets and other income (Note 8)	(841)	(20,190)	(515)
Non-cash impairment costs (Note 8)	36	731	804
Deferred income tax (benefit) provision	(1,949)	7,159	(1,384)
Other items, net	4,612	6,658	6,473
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,694)	(18,515)	(16,737)
Contract assets	6,450	(6,715)	(1,222)
Inventories	14,085	(36,116)	(11,173)
Other assets	4,165	(1,558)	(5,519)
Accounts payable	(19,896)	1,362	26,346
Customer deposits	(9,011)	14,358	27,693
Other liabilities	9,189	(10,956)	9,939
Net cash provided by operating activities	165,545	102,625	162,420
Investing Activities			
Acquisitions, net of cash acquired (Note 2)	(905)	(3,474)	(143,981)
Purchases of property, plant, and equipment	(31,850)	(28,199)	(12,771)
Proceeds from sale of property, plant, and equipment	1,637	2,111	1,740
Other investing activities	328	42	537
Net cash used in investing activities	(30,790)	(29,520)	(154,475)
Financing Activities			
Proceeds from issuance of short- and long-term obligations	—	22,057	151,944
Repayment of short- and long-term obligations	(93,965)	(85,510)	(115,576)
Dividends paid	(13,223)	(12,001)	(11,460)
Proceeds from issuance of Company common stock	—	1,376	1,892
Tax withholding payments related to stock-based compensation	(3,915)	(4,607)	(3,432)
Dividend paid to noncontrolling interest	—	(630)	(560)
Other financing activities	(8)	(1,254)	—
Net cash (used in) provided by financing activities	(111,111)	(80,569)	22,808
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	3,084	(6,972)	(3,232)
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	26,728	(14,436)	27,521
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	79,725	94,161	66,640
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 106,453	\$ 79,725	\$ 94,161

See [Note 1](#), Nature of Operations and Summary of Significant Accounting Policies, under the heading *Supplemental Cash Flow Information* for further details.

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

Consolidated Statement of Stockholders' Equity

(In thousands, except share and per share amounts)	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount			Shares	Amount			
Balance at January 2, 2021	14,624,159	\$ 146	\$ 110,824	\$ 479,400	3,081,919	\$ (75,519)	\$ (19,492)	\$ 1,546	\$ 496,905
Net income	—	—	—	84,043	—	—	—	838	84,881
Dividends declared – Common Stock, \$1.00 per share	—	—	—	(11,595)	—	—	—	—	(11,595)
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(560)	(560)
Noncontrolling interest acquired (Note 2)	—	—	—	—	—	—	—	367	367
Purchase of shares of noncontrolling interest (Note 2)	—	—	—	—	—	—	—	(389)	(389)
Activity under stock plans	—	—	5,064	—	(78,500)	1,923	—	—	6,987
Other comprehensive items	—	—	—	—	—	—	(10,858)	(122)	(10,980)
Balance at January 1, 2022	14,624,159	\$ 146	\$ 115,888	\$ 551,848	3,003,419	\$ (73,596)	\$ (30,350)	\$ 1,680	\$ 565,616
Net income	—	—	—	120,928	—	—	—	802	121,730
Dividends declared – Common Stock, \$1.04 per share	—	—	—	(12,132)	—	—	—	—	(12,132)
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(630)	(630)
Activity under stock plans	—	—	4,036	—	(53,422)	1,309	—	—	5,345
Other comprehensive items	—	—	—	—	—	—	(24,228)	(130)	(24,358)
Balance at December 31, 2022	14,624,159	\$ 146	\$ 119,924	\$ 660,644	2,949,997	\$ (72,287)	\$ (54,578)	\$ 1,722	\$ 655,571
Net income	—	—	—	116,069	—	—	—	737	116,806
Dividends declared – Common Stock, \$1.16 per share	—	—	—	(13,582)	—	—	—	—	(13,582)
Activity under stock plans	—	—	5,016	—	(34,019)	834	—	—	5,850
Other comprehensive items	—	—	—	—	—	—	11,516	79	11,595
Balance at December 30, 2023	14,624,159	\$ 146	\$ 124,940	\$ 763,131	2,915,978	\$ (71,453)	\$ (43,062)	\$ 2,538	\$ 776,240

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

Notes to Consolidated Financial Statements**1. Nature of Operations and Summary of Significant Accounting Policies****Nature of Operations**

Kadant Inc. was incorporated in Delaware in November 1991 and trades on the New York Stock Exchange under the ticker symbol "KAI."

Kadant Inc. (together with its subsidiaries, the Company) is a global supplier of technologies and engineered systems that drive Sustainable Industrial Processing. Its products and services play an integral role in enhancing efficiency, optimizing energy utilization, and maximizing productivity in process industries while helping customers advance their sustainability initiatives with products that reduce waste or generate more yield with fewer inputs, particularly fiber, energy, and water. Producing more while consuming less is a core aspect of Sustainable Industrial Processing and a major element of the strategic focus of the Company's three reportable operating segments: Flow Control, Industrial Processing, and Material Handling.

Noncontrolling Interest

One of the Company's foreign subsidiaries that manufactures fluid-handling products is part of a joint venture agreement with an Italian company in which each holds a 50% ownership interest. The agreement provides the Company's subsidiary with the option to purchase the remaining 50% interest in the joint venture.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the accounts of its wholly and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company has adopted a fiscal year ending on the Saturday nearest to December 31. References to 2023, 2022, and 2021 are for the Company's fiscal years ended December 30, 2023 (fiscal 2023), December 31, 2022 (fiscal 2022) and January 1, 2022 (fiscal 2021).

Financial Statement Presentation

Certain reclassifications have been made to prior periods to conform with the current period presentation. Within operating activities in the consolidated statement of cash flows, the Company previously included certain non-cash movements between right-of-use assets and operating lease liabilities as a decrease in other assets and an increase in other liabilities, respectively. The Company recast the prior periods to exclude this non-cash movement, which did not result in a change to net cash provided by operating activities within the consolidated statement of cash flows in these periods.

Use of Estimates and Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Although the Company makes every effort to ensure the accuracy of the estimates and assumptions used in the preparation of its consolidated financial statements or in the application of accounting policies, if business conditions were different, or if the Company were to use different estimates and assumptions, it is possible that materially different amounts could be reported in the Company's consolidated financial statements.

Critical accounting policies are defined as those that entail significant judgments and estimates, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the most critical accounting policies upon which its financial position depends, and which involve the most complex or subjective decisions or assessments, concern income taxes, revenue recognition, the valuation of goodwill and intangible assets, and inventories. A discussion of the application of these and other accounting policies is included within this note.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606). Most of the Company's revenue is recognized at a point in time for each performance obligation under the contract when the customer obtains control of the goods or service. Most of the

Notes to Consolidated Financial Statements

Company's parts and consumables products and its capital products with minimal customization are accounted for at a point in time. The Company has made a policy election to not treat the obligation to ship as a separate performance obligation under the contract and, as a result, the associated shipping costs are reflected in the cost of revenue when revenue is recognized.

The remaining portion of the Company's revenue is recognized over time based on an input method that compares the costs incurred to date to the total expected costs required to satisfy the performance obligation. Contracts are accounted for on an over time basis when they include products which have no alternative use and an enforceable right to payment over time. Most of the contracts recognized on an over time basis are for large capital projects. These projects are highly customized for the customer and, as a result, would include a significant cost to rework in the event of cancellation.

The following table presents revenue by revenue recognition method:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Point in Time	\$ 849,507	\$ 807,966	\$ 705,709
Over Time	108,165	96,773	80,870
	<u>\$ 957,672</u>	<u>\$ 904,739</u>	<u>\$ 786,579</u>

The transaction price includes estimated variable consideration where applicable. Such variable consideration relates to certain performance guarantees and rights to return the product. The Company estimates variable consideration as the most likely amount to which it expects to be entitled based on the terms of the contracts with customers and historical experience, where relevant. For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative stand-alone selling price.

The Company disaggregates its revenue from contracts with customers by reportable operating segment, product type and geography as this best depicts how its revenue is affected by economic factors.

The following table presents the disaggregation of revenue by product type and geography:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Revenue by Product Type:			
Parts and Consumables	\$ 598,343	\$ 572,988	\$ 511,766
Capital	359,329	331,751	274,813
	<u>\$ 957,672</u>	<u>\$ 904,739</u>	<u>\$ 786,579</u>
Revenue by Geography (based on customer location):			
North America	\$ 538,658	\$ 508,899	\$ 420,382
Europe	245,154	233,790	220,578
Asia	113,511	113,932	103,810
Rest of World	60,349	48,118	41,809
	<u>\$ 957,672</u>	<u>\$ 904,739</u>	<u>\$ 786,579</u>

See [Note 12](#), Business Segment and Geographical Information, for information on the disaggregation of revenue by reportable operating segment.

The following table presents contract balances from contracts with customers:

(In thousands)	December 30, 2023	December 31, 2022
Contract Assets	\$ 8,366	\$ 14,898
Contract Liabilities	\$ 79,397	\$ 82,413

Contract assets in the accompanying consolidated balance sheet represent unbilled revenue associated with revenue recognized on contracts accounted for on an over time basis, which will be billed in future periods based on the contract terms. Contract liabilities consist of short- and long-term customer deposits, advanced billings, and deferred revenue. Deferred revenue is included in other current liabilities and long-term customer deposits are included in other long-term liabilities in the accompanying consolidated balance sheet. Contract liabilities will be recognized as revenue in future periods once the revenue recognition criteria are met. The majority of the contract liabilities relate to advance payments on contracts accounted for at a point in time. These advance payments will be recognized as revenue when the

Notes to Consolidated Financial Statements

Company's performance obligations have been satisfied, which typically occurs when the product has shipped and control of the asset has transferred to the customer.

The Company recognized revenue of \$65,562,000 in 2023 and \$61,804,000 in 2022 that was included in the contract liabilities balance at the beginning of 2023 and 2022, respectively. The majority of the Company's contracts for capital equipment have an original expected duration of one year or less. Certain capital contracts require longer lead times and could take up to 24 months to complete. For contracts with an original expected duration of over one year, the aggregate amount of the transaction price allocated to the remaining unsatisfied or partially unsatisfied performance obligations as of year-end 2023 was \$38,458,000. The Company will recognize revenue for these performance obligations as they are satisfied, approximately 88% of which is expected to occur within the next twelve months and the remaining 12% after December 28, 2024.

Customers in China will often settle their accounts receivable with banker's acceptance drafts, in which case cash settlement will be delayed until the drafts mature or are settled prior to maturity. For customers outside of China, final payment for the majority of the Company's products is received in the quarter following the product shipment. Certain of the Company's contracts include a longer period before final payment is due, which is typically within one year of final shipment or transfer of control to the customer.

The Company includes in revenue amounts invoiced for shipping and handling with the corresponding costs reflected in cost of revenue. Provisions for discounts, warranties, returns and other adjustments are provided for in the period in which the related sale was recorded. Sales taxes, value-added taxes, and certain excise taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable arise from sales on credit to customers, are recorded at the invoiced amount, and do not bear interest. The Company establishes an allowance for credit losses to reduce accounts receivable to the net amount expected to be collected. The Company exercises judgment in determining its allowance for credit losses, which is based on its historical collection and write-off experience, adjusted for current macroeconomic trends and conditions, credit policies, specific customer collection issues, and accounts receivable aging. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and each customer's current creditworthiness. The Company continuously monitors collections and payments from its customers. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered. In some instances, the Company utilizes letters of credit to mitigate its credit exposure.

The changes in the allowance for credit losses are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Balance at Beginning of Year	\$ 3,595	\$ 2,735	\$ 2,977
Provision charged to expense	531	1,165	5
Accounts written off	(89)	(129)	(178)
Currency translation	53	(176)	(69)
Balance at End of Year	<u>\$ 4,090</u>	<u>\$ 3,595</u>	<u>\$ 2,735</u>

Banker's Acceptance Drafts Included in Accounts Receivable

The Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are non-interest bearing obligations of the issuing bank and generally mature within six months of the origination date. The Company's Chinese subsidiaries may sell the drafts at a discount to a third-party financial institution or transfer the drafts to vendors in settlement of current accounts payable prior to the scheduled maturity date. These drafts, which totaled \$10,826,000 at year-end 2023 and \$5,729,000 at year-end 2022, are included in accounts receivable in the accompanying consolidated balance sheet until the subsidiary sells the drafts to a bank and receives a discounted amount, transfers the banker's acceptance drafts in settlement of current accounts payable prior to maturity, or obtains cash payment on the scheduled maturity date.

Warranty Obligations

The Company's contracts covering the sale of its products include warranty provisions that provide assurance to its customers that the products will comply with agreed-upon specifications during a defined period of time. The Company

Notes to Consolidated Financial Statements

provides for the estimated cost of product warranties at the time of sale based on the historical occurrence rates and repair costs, as well as knowledge of any specific warranty problems that indicate projected warranty costs may vary from historical patterns. The Company negotiates the terms regarding warranty coverage and length of warranty depending on the products and applications. While the Company engages in extensive product quality programs and processes, the Company's warranty obligation is affected by product failure rates, repair costs, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company. Should these factors or actual results differ from the Company's estimates, revisions to the estimated warranty liability would be required.

The Company's liability for warranties is included in other current liabilities in the accompanying consolidated balance sheet. The changes in the carrying amount of product warranty obligations are as follows:

(In thousands)	December 30, 2023	December 31, 2022
Balance at Beginning of Year	\$ 7,283	\$ 7,298
Provision charged to expense	5,255	4,955
Usage	(4,606)	(4,587)
Currency translation	222	(383)
Balance at End of Year	<u>\$ 8,154</u>	<u>\$ 7,283</u>

Leases

In accordance with ASC 842, *Leases* (ASC 842), the Company determines whether an arrangement is, or contains, a lease at inception. Operating lease liabilities are included in other current liabilities and other long-term liabilities and the corresponding right-of-use (ROU) assets are included in other assets in the accompanying consolidated balance sheet. Classification of operating lease liabilities as either current or noncurrent is based on the expected timing of payments due under the Company's lease obligations.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities with original contract terms greater than 12 months are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Operating leases with an original term of 12 months or less are not recorded in the accompanying consolidated balance sheet.

In determining the present value of future lease payments, the Company utilizes either the rate implicit in the lease if that rate is readily determinable or its incremental secured borrowing rate commensurate with the term of the underlying lease. Lease terms may include the effect of options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company recognizes operating lease expense for lease payments on a straight-line basis over the lease term. Variable lease costs are not included in fixed lease payments and, as a result, are excluded from the measurement of the ROU assets and lease liabilities. The Company expenses all variable lease costs as incurred.

As a lessee, the Company accounts for the lease and non-lease components of its real estate and equipment leases as a single lease component. For vehicle leases, the Company does not combine lease and non-lease components.

See [Note 9](#), Leases, for additional information about the Company's lease obligations.

Income Taxes

In accordance with ASC 740, *Income Taxes* (ASC 740), the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which these differences are expected to reverse. A tax valuation allowance is established, as needed, to reduce deferred tax assets to the amount expected to be realized. In the period in which it becomes more likely than not that some or all of the deferred tax assets will be realized, the valuation allowance will be adjusted.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. At December 30, 2023, the Company believes that it has appropriately accounted for any liability for unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized tax benefit is established, the statute of limitations expires for a tax jurisdiction year, or the Company is required to pay amounts in excess of the liability, its effective tax rate in a given financial statement period may be affected.

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released model rules introducing a new 15% global minimum tax for large multinational enterprises with an annual global revenue exceeding 750,000,000 euros (Pillar Two Rules). Since the release of the Pillar Two Rules, the OECD has issued three tranches of

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administrative guidance, as well as guidance on transitional safe harbor relief. Various countries, including the member states of the European Union, have adopted the Pillar Two Rules into their domestic laws, with certain rules coming into effect for fiscal years beginning in 2024. Some countries are in the process of drafting legislation for adoption in future years. While the Pillar Two Rules serve as a framework for implementing the minimum tax, countries may enact domestic laws that vary slightly from the Pillar Two Rules and may also adjust domestic tax incentives to align with the Pillar Two Rules on different timelines. The Company is monitoring developments of the Pillar Two Rules and is evaluating the potential impact they may have on the jurisdictions in which it operates.

Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income attributable to Kadant by the weighted average number of shares outstanding during the year. Diluted EPS is computed using the treasury stock method assuming the effect of all potentially dilutive securities, including stock options (in 2021), restricted stock units (RSUs) and employee stock purchase plan shares.

Cash, Cash Equivalents, and Restricted Cash

At year-end 2023 and 2022, cash equivalents included investments in money market funds and highly liquid short-term investments, which had maturities of three months or less at the date of purchase. The carrying amounts of cash equivalents approximate their fair values due to the short-term nature of these instruments.

The Company's restricted cash generally serves as collateral for bank guarantees associated with providing assurance to customers that the Company will fulfill certain customer obligations entered into in the normal course of business and for certain banker's acceptance drafts issued to vendors. The majority of these restrictions will expire over the next twelve months.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the accompanying consolidated balance sheet that are shown in aggregate in the consolidated statement of cash flows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Cash and cash equivalents	\$ 103,832	\$ 76,371	\$ 91,186
Restricted cash	2,621	3,354	2,975
Total Cash, Cash Equivalents, and Restricted Cash	\$ 106,453	\$ 79,725	\$ 94,161

Supplemental Cash Flow Information

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Cash Paid for Interest	\$ 8,071	\$ 6,053	\$ 4,441
Cash Paid for Income Taxes, Net of Refunds	\$ 47,519	\$ 36,971	\$ 24,174
Non-Cash Investing Activities:			
Fair value of assets acquired	\$ 1,338	\$ 2,785	\$ 190,977
Cash paid for acquired businesses, net	(1,074)	(3,597)	(152,661)
Increase (decrease) in liabilities assumed	\$ 264	\$ (812)	\$ 38,316
Purchase of property with outstanding loan receivable	\$ —	\$ 1,397	\$ —
Purchases of property, plant and equipment in accounts payable	\$ 4,453	\$ 1,040	\$ 363
Non-Cash Financing Activities:			
Issuance of Company common stock upon vesting of RSUs	\$ 5,163	\$ 5,555	\$ 4,108
Dividends declared but unpaid	\$ 3,395	\$ 3,036	\$ 2,905

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out; or weighted average basis) or net realizable value and include materials, labor, and manufacturing overhead. The Company regularly reviews its quantities of inventories on hand and compares these amounts to the historical and forecasted usage of and demand for each particular product or

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product line. The Company records a charge to cost of revenue for excess and obsolete inventory to reduce the carrying value of inventories to net realizable value.

The components of inventories are as follows:

(In thousands)	December 30, 2023	December 31, 2022
Raw Materials	\$ 66,738	\$ 71,040
Work in Process	32,147	38,612
Finished Goods (includes \$5,182 and \$658 at customer locations)	53,792	54,020
	<u>\$ 152,677</u>	<u>\$ 163,672</u>

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Assets acquired as part of a business combination are initially recorded at fair value. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The Company provides for depreciation and amortization primarily using the straight-line method over the estimated useful lives of the property as follows: buildings, 10 to 40 years; machinery and equipment, 2 to 10 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. For construction in progress, no provision for depreciation is made until the assets are available and ready for use.

Property, plant, and equipment consist of the following:

(In thousands)	December 30, 2023	December 31, 2022
Land	\$ 10,769	\$ 10,729
Buildings	92,631	68,915
Machinery, Equipment, and Leasehold Improvements	161,041	143,642
Construction in Progress	8,909	17,011
	<u>273,350</u>	<u>240,297</u>
Less: Accumulated Depreciation and Amortization	132,846	121,442
	<u>\$ 140,504</u>	<u>\$ 118,855</u>

Depreciation and amortization expense was \$14,849,000 in 2023, \$14,429,000 in 2022, and \$13,433,000 in 2021. See [Note 9](#), Leases, for further details relating to assets under financing leases included in property, plant and equipment in the accompanying consolidated balance sheet.

Intangible Assets, Net

Acquired intangible assets by major asset class are as follows:

(In thousands)	Gross	Accumulated Amortization	Currency Translation	Net
December 30, 2023				
<i>Definite-Lived</i>				
Customer relationships	\$ 218,959	\$ (108,519)	\$ (5,562)	\$ 104,878
Product technology	67,576	(43,786)	(2,367)	21,423
Tradenames	7,039	(4,262)	(388)	2,389
Other	20,320	(17,715)	(604)	2,001
	<u>313,894</u>	<u>(174,282)</u>	<u>(8,921)</u>	<u>130,691</u>
<i>Indefinite-Lived</i>				
Tradenames	29,059	—	(464)	28,595
Acquired Intangible Assets	<u>\$ 342,953</u>	<u>\$ (174,282)</u>	<u>\$ (9,385)</u>	<u>\$ 159,286</u>

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(In thousands)	Gross	Accumulated Amortization	Currency Translation	Net
<u>December 31, 2022</u>				
<i>Definite-Lived</i>				
Customer relationships	\$ 218,782	\$ (94,653)	\$ (7,045)	\$ 117,084
Product technology	67,548	(39,940)	(2,754)	24,854
Tradenames	7,427	(3,903)	(420)	3,104
Other	20,314	(17,338)	(623)	2,353
	<u>314,071</u>	<u>(155,834)</u>	<u>(10,842)</u>	<u>147,395</u>
<i>Indefinite-Lived</i>				
Tradenames	29,059	—	(809)	28,250
Acquired Intangible Assets	<u>\$ 343,130</u>	<u>\$ (155,834)</u>	<u>\$ (11,651)</u>	<u>\$ 175,645</u>

Intangible assets are recorded at fair value at the date of acquisition. Subsequent impairment charges are reflected as a reduction in the gross balance, as applicable. Definite-lived intangible assets are stated net of accumulated amortization and currency translation in the accompanying consolidated balance sheet. The Company amortizes definite-lived intangible assets over lives that have been determined based on the anticipated cash flow benefits of the intangible asset.

Intangible assets acquired related to the Company's acquisition in 2023 were \$211,000, which primarily consisted of customer relationships (see [Note 2](#), Acquisitions). Definite-lived intangible assets at year-end 2023 have a weighted average amortization period of 13 years. Amortization of definite-lived intangible assets was \$18,448,000 in 2023, \$20,507,000 in 2022, and \$20,869,000 in 2021 and was included in selling, general, and administrative (SG&A) expenses in the accompanying consolidated statement of income. The estimated future amortization expense of definite-lived intangible assets is \$17,634,000 in 2024; \$15,671,000 in 2025; \$15,170,000 in 2026; \$14,262,000 in 2027; \$13,069,000 in 2028; and \$54,885,000 in the aggregate thereafter.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets of the acquired business at the date of acquisition. The Company's acquisitions have historically been made at prices above the fair value of the acquired net assets, resulting in goodwill, due to the expectation of synergies from combining the businesses.

The changes in the carrying amount of goodwill by segment are as follows:

(In thousands)	Flow Control	Industrial Processing	Material Handling	Total
<u>Balance as of January 1, 2022</u>				
Gross balance	\$ 123,589	\$ 214,982	\$ 143,825	\$ 482,396
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	<u>123,589</u>	<u>129,473</u>	<u>143,825</u>	<u>396,887</u>
<u>2022 Activity</u>				
Acquisitions (Note 2) (a)	(33)	—	1,231	1,198
Impairment loss	—	(29)	—	(29)
Currency translation	(5,247)	(5,063)	(2,291)	(12,601)
Total 2022 activity	<u>(5,280)</u>	<u>(5,092)</u>	<u>(1,060)</u>	<u>(11,432)</u>
<u>Balance at December 31, 2022</u>				
Gross balance	118,309	209,919	142,765	470,993
Accumulated impairment losses	—	(85,538)	—	(85,538)
Net balance	<u>118,309</u>	<u>124,381</u>	<u>142,765</u>	<u>385,455</u>

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(In thousands)	Flow Control	Industrial Processing	Material Handling	Total
2023 Activity				
Acquisition (Note 2)	\$ —	\$ 793	\$ 4	\$ 797
Currency translation	2,473	2,020	1,339	5,832
Total 2023 activity	2,473	2,813	1,343	6,629
Balance at December 30, 2023				
Gross balance	120,782	212,732	144,108	477,622
Accumulated impairment losses	—	(85,538)	—	(85,538)
Net balance	\$ 120,782	\$ 127,194	\$ 144,108	\$ 392,084

(a) Includes \$1,733,000 for an acquisition completed in 2022 and adjustments to the purchase price allocations for acquisitions completed in 2021, principally related to inventory, machinery and equipment, and deferred taxes.

Impairment of Long-Lived Assets

Beginning in 2023, the Company evaluates the recoverability of goodwill and indefinite-lived intangible assets as of the first day of the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate that it is more likely than not that the carrying value of an asset might be impaired. Prior to 2023, this evaluation was performed as of the end of each fiscal year, or more frequently if events or changes in circumstances indicate that it is more likely than not that the carrying value of an asset might be impaired. Potential impairment indicators include a significant decline in sales, earnings, or cash flows, material adverse changes in the business climate, and a significant decline in the market capitalization due to a sustained decrease in the Company's stock price. The Company is permitted to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If the qualitative assessment (Step 0) results in a determination that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not less than its carrying amount, the Company performs a quantitative impairment analysis (Step 1). The Company may bypass the qualitative assessment and proceed directly to the quantitative assessment.

The Company assesses its definite-lived intangible assets for impairment whenever facts and circumstances indicate that the carrying amounts may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining lives of such assets or asset groups. If these projected cash flows were to be less than the carrying amounts, an impairment loss would be recognized, resulting in a write-down of the assets with a corresponding charge to earnings. The impairment loss would be measured based upon the difference between the carrying amounts of the assets and their fair values calculated using projected discounted cash flows.

Goodwill

At October 1, 2023 (the first day of the fourth quarter of 2023), the Company performed a quantitative goodwill impairment analysis (Step 1) for all of its reporting units, which indicated that the fair value of each reporting unit exceeded its carrying value, and determined that the assets were not impaired. At year-end 2023, no factors were identified that would alter the conclusions of the October 1, 2023 goodwill impairment analysis.

At year-end 2022, the Company performed a qualitative goodwill impairment assessment (Step 0) for each of its reporting units, which indicated that the fair value of each reporting unit exceeded its carrying value, and determined that the asset was not impaired. The impairment analysis included an assessment of certain qualitative factors including, but not limited to, the results of prior fair value calculations, the movement of the Company's share price and market capitalization, the reporting units' and the Company's overall financial performance, and macroeconomic and industry conditions. The Company considered the qualitative factors and weighed the evidence obtained and determined that it was not more likely than not that the fair value of any of the respective reporting unit's assets was less than its carrying amount. Although the Company believes the factors considered in the impairment analysis are reasonable, significant changes in any one of the assumptions used could have produced a different result.

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Goodwill by reporting unit is as follows:

(In thousands)	December 30, 2023	December 31, 2022
Fluid-Handling	\$ 63,180	\$ 62,426
Doctoring, Cleaning, & Filtration	57,602	55,883
Stock-Preparation	21,150	20,311
Wood Processing	106,044	104,070
Material Handling	144,108	142,765
	<u>\$ 392,084</u>	<u>\$ 385,455</u>

Intangible Assets

At October 1, 2023, the Company performed a quantitative impairment analysis (Step 1) on its indefinite-lived intangible assets and determined that the assets were not impaired. At year-end 2023, no factors were identified that would alter the conclusions of the October 1, 2023 indefinite-lived intangible asset impairment analysis. At year-end 2022, the Company performed a qualitative impairment analysis (Step 0) on its indefinite-lived intangible assets and determined that the assets were not impaired.

No triggering events or indicators of impairment were identified in 2023 or 2022 related to the Company's definite-lived intangible assets.

Business Combinations

The Company's acquisitions have been accounted for using the purchase method of accounting under ASC 805, *Business Combinations* (ASC 805), and the results of the acquired businesses have been included in its consolidated financial statements from their respective dates of acquisition. The Company accounts for all transactions and events in which it obtains control over a business under ASC 805 by establishing the acquisition date and recognizing the fair value of all assets acquired and liabilities assumed. The Company's acquisitions have historically been made at prices above the fair value of identifiable net assets, resulting in goodwill, due to synergies expected to be realized by combining the businesses.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, the estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. For changes in the valuation of intangible assets between the preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period, any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined. Acquisition transaction costs are recorded as incurred in SG&A expenses in the accompanying consolidated statement of income and were \$1,442,000 in 2023 (see [Note 15](#), Subsequent Events), \$668,000 in 2022, and \$3,655,000 in 2021.

Foreign Currency Translation and Transactions

All assets and liabilities of the Company's foreign subsidiaries are translated at fiscal year-end exchange rates, and revenue and expenses are translated at average exchange rates for each quarter in accordance with ASC 830, *Foreign Currency Matters*. Resulting translation adjustments are reflected in the "accumulated other comprehensive items" (AOCI) component of stockholders' equity (see [Note 14](#), Accumulated Other Comprehensive Items). Foreign currency transaction gains and losses are included in the accompanying consolidated statement of income and are not material in the three years presented.

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based awards granted to employees and directors based on the grant date estimate of fair value for those awards. The fair value of RSUs is based on the grant date price of the Company's common stock, reduced by the present value of estimated dividends foregone during the requisite service period. For time-based RSUs, compensation expense is recognized ratably over the requisite service period for the entire award based on the grant date fair value, and net of actual forfeitures recorded when they occur. For performance-based RSUs, compensation expense is recognized ratably over the requisite service period for each separately vesting portion of

Notes to Consolidated Financial Statements

the award based on the grant date fair value, net of actual forfeitures recorded when they occur, and remeasured each reporting period until the total number of RSUs to be issued is known. Compensation expense related to any modified stock-based awards is based on the fair value for those awards as of the modification date with any remaining incremental compensation expense recognized ratably over the remaining requisite service period.

Derivatives

The Company uses derivative instruments primarily to reduce its exposure to changes in currency exchange rates and interest rates. When the Company enters into a derivative contract, the Company makes a determination as to whether the transaction is deemed to be a hedge for accounting purposes. If a contract is deemed a hedge, the Company formally documents the relationship between the derivative instrument and the risk being hedged. In this documentation, the Company specifically identifies the asset, liability, forecasted transaction, cash flow, or net investment that has been designated as the hedged item, and evaluates whether the derivative instrument is expected to reduce the risks associated with the hedged item. To the extent these criteria are not met, the Company does not use hedge accounting for the derivative. The change in the fair value of a derivative not deemed to be a hedge is recorded currently in earnings. The Company does not hold or engage in transactions involving derivative instruments for purposes other than risk management.

ASC 815, *Derivatives and Hedging*, requires that all derivatives be recognized on the consolidated balance sheet at fair value. For derivatives designated as cash flow hedges, the related gains or losses on these contracts are deferred as a component of AOCI. These deferred gains and losses are recognized in the consolidated statement of income in the period in which the underlying anticipated transaction occurs. For derivatives designated as fair value hedges, the unrealized gains and losses resulting from the impact of currency exchange rate movements are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposures being hedged. The Company performs an evaluation of the effectiveness of the hedge both at inception and on an ongoing basis. The ineffective portion of a hedge, if any, and changes in the fair value of a derivative not deemed to be a hedge, are recorded in the accompanying consolidated statement of income.

Recent Accounting Pronouncements Not Yet Adopted

Business Combinations - Joint Venture Formations (Topic 805), Recognition and Initiation Measurement. In August 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-05, to address the diversity in practice on the accounting treatment of joint venture formations. Under this ASU, a joint venture is required to apply a new basis of accounting at its formation date by valuing the net assets contributed at fair value for both business and asset transactions. The value of the net assets in total is then allocated to individual assets and liabilities by applying Topic 805 with certain exceptions. This new guidance is effective for joint ventures with a formation date on or after January 1, 2025 and is required to be applied prospectively. Additionally, joint ventures with a formation date prior to January 1, 2025 have an option to elect to apply the guidance retrospectively, provided adequate information is available. The impact of the adoption of this ASU on the Company's consolidated financial statements will be dependent upon joint ventures formed in future periods.

Segment Reporting - Improving Reportable Segment Disclosures (Topic 280). In November 2023, the FASB issued ASU No. 2023-07, to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant expenses. Under this ASU, a company is required to enhance its segment disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker (CODM), a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the CODM when deciding how to allocate resources. This ASU also requires all annual disclosures currently required by Topic 280 to be included in interim periods. This ASU is effective for the Company's fiscal year ending December 28, 2024, and interim periods beginning in fiscal 2025, with early adoption permitted and requires retrospective application to all prior periods presented in the financial statements. The Company is currently evaluating the effects that the adoption of this ASU will have on its consolidated financial statements.

Income Taxes - Improvements to Income Tax Disclosures (Topic 740). In December 2023, the FASB issued ASU No. 2023-09, to improve income tax disclosure requirements, primarily through enhanced disclosures related to the income tax rate reconciliation and income taxes paid. This ASU is effective for fiscal 2025, with early adoption permitted and may be applied retrospectively. The Company is currently evaluating the effects that the adoption of this ASU will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

2. Acquisitions*2023*

On December 19, 2023, the Company acquired a business in Sweden, which is included in the Company's Industrial Processing segment, for approximately \$895,000, net of cash acquired.

2022

On November 14, 2022, the Company acquired a business in Canada, which is included in the Company's Material Handling segment, for approximately \$3,622,000, net of cash acquired.

2021

In the third quarter of 2021, the Company acquired all partnership interests and shares in Clouth, for \$92,864,000, net of cash acquired plus debt assumed. The majority of the Clouth companies were acquired on July 19, 2021 and the acquisition of the last legal entity occurred on August 10, 2021, which the Company accounted for as a noncontrolling interest during the period from July 19, 2021 to August 10, 2021. The Company funded the purchase price with euro-denominated borrowings under its revolving credit facility and existing cash. Clouth, which is included in the Company's Flow Control segment, is a leading manufacturer of doctor blades and related equipment used in the production of paper, packaging, and tissue. Clouth has three manufacturing facilities in Germany and one in Poland. Goodwill from the Clouth acquisition was \$25,773,000, of which \$7,116,000 is expected to be deductible for tax purposes over 15 years. In addition, intangible assets acquired were \$34,467,000, of which \$6,444,000 is expected to be deductible for tax purposes over the respective useful lives. For 2021, the Company recorded revenue of \$23,221,000 and an operating loss of \$4,068,000 for Clouth from the date of acquisition, including amortization expense of \$3,481,000 associated with acquired profit in inventory and backlog and \$2,710,000 of acquisition transaction costs.

On August 23, 2021, the Company acquired all the outstanding equity securities in East Chicago Machine Tool Corporation (Balemaster) and certain assets of affiliated companies for \$53,547,000, net of cash acquired. Balemaster, which is included in the Company's Material Handling segment, is a leading U.S. manufacturer of horizontal balers and related equipment used primarily for recycling packaging waste at corrugated box plants and large retail and distribution centers. The Company funded the purchase price with borrowings under its revolving credit facility. Goodwill from the Balemaster acquisition was \$26,334,000, none of which is deductible for tax purposes. In addition, intangible assets acquired were \$28,060,000, none of which is deductible for tax purposes. For 2021, the Company recorded revenue of \$9,038,000 and operating loss of \$641,000 for Balemaster from the date of acquisition, including amortization expense of \$2,042,000 associated with acquired profit in inventory and backlog and \$782,000 of acquisition transaction costs.

In the fourth quarter of 2021, the Company acquired the assets of a business in India, which is included in its Industrial Processing segment, for approximately \$2,882,000.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed and the purchase price for Clouth and the Company's other acquisitions in 2021. Measurement period adjustments in 2022 were not material to the Company's results of operations.

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(In thousands)	Clouth	Other	Total
Net Assets Acquired:			
Cash and Cash Equivalents	\$ 4,923	\$ 3,757	\$ 8,680
Accounts Receivable	6,808	1,641	8,449
Inventories	14,255	5,000	19,255
Property, Plant, and Equipment	24,045	5,143	29,188
Other Assets	6,056	2,922	8,978
Definite-Lived Intangible Assets			
Customer relationships	20,192	23,100	43,292
Product technology	8,915	2,700	11,615
Tradenames	—	1,400	1,400
Other	401	1,560	1,961
Indefinite-Lived Intangible Assets			
Tradenames	4,959	—	4,959
Goodwill	25,773	27,449	53,222
Total assets acquired	116,327	74,672	190,999
Short-term Obligations and Current Maturities of Long-term Obligations			
Accounts Payable	1,393	—	1,393
Long-Term Deferred Income Taxes	1,287	797	2,084
Long-Term Obligations	9,013	6,760	15,773
Other Liabilities	4,244	—	4,244
Total liabilities assumed	8,240	6,929	15,169
Net assets acquired	24,177	14,486	38,663
	\$ 92,150	\$ 60,186	\$ 152,336
Purchase Price:			
Cash Paid	\$ 92,150	\$ 60,186	\$ 152,336

The weighted-average amortization period for Clouth's definite-lived intangible assets is 19 years, including weighted-average amortization periods of 24 years for customer relationships and 10 years for product technology. The weighted-average amortization period for the Company's other 2021 acquisitions' definite-lived intangible assets is 16 years, including weighted-average amortization periods of 17 years for customer relationships, 13 years for product technology, and 16 years for tradenames.

Unaudited Supplemental Pro Forma Information

The following unaudited pro forma information provides the effect of the Company's 2021 acquisition of Clouth as if it had occurred at the beginning of 2020:

(In thousands, except per share amounts)	January 1, 2022
Revenue	\$ 812,016
Net Income Attributable to Kadant	\$ 90,184
Earnings per Share Attributable to Kadant	
Basic	\$ 7.79
Diluted	\$ 7.74

The historical consolidated financial information of the Company and Clouth has been adjusted in the pro forma information above to give effect to pro forma events that are (i) directly attributable to the acquisition and related financing arrangements, (ii) expected to have a continuing impact on the Company, and (iii) factually supportable.

Pro forma results include the following non-recurring pro forma adjustments:

- Pre-tax reversal to cost of revenue of \$3,082,000 in 2021, for the sale of inventory revalued at the date of acquisition.

Notes to Consolidated Financial Statements

- Pre-tax reversal to SG&A expenses of \$2,710,000 in 2021 and \$399,000 in 2021, for acquisition costs and intangible asset amortization related to acquired backlog, respectively.
- Estimated tax effects related to the pro forma adjustments.

These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that would have resulted had the acquisition of Clouth occurred as of the beginning of 2020, or that may result in the future.

The Company's pro forma results exclude the Company's other acquisitions in 2021 as the inclusion of those results would not have been materially different from the pro forma results presented above had the acquisitions occurred at the beginning of 2020.

3. Employee Benefit Plans

Stock-Based Compensation Plans

The Company maintains stock-based compensation plans primarily for its key employees and directors, although the plans permit awards to others expected to make significant contributions to the future of the Company. The plans authorize the compensation committee of the Company's board of directors (the board committee) to award a variety of stock and stock-based incentives, such as restricted stock, RSUs, nonqualified and incentive stock options, stock bonus shares, or performance-based shares. The award recipients and the terms of awards granted under these plans are determined by the board committee. Upon a change of control, as defined in the plans, all options or other awards become fully vested and all restrictions lapse. The Company had 281,708 shares available for grant under these stock-based compensation plans at year-end 2023. The Company generally issues its common stock out of treasury stock, to the extent available, for share issuances related to its stock-based compensation plans.

The Company recognizes compensation cost for all stock-based awards granted to employees and directors based on the grant date estimate of fair value for those awards. The fair value of RSUs is based on the grant date price of the Company's common stock, reduced by the present value of estimated dividends foregone during the requisite service period.

The components of pre-tax stock-based compensation expense included in SG&A expenses in the accompanying consolidated statement of income are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
RSU Awards	\$ 9,376	\$ 8,222	\$ 8,224
Employee Stock Purchase Plan Awards	389	354	303
Total	\$ 9,765	\$ 8,576	\$ 8,527

The Company grants RSUs to non-employee directors and certain employees. Holders of RSUs have no voting rights and are not entitled to receive cash dividends.

Non-Employee Director Restricted Stock Units

The Company granted RSU awards consisting of 868 RSUs in 2023, 941 RSUs in 2022 and 1,009 RSUs in 2021 to each of its incumbent non-employee directors. Half of the RSUs vested on June 1 of each year and the remaining RSUs vested ratably on the last day of the third and fourth fiscal quarters of each year. In addition, the Company granted RSU awards consisting of 470 RSUs in May 2022, which vested ratably on the last day of the third and fourth fiscal quarters of 2022, to its then new non-employee director. Each RSU issued to the directors represents the right to receive one share of the Company's common stock upon vesting.

Performance-Based Restricted Stock Units

The Company grants performance-based RSUs to certain officers of the Company. Each performance-based RSU represents the right to receive one share of the Company's common stock upon vesting. The RSUs are subject to adjustment based on the achievement of a performance measure selected for the fiscal year, which historically has been a specified target for adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA) generated from operations. Following the adjustment, the RSUs are subject to additional time-based vesting, and vest in three equal annual installments, provided that the officer is employed by the Company on the applicable vesting dates.

Notes to Consolidated Financial Statements

The Company recognizes compensation expense associated with performance-based RSUs ratably over the requisite service period for each separately vesting portion of the award based on the grant date fair value, net of actual forfeitures recorded when they occur, and remeasured each reporting period until the total number of RSUs to be issued is known. Unrecognized compensation expense related to the unvested performance-based RSUs totaled \$3,693,000 at year-end 2023, and will be recognized over a weighted average period of 1.4 years.

The performance-based RSU agreements provide for forfeiture in certain events, such as voluntary or involuntary termination of employment, and for acceleration of vesting in certain events, such as death, disability or a change in control of the Company. If death, disability, or a change in control occurs prior to the end of the performance period, the officer will receive the target RSU amount; otherwise, the officer will receive the number of deliverable RSUs based on the achievement of the performance goal, as stated in the RSU agreements.

Time-Based Restricted Stock Units

The Company grants time-based RSUs to its officers and other employees of the Company. Each time-based RSU represents the right to receive one share of the Company's common stock upon vesting. The Company recognizes compensation expense associated with these time-based RSUs ratably over the requisite service period for the entire award based on the grant date fair value, and net of actual forfeitures recorded when they occur. The time-based RSU agreement provides for forfeiture in certain events, such as voluntary or involuntary termination of employment, and for acceleration of vesting in certain events, such as death, disability, or a change in control of the Company. Unrecognized compensation expense related to the time-based RSUs totaled \$3,954,000 at year-end 2023, and will be recognized over a weighted average period of 1.8 years.

Vesting of Restricted Stock Units

A summary of the activity of the Company's unvested RSUs in 2023 is as follows:

(In thousands, except per share amounts)	Units	Weighted Average Grant- Date Fair Value
Unvested RSUs at December 31, 2022	85	\$ 153.98
Granted	51	\$ 212.92
Vested	(52)	\$ 149.62
Forfeited	(1)	\$ 183.85
Unvested RSUs at December 30, 2023	<u>83</u>	<u>\$ 192.42</u>

The weighted average grant date fair value of RSUs granted was \$212.92 in 2023, \$170.76 in 2022, and \$174.52 in 2021. The total fair value of shares vested was \$7,834,000 in 2023, \$8,337,000 in 2022, and \$5,892,000 in 2021.

Stock Options

The Company has not granted stock options since 2013. Prior to 2014, the Company granted nonqualified stock options to its executive officers that vested over three years and were not exercisable until vested. Options awarded were granted at an exercise price equal to the fair market value of the Company's common stock on the date of grant. There were no stock options outstanding at year-end 2023, 2022 and 2021 as all remaining stock options were exercised prior to the end of 2021. The total intrinsic value of options exercised and total cash received from options exercised during the year ended January 1, 2022 were \$4,986,000 and \$665,000, respectively.

Employee Stock Purchase Plan

The Company's eligible U.S. employees may elect to participate in its employee stock purchase plan. Under the plan, shares of the Company's common stock may be purchased at a 15% discount from the fair market value at the beginning or end of the purchase period, whichever is lower. Shares purchased under the plan are subject to a one-year resale restriction and are purchased through payroll deductions of up to 10% of each participating employee's gross wages. The Company issued 10,627 shares for 2023 (issued in fiscal 2024), 9,111 shares in 2022, and 10,230 shares in 2021 of its common stock under this plan. The Company had 82,532 shares available for grant under the employee stock purchase plan at year-end 2023.

Notes to Consolidated Financial Statements
401(k) Savings and Other Defined Contribution Plans

The Company's U.S. subsidiaries participate in the Kadant Inc. 401(k) Retirement Savings Plan sponsored by the Company. Contributions to the plan are made by both the employee and the Company and are immediately vested. Company contributions are based upon the level of employee contributions.

Certain of the Company's subsidiaries offer other retirement plans, the majority of which are defined contribution plans. Company contributions to these plans are based on formulas determined by the Company. For these plans, the Company contributed and charged to expense \$5,607,000 in 2023, \$5,151,000 in 2022, and \$4,706,000 in 2021.

Pension and Other Post-Retirement Defined Benefits Plans

The Company sponsors pension and other post-retirement defined benefit plans covering employees at certain U.S. and foreign subsidiaries.

In accordance with ASC 715, *Compensation-Retirement Benefits*, the Company recognizes the funded status of its plans as an asset or liability and changes in the funded status through AOCI, net of tax, in the accompanying consolidated balance sheet. The amounts in AOCI are recognized as net periodic benefit cost pursuant to the Company's accounting policy for amortizing such amounts. Actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost will be recognized as a component of AOCI, net of tax.

The Company records the non-service component of net periodic pension cost in other expense, net in the accompanying consolidated statement of income. The disclosure requirements related to the Company's defined benefit plans are not material for the fiscal years presented.

4. Stockholders' Equity
Preferred Stock

The Company's Certificate of Incorporation authorizes up to 5,000,000 shares of preferred stock, \$.01 par value per share, for issuance by the Company's board of directors without further shareholder approval.

Common Stock

At year-end 2023, the Company had reserved 447,094 unissued shares of its common stock for possible issuance under its stock-based compensation plans.

5. Income Taxes

The components of income before provision for income taxes are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Domestic	\$ 57,810	\$ 46,558	\$ 26,599
Foreign	101,206	119,078	85,453
	<u>\$ 159,016</u>	<u>\$ 165,636</u>	<u>\$ 112,052</u>

The components of the provision for income taxes are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Current Provision:			
Federal	\$ 12,402	\$ 8,738	\$ 2,173
Foreign	28,587	26,032	25,512
State	3,170	1,977	870
	<u>44,159</u>	<u>36,747</u>	<u>28,555</u>
Deferred Provision (Benefit):			
Federal	48	1,970	1,823
Foreign	(2,594)	4,233	(3,430)
State	597	956	223
	<u>(1,949)</u>	<u>7,159</u>	<u>(1,384)</u>
	<u>\$ 42,210</u>	<u>\$ 43,906</u>	<u>\$ 27,171</u>

Notes to Consolidated Financial Statements

The Company receives a tax deduction upon the exercise of nonqualified stock options and the vesting of RSUs. The Company recognizes excess income tax benefits and tax deficiencies related to stock-based compensation arrangements as discrete items within the provision for income taxes in the reporting period in which they occur. The Company recognized an income tax benefit of \$354,000 in 2023, \$501,000 in 2022 and \$1,808,000 in 2021 in the accompanying consolidated statement of income.

The provision for income taxes in the accompanying consolidated statement of income differs from the provision calculated by applying the statutory federal income tax rate of 21% to income before provision for income taxes due to the following:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Provision for Income Taxes at Statutory Rate	\$ 33,393	\$ 34,784	\$ 23,531
Increases (Decreases) Resulting From:			
Foreign tax rate differential	5,070	5,770	2,819
State income taxes, net of federal income tax	2,965	2,316	863
Nondeductible expenses	1,730	2,683	1,673
U.S. tax cost of foreign earnings	1,270	932	481
Provision for (reversal of) tax benefit reserves, net	386	(1,368)	(444)
Research and development tax credits	(520)	(425)	(454)
Excess tax benefit related to stock-based compensation	(276)	(377)	(1,525)
Change in valuation allowance	(684)	318	(31)
Other	(1,124)	(727)	258
	<u>\$ 42,210</u>	<u>\$ 43,906</u>	<u>\$ 27,171</u>

The Company's net deferred tax liability consists of the following:

(In thousands)	December 30, 2023	December 31, 2022
Deferred Tax Asset:		
Net operating loss carryforwards	\$ 11,300	\$ 13,057
Lease liabilities	6,820	6,031
Inventory basis difference	5,417	4,118
Employee compensation	4,690	3,697
Capitalized research expenses	4,159	3,398
Reserves and accruals	2,581	1,949
Allowance for credit losses	776	673
Foreign, state, and alternative minimum tax credit carryforwards	490	490
Other	214	122
Deferred tax asset, gross	36,447	33,535
Less: valuation allowance	(7,829)	(8,983)
Deferred tax asset, net	<u>28,618</u>	<u>24,552</u>
Deferred Tax Liability:		
Goodwill and intangible assets	(41,116)	(41,129)
Fixed asset basis difference	(11,764)	(11,438)
ROU assets	(5,969)	(5,145)
Provision for unremitted foreign earnings	(1,153)	(783)
Other	(2,361)	(1,976)
Deferred tax liability	<u>(62,363)</u>	<u>(60,471)</u>
Net deferred tax liability	<u>\$ (33,745)</u>	<u>\$ (35,919)</u>

Deferred tax assets and liabilities are presented in the accompanying consolidated balance sheet within other assets and long-term deferred income taxes on a net basis by tax jurisdiction. The Company has established valuation allowances related to certain domestic and foreign deferred tax assets on deductible temporary differences, tax losses, and tax credit carryforwards. The valuation allowance at year-end 2023 was \$7,829,000, consisting of \$68,000 in the United States and \$7,761,000 in foreign jurisdictions. The decrease in the valuation allowance in 2023 of \$1,154,000 is related primarily to utilization of net operating losses and a decrease in unbenefited deferred tax assets from a restructuring,

Notes to Consolidated Financial Statements

partially offset by fluctuations in foreign currency exchange rates. Compliance with ASC 740 requires the Company to periodically evaluate the necessity of establishing or adjusting a valuation allowance for deferred tax assets depending on whether it is more likely than not that a related tax benefit will be realized in future periods. When assessing the need for a valuation allowance in a tax jurisdiction, the Company evaluates the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As part of this evaluation, the Company considers its cumulative three-year history of earnings before income taxes, taxable income in prior carryback years, future reversals of existing taxable temporary differences, prudent and feasible tax planning strategies, and expected future results of operations. As of year-end 2023, the Company maintained a valuation allowance in the United States against a portion of its state net operating loss carryforwards in the United States and a valuation allowance in certain foreign jurisdictions due to the uncertainty of future profitability in the state and those foreign jurisdictions.

At year-end 2023, the Company had state net operating loss carryforwards of \$13,683,000 and foreign net operating loss carryforwards of \$46,852,000. The U.S. state net operating loss carryforwards begin to expire in 2024 and a portion does not expire. Of the foreign net operating loss carryforwards, \$965,000 will expire in the years 2025 through 2043, and the remainder do not expire. As of year-end 2023, the Company also had state disallowed business interest expense carryforwards of \$71,000 and foreign tax credits of \$382,000, of which \$120,000 came from the acquisition of Syntron Material Handling Group, LLC and certain of its affiliates in 2019. The disallowed business interest expense carryforward does not expire, and the foreign tax credit carryforward begins to expire in 2024. The utilization of these tax attributes is limited to the Company's future taxable income.

At year-end 2023, the Company had approximately \$284,980,000 of unremitted foreign earnings. During 2023, the Company repatriated \$27,957,000 of previously taxed foreign earnings to the United States and recognized a foreign exchange loss of \$1,211,000 associated with these earnings. The Company intends to repatriate the distributable reserves of select foreign subsidiaries back to the United States and has recognized \$653,000 of tax expense on the estimated repatriation amount during 2023. Except for these select foreign subsidiaries, the Company intends to indefinitely reinvest \$253,469,000 of earnings of its foreign subsidiaries in order to support the current and future capital needs of their operations, including the repayment of the Company's foreign debt. The related foreign withholding taxes, which would be required if the Company were to remit these foreign earnings to the United States, would be approximately \$5,190,000.

The Company operates within multiple tax jurisdictions and could be subject to audit in those jurisdictions. Such audits can involve complex income tax issues, which may require an extended period of time to resolve and may cover multiple years. In management's opinion, adequate provisions for income taxes have been made for all years subject to audit.

As of year-end 2023, the Company had a liability of \$11,212,000 for unrecognized tax benefits which, if recognized, would reduce the effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In thousands)	December 30, 2023	December 31, 2022
Unrecognized Tax Benefits, Beginning of Year	\$ 10,354	\$ 9,731
Gross Increases—Tax Positions in Prior Periods	44	2,116
Gross Decreases—Tax Positions in Prior Periods	(37)	(138)
Gross Increases—Current-Period Tax Positions	1,589	1,260
Settlements	(130)	—
Lapses of Statutes of Limitations	(749)	(2,251)
Currency Translation	141	(364)
Unrecognized Tax Benefits, End of Year	<u>\$ 11,212</u>	<u>\$ 10,354</u>

A portion of the unrecognized tax benefits generated in 2023 is offset by deferred tax assets in the accompanying consolidated balance sheet. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company has accrued \$2,017,000 at year-end 2023 and \$1,806,000 at year-end 2022 for the potential payment of interest and penalties. The interest and penalties included in the accompanying consolidated statement of income was an expense of \$120,000 in 2023 and a benefit of \$333,000 in 2022.

The Company is currently under audit in certain of its foreign tax jurisdictions. During 2021, the Company finalized its examination with the Internal Revenue Service for the tax years 2017 and 2018 with no material adjustments. It is reasonably possible that over the next fiscal year the amount of liability for unrecognized tax benefits may be reduced by up to \$413,000 primarily from the expiration of tax statutes of limitations.

Notes to Consolidated Financial Statements

The Company remains subject to U.S. federal income tax examinations for the tax years 2019 through 2023, and to non-U.S. income tax examinations for the tax years 2015 through 2023. In addition, the Company remains subject to state and local income tax examinations in the United States for the tax years 2003 through 2023.

6. Short- and Long-Term Obligations

Short- and long-term obligations are as follows:

(In thousands)	December 30, 2023	December 31, 2022
Revolving Credit Facility, due 2027	\$ 98,761	\$ 186,131
Senior Promissory Notes, due 2024 to 2028	8,330	10,000
Finance Leases, due 2024 to 2026	1,789	1,940
Other Borrowings, due 2024 to 2028	1,995	3,090
Total	110,875	201,161
Less: Short-Term Obligations and Current Maturities of Long-Term Obligations	(3,209)	(3,821)
Long-Term Obligations	<u>\$ 107,666</u>	<u>\$ 197,340</u>

See [Note 11](#), Fair Value Measurements and Fair Value of Financial Instruments, for the fair value information related to the Company's long-term obligations.

Revolving Credit Facility

On November 30, 2022, the Company entered into a sixth amendment to its unsecured multi-currency revolving credit facility, originally entered into on March 1, 2017 (as amended and restated to date, the Credit Agreement). Among other things, this amendment extended the maturity date to November 30, 2027, and increased the uncommitted, unsecured incremental borrowing facility from \$150,000,000 to \$200,000,000. Pursuant to the Credit Agreement, the Company has a borrowing capacity of \$400,000,000 and interest on borrowings outstanding accrues and is payable in arrears calculated at one of the following rates selected by the Company: (i) the Base Rate, as defined, plus a margin of 0% to 1.25%, or (ii) Eurocurrency Rate, Term SOFR (plus a 10 basis point credit spread adjustment), CDOR Rate, and RFR, as applicable and defined, plus a margin of 1.0% to 2.25%. The margin is determined based upon the ratio of the Company's total debt, net of unrestricted cash up to \$50,000,000, to earnings before interest, taxes, depreciation, and amortization as defined in the Credit Agreement. Additionally, the Credit Agreement requires the payment of a commitment fee payable in arrears on the available borrowing capacity under the Credit Agreement, which ranges from 0.125% to 0.350%.

Obligations under the Credit Agreement may be accelerated upon the occurrence of an event of default, which includes customary events of default under such financing arrangements. In addition, the Credit Agreement contains negative covenants applicable to the Company and its subsidiaries, including financial covenants requiring the Company to maintain a maximum consolidated leverage ratio of 3.75 to 1.00, or, if the Company elects, for the quarter during which a material acquisition occurs and for the three fiscal quarters thereafter, 4.25 to 1.00, and limitations on making certain restricted payments (including dividends and stock repurchases).

Loans under the Credit Agreement are guaranteed by certain domestic subsidiaries of the Company.

At year-end 2023, the outstanding balance under the Credit Agreement was \$98,761,000, which included \$75,761,000 of euro-denominated borrowings primarily used to fund the Company's acquisitions in 2021. The Company had \$301,143,000 of borrowing capacity available at year-end 2023, which was calculated by translating its foreign-denominated borrowings using the administrative agent's borrowing date foreign exchange rates, in addition to the \$200,000,000 uncommitted, unsecured incremental borrowing facility.

The weighted average interest rate for the outstanding balance under the Credit Agreement was 5.24% as of year-end 2023 and 4.33% as of year-end 2022.

See [Note 10](#), Derivatives, under the heading *Interest Rate Swap Agreement*, for information relating to the Company's swap agreement, which matured on June 30, 2023.

Senior Promissory Notes

In 2018, the Company entered into an uncommitted, unsecured Multi-Currency Note Purchase and Private Shelf Agreement (Note Purchase Agreement). Simultaneous with the execution of the Note Purchase Agreement, the Company issued senior promissory notes (Initial Notes) in an aggregate principal amount of \$10,000,000, with a per annum interest rate of 4.90% payable semiannually, and a maturity date of December 14, 2028. The Company is required to prepay a

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portion of the principal of the Initial Notes beginning on December 14, 2023 and each year thereafter, and may optionally prepay the principal on the Initial Notes, together with any prepayment premium, at any time in accordance with the Note Purchase Agreement. The obligations of the Initial Notes may be accelerated upon an event of default as defined in the Note Purchase Agreement, which includes customary events of default under such financing arrangements.

The Initial Notes are *pari passu* with the Company's indebtedness under the Credit Agreement, and any other senior debt, subject to certain specified exceptions, and participate in a sharing agreement with respect to the obligations of the Company and its subsidiaries under the Credit Agreement. The Initial Notes are guaranteed by certain of the Company's domestic subsidiaries.

Debt Compliance

At year-end 2023, the Company was in compliance with the covenants related to its debt obligations.

Finance Leases

The Company's finance leases primarily relate to contracts for vehicles. See [Note 9](#), Leases, for further information relating to the Company's finance leases.

Other Borrowings

At year-end 2023, other borrowings included \$556,000 of short-term obligations and \$1,439,000 of long-term debt obligations outstanding assumed in the acquisition of Clouth, which have maturity dates ranging from 2026 to 2028 and interest rates of up to 1.70%.

Annual Repayment Requirements

The following schedule presents the annual repayment requirements for the Company's short-and long-term obligations, excluding finance leases, as of year-end 2023.

(In thousands)	Total
2024	\$ 2,226
2025	2,229
2026	2,119
2027	100,770
2028	1,742
	\$ 109,086

7. Commitments and Contingencies

Letters of Credit and Bank Guarantees

Outstanding letters of credit and bank guarantees issued on behalf of the Company, principally relating to performance obligations and customer deposit guarantees, totaled \$23,403,000 at year-end 2023. Certain of the Company's contracts require the Company to provide a standby letter of credit or bank guarantee to a customer as beneficiary, limited in amount to a negotiated percentage of the total contract value, in order to guarantee warranty and performance obligations of the Company under the contract. Typically, these standby letters of credit and bank guarantees expire without being drawn by the beneficiary.

Right of Recourse

In the ordinary course of business, the Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are non-interest-bearing obligations of the issuing bank and generally mature within six months of the origination date. The Company's Chinese subsidiaries may use these banker's acceptance drafts prior to the scheduled maturity date to settle outstanding accounts payable with vendors. Banker's acceptance drafts transferred to vendors are subject to customary right of recourse provisions prior to their scheduled maturity dates. The Company had \$9,090,000 at year-end 2023 and \$11,238,000 at year-end 2022 of banker's acceptance drafts subject to recourse, which were transferred to vendors and had not reached their scheduled maturity dates. Historically, the banker's acceptance drafts have settled upon maturity without any claim of recourse against the Company.

Notes to Consolidated Financial Statements
Contingencies

In the ordinary course of business, the Company is, at times, required to issue limited performance guarantees, some of which do not require the issuance of letters of credit to customers in support of these guarantees, relating to its equipment and systems. The Company generally limits its liability under these guarantees to amounts typically capped at 10% or less of the value of the contract. The Company believes that it has adequate reserves for any potential liability in connection with such guarantees.

Litigation

From time to time, the Company is subject to various claims and legal proceedings covering a range of matters that arise in the ordinary course of business. Such litigation may include, but is not limited to, claims and counterclaims by and against the Company for breach of contract or warranty, canceled contracts, product liability, or bankruptcy-related claims. For legal proceedings in which a loss is probable and estimable, the Company accrues a loss based on the low end of the range of estimated loss when there is no better estimate within the range. If the Company were found to be liable for any of the claims or counterclaims against it, the Company would incur a charge against earnings for amounts in excess of legal accruals.

8. Gain on Sale and Other Items, Net

The components of gain on sale and other items, net are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Gain on Sale of Assets	\$ —	\$ (20,190)	\$ (515)
Other Income	(841)	—	—
Relocation Costs	798	—	—
Restructuring Costs	730	603	176
Impairment Costs	36	731	804
	<u>\$ 723</u>	<u>\$ (18,856)</u>	<u>\$ 465</u>

Gain on Sale of Assets

The Company entered into several agreements with the local government in China to sell its then existing manufacturing building and land use rights at one of its subsidiaries in China for \$25,159,000 and relocate to a new facility (China Transaction). The agreements became effective in the first quarter of 2022 after a 31% down payment was received, including 25% in 2021 and 6% in the first quarter of 2022, and a land use right in a new location was secured. As a result, the Company recognized a gain on the China Transaction of \$20,190,000, or \$15,143,000, net of deferred taxes of \$5,047,000, in the first quarter of 2022. A receivable of \$16,082,000 was recognized for the present value of the remaining amount of the sale proceeds, which is due the earlier of when the government sells the property or within two years from the effective date of the agreements. The subsidiary, which is part of the Industrial Processing segment, relocated to its new facility during the third quarter of 2023.

A summary of the change in the outstanding receivable on the China Transaction is as follows:

(In thousands)	Total
Balance at Inception	\$ 17,294
Present value discount	(1,212)
Receivable recorded, net	16,082
Accretion of interest income	422
Currency translation	(1,323)
Balance at December 31, 2022 <i>(included in other assets)</i>	15,181
Accretion of interest income	545
Currency translation	(316)
Balance at December 30, 2023 <i>(included in other current assets)</i>	<u>\$ 15,410</u>

In 2021, gain on sale of assets included \$515,000 related to a gain on the sale of a building in Theodore, Alabama, within the Company's Industrial Processing segment for net cash proceeds of \$1,634,000. The building was vacated as part

Notes to Consolidated Financial Statements

of the Company's 2017 restructuring plan to consolidate three of its stock-preparation operations into a single new facility, which was completed in 2018.

Other Items, Net
Other Income and Relocation Costs

In 2023, in connection with the China Transaction, the Company recognized income of \$841,000 from outsourcing the demolition and cleanup of the then existing manufacturing building in China and sale of the remaining fixed assets. In addition, the Company incurred costs of \$798,000 related to the relocation of machinery and equipment and administrative offices to the new manufacturing facility.

Restructuring and Impairment Costs

The Company's restructuring plans within its Flow Control Segment are as follows:

2023 Restructuring Plans

- The Company incurred restructuring and impairment costs of \$400,000 in 2023 related to consolidating a small manufacturing operation into a larger facility in Germany. These charges consisted of severance costs of \$335,000 for the termination of 10 employees, facility and other closure costs of \$29,000, and asset-write downs of \$36,000.
- The Company incurred restructuring costs of \$366,000 related to the termination of a contract at one of its operations in Germany.

The Company does not expect to incur additional costs related to its 2023 restructuring plans.

2021 Restructuring Plan

- The Company incurred restructuring costs of \$568,000 in 2022 and \$176,000 in 2021 related to its plan to eliminate a redundant ceramic blade manufacturing operation in France. These charges consisted of severance costs for the termination of five employees and facility and other closure costs. During 2021, the Company also recorded asset impairment charges of \$499,000 for the write-down of an intangible asset, \$226,000 for the write-down of certain machinery and equipment, and \$79,000 for the write-down of a ROU asset.

The Company also recorded restructuring costs of \$35,000 and impairment costs of \$731,000 within its Industrial Processing segment during 2022. The impairment costs included \$549,000 primarily related to the write-down of inventory from the Company's operations in Russia and \$182,000 related to the write-down of certain fixed assets that were not moved to the new manufacturing facility in China as part of the China Transaction.

A summary of the changes in accrued restructuring costs included in other current liabilities in the accompanying consolidated balance sheet, which are expected to be paid in the first half 2024, are as follows:

<u>(In thousands)</u>	<u>Severance Costs</u>	<u>Contract Termination Costs</u>	<u>Facility and Other Closure Costs</u>	<u>Total</u>
2023 Restructuring Plans				
Provision	\$ 335	\$ 366	\$ 29	\$ 730
Usage	(138)	(63)	(29)	(230)
Currency translation	4	10	—	14
Balance at December 30, 2023	<u>\$ 201</u>	<u>\$ 313</u>	<u>\$ —</u>	<u>\$ 514</u>
2021 Restructuring Plan				
Provision	\$ 176	\$ —	\$ —	\$ 176
Usage	(19)	—	—	(19)
Currency translation	(1)	—	—	(1)
Balance at January 1, 2022	156	—	—	156
Provision	205	—	398	603
Usage	(159)	—	(231)	(390)
Currency translation	(13)	—	33	20
Balance at December 31, 2022	189	—	200	389
Usage	(187)	—	(199)	(386)
Currency translation	(2)	—	(1)	(3)
Balance at December 30, 2023	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Notes to Consolidated Financial Statements
9. Leases

The Company enters into operating and finance lease commitments primarily for its manufacturing and office space, vehicles, and equipment that expire on various dates over the next 11 years, some of which include one or more options to extend the lease for up to five years. In addition, the Company leases land associated with certain of its buildings in Canada and China under long-term leases expiring in 2032 to 2071. The lease in Canada also includes an assumed option to extend the term for up to 10 years.

The components of lease expense are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Operating Lease Cost (a)	\$ 6,355	\$ 5,870	\$ 5,895
Short-Term Lease Cost	698	697	674
Finance Lease Cost:			
ROU asset amortization	1,103	1,026	1,045
Interest on lease liabilities	74	52	46
Total Finance Lease Cost	1,177	1,078	1,091
Total Lease Costs	\$ 8,230	\$ 7,645	\$ 7,660

(a) Includes variable lease costs of \$961,000 in 2023, \$478,000 in 2022, and \$670,000 in 2021.

Supplemental cash flow information related to leases is as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating cash flows from operating leases	\$ 6,475	\$ 6,159	\$ 12,474
Operating cash flows from finance leases	74	51	46
Financing cash flows from finance leases	\$ 1,100	\$ 1,002	\$ 1,044
ROU Assets Obtained in Exchange for Lease Obligations:			
Operating leases	\$ 8,120	\$ 4,002	\$ 7,247
Finance leases	989	1,468	1,147

Supplemental balance sheet information related to leases is as follows:

(In thousands)	Balance Sheet Line Item	December 30, 2023	December 31, 2022
Operating Leases:			
ROU assets	Other assets	25,129	22,642
Total operating lease assets		\$ 25,129	\$ 22,642
Short-term liabilities	Other current liabilities	\$ 5,389	\$ 4,458
Long-term liabilities	Other long-term liabilities	19,350	17,817
Total operating lease liabilities		\$ 24,739	\$ 22,275
Finance Leases:			
ROU assets, at cost	Property, plant, and equipment, at cost	\$ 4,037	\$ 3,901
ROU assets accumulated amortization	Accumulated depreciation and amortization	(2,288)	(1,994)
ROU assets, net		\$ 1,749	\$ 1,907
Short-term obligations	Short-term obligations and current maturities of long-term obligations	\$ 983	\$ 981
Long-term obligations	Long-term obligations	806	959
Total finance lease liabilities		\$ 1,789	\$ 1,940

Notes to Consolidated Financial Statements

	December 30, 2023	December 31, 2022
Weighted Average Remaining Lease Term (in years):		
Operating leases	6.8	8.0
Finance leases	2.0	2.2
Weighted Average Discount Rate:		
Operating leases	4.08 %	3.88 %
Finance leases	4.71 %	3.79 %

As of December 30, 2023, future lease payments for lease liabilities are as follows:

(In thousands)	Operating Leases	Finance Leases
2024	\$ 6,282	\$ 1,043
2025	4,982	646
2026	3,986	185
2027	3,309	—
2028	2,093	—
2029 and Thereafter	7,829	—
Total Future Lease Payments	28,481	1,874
Less: Imputed Interest	(3,742)	(85)
Present Value of Lease Payments	<u>\$ 24,739</u>	<u>\$ 1,789</u>

As of December 30, 2023, the Company had no significant operating and finance leases that had not yet commenced.

10. Derivatives
Interest Rate Swap Agreement

In 2018, the Company entered into an interest rate swap agreement (2018 Swap Agreement) with Citizens Bank to hedge its exposure to movements in USD LIBOR on its U.S. dollar-denominated debt. The 2018 Swap Agreement, which had a \$15,000,000 notional value, matured on June 30, 2023. Prior to the maturity of the 2018 Swap Agreement, on a quarterly basis, the Company received three-month USD LIBOR, which was subject to a zero percent floor, and paid a fixed rate of interest of 3.15% plus an applicable margin as defined in the Credit Agreement.

The Company had designated its 2018 Swap Agreement as a cash flow hedge and structured it to be 100% effective. Unrealized gains and losses related to the fair value of the 2018 Swap Agreement were recorded to AOCI, net of tax.

Forward Currency-Exchange Contracts

The Company uses forward currency-exchange contracts that generally have maturities of twelve months or less to hedge exposures resulting from fluctuations in currency exchange rates. Such exposures result from assets and liabilities that are denominated in currencies other than the functional currencies of the Company's subsidiaries.

Forward currency-exchange contracts that hedge forecasted accounts receivable or accounts payable are designated as cash flow hedges and unrecognized gains and losses are recorded to AOCI, net of tax. Deferred gains and losses are recognized in the statement of income in the period in which the underlying transaction occurs. The fair values of forward currency-exchange contracts that are designated as fair value hedges and forward currency-exchange contracts that are not designated as hedges are recognized currently in earnings.

Gains and losses reported within SG&A expenses in the accompanying consolidated statement of income associated with the Company's forward currency-exchange contracts that were not designated as hedges were not material in 2023, 2022, and 2021.

Notes to Consolidated Financial Statements

The following table summarizes the fair value of derivative instruments in the accompanying consolidated balance sheet:

(In thousands)	Balance Sheet Location	December 30, 2023		December 31, 2022	
		Asset (Liability) (a)	Notional Amount (b)	Asset (Liability) (a)	Notional Amount
Derivatives Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
2018 Swap Agreement	Other Current Assets	\$ —	\$ —	\$ 131	\$ 15,000
Derivatives in a Liability Position:					
Forward currency-exchange contract	Other Current Liabilities	\$ (51)	\$ 430	\$ (54)	\$ 430

Derivatives Not Designated as Hedging Instruments:

Derivatives in an Asset Position:					
Forward currency-exchange contracts	Other Current Assets	\$ 8	\$ 701	\$ 15	\$ 647

(a) See [Note 11](#), Fair Value Measurements and Fair Value of Financial Instruments, for the fair value measurements relating to these financial instruments.

(b) The year-end 2023 notional amounts are indicative of the level of the Company's recurring derivative activity during the year.

The following table summarizes the activity in AOCI associated with the Company's derivative instruments designated as cash flow hedges as of and for the year ended December 30, 2023:

(In thousands)	Interest Rate Swap Agreement	Forward Currency-Exchange Contract	Total
Unrealized Gain (Loss), Net of Tax, at December 31, 2022	\$ 99	\$ (41)	\$ 58
Gain reclassified to earnings (a)	(99)	—	(99)
Gain recognized in AOCI	—	3	3
Unrealized Loss, Net of Tax, at December 30, 2023	\$ —	\$ (38)	\$ (38)

(a) See [Note 14](#), Accumulated Other Comprehensive Items, for the income statement classification.

At year-end 2023, the Company expects to reclassify losses of \$38,000 from AOCI to earnings over the next twelve months based on the maturity date of the forward currency-exchange contract.

11. Fair Value Measurements and Fair Value of Financial Instruments

Fair value measurement is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

A fair value hierarchy is established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
- Level 3—Unobservable inputs based on the Company's own assumptions.

Notes to Consolidated Financial Statements

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

(In thousands)	Fair Value as of December 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	\$ 14,795	\$ —	\$ —	\$ 14,795
Banker's acceptance drafts (a)	\$ —	\$ 10,826	\$ —	\$ 10,826
Forward currency-exchange contracts	\$ —	\$ 8	\$ —	\$ 8
Liabilities:				
Forward currency-exchange contract	\$ —	\$ 51	\$ —	\$ 51
Fair Value as of December 31, 2022				
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	\$ 8,351	\$ —	\$ —	\$ 8,351
Banker's acceptance drafts (a)	\$ —	\$ 5,729	\$ —	\$ 5,729
2018 Swap Agreement (b)		\$ 131		\$ 131
Forward currency-exchange contracts	\$ —	\$ 15	\$ —	\$ 15
Liabilities:				
Forward currency-exchange contract	\$ —	\$ 54	\$ —	\$ 54

(a) Included in accounts receivable in the accompanying consolidated balance sheet.

(b) The 2018 Swap Agreement matured on June 30, 2023.

The Company uses the market approach technique to value its financial assets and liabilities, and there were no changes in valuation techniques during 2023. Banker's acceptance drafts are carried at face value which approximates their fair value due to the short-term nature of the negotiable instrument. The fair values of the forward currency-exchange contracts are based on quoted forward foreign exchange rates at the reporting date. The fair value of the 2018 Swap Agreement was based on USD LIBOR yield curves at the reporting date. The forward currency-exchange contracts and the 2018 Swap Agreement prior to its maturity were hedges of either recorded assets or liabilities or anticipated transactions and represent the estimated amount the Company would receive or pay upon liquidation of the contracts. Changes in values of the underlying hedged assets and liabilities or anticipated transactions are not reflected in the table above.

The carrying value and fair value of the Company's debt obligations, excluding lease obligations, are as follows:

(In thousands)	December 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt Obligations:				
Revolving credit facility	\$ 98,761	\$ 98,761	\$ 186,131	\$ 186,131
Senior promissory notes	8,330	8,182	10,000	9,773
Other	1,995	1,995	3,090	3,090
	<u>\$ 109,086</u>	<u>\$ 108,938</u>	<u>\$ 199,221</u>	<u>\$ 198,994</u>

The carrying value of the revolving credit facility approximates the fair value as the obligation bears variable rates of interest, which adjust frequently, based on prevailing market rates. The fair values of the senior promissory notes are primarily calculated based on quoted market rates plus an applicable margin available to the Company at the respective period ends, which represent Level 2 measurements.

12. Business Segment and Geographical Information

The Company has combined its operating entities into three reportable operating segments: Flow Control, Industrial Processing, and Material Handling. The Flow Control segment consists of the fluid-handling and doctoring, cleaning, & filtration product lines; the Industrial Processing segment consists of the wood processing and stock-preparation product lines; and the Material Handling segment consists of the conveying and vibratory, baling, and fiber-based product lines. A description of each segment follows.

Notes to Consolidated Financial Statements

- *Flow Control* – Custom-engineered products, systems, and technologies that control the flow of fluids used in industrial and commercial applications to keep critical processes running efficiently in the packaging, tissue, food, metals, and other industrial sectors. The Company's primary products include rotary sealing devices, steam systems, expansion joints, doctor systems, roll and fabric cleaning devices, and filtration and fiber recovery systems.
- *Industrial Processing* – Equipment, machinery, and technologies used to recycle paper and paperboard and process timber for use in the packaging, tissue, wood products and alternative fuel industries, among others. The Company's primary products include stock-preparation systems and recycling equipment, chemical pulping equipment, debarkers, stranders, and chippers. In addition, the Company provides industrial automation and digitization solutions to process industries.
- *Material Handling* – Products and engineered systems used to handle bulk and discrete materials for secondary processing or transport in the aggregates, mining, food, and waste management industries, among others. The Company's primary products include conveying and vibratory equipment and balers. In addition, the Company manufactures and sells biodegradable, absorbent granules used as carriers in agricultural applications and for oil and grease absorption.

The following table presents financial information for the Company's reportable operating segments:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Revenue			
Flow Control (a)	\$ 363,451	\$ 349,107	\$ 288,788
Industrial Processing	354,703	353,698	328,762
Material Handling (b)	239,518	201,934	169,029
	<u>\$ 957,672</u>	<u>\$ 904,739</u>	<u>\$ 786,579</u>
Income Before Provision for Income Taxes			
Flow Control (c)	\$ 95,249	\$ 89,942	\$ 65,509
Industrial Processing (d)	69,281	89,754	66,569
Material Handling (e)	40,692	27,644	17,543
Corporate (f)	(39,465)	(36,058)	(32,911)
Total operating income	165,757	171,282	116,710
Interest expense, net (g)	(6,640)	(5,574)	(4,554)
Other expense, net (g)	(101)	(72)	(104)
	<u>\$ 159,016</u>	<u>\$ 165,636</u>	<u>\$ 112,052</u>
Total Assets (h)			
Flow Control	\$ 391,719	\$ 386,804	\$ 382,379
Industrial Processing	443,189	419,095	405,575
Material Handling	326,226	336,492	334,785
Corporate (i)	14,531	7,490	9,473
	<u>\$ 1,175,665</u>	<u>\$ 1,149,881</u>	<u>\$ 1,132,212</u>
Depreciation and Amortization			
Flow Control	\$ 9,047	\$ 9,179	\$ 8,366
Industrial Processing	11,798	12,575	13,467
Material Handling	12,379	13,085	12,341
Corporate	73	97	128
	<u>\$ 33,297</u>	<u>\$ 34,936</u>	<u>\$ 34,302</u>
Capital Expenditures			
Flow Control	\$ 5,920	\$ 4,425	\$ 4,128
Industrial Processing (j)	22,068	20,137	6,412
Material Handling	3,834	3,575	2,211
Corporate	28	62	20
	<u>\$ 31,850</u>	<u>\$ 28,199</u>	<u>\$ 12,771</u>

Notes to Consolidated Financial Statements

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022
Geographical Information			
Revenue (k):			
United States	\$ 448,600	\$ 404,835	\$ 328,456
China	81,458	85,500	82,121
Canada	73,183	87,951	79,426
Germany	43,036	45,994	37,178
Other	311,395	280,459	259,398
	<u>\$ 957,672</u>	<u>\$ 904,739</u>	<u>\$ 786,579</u>
Long-lived Assets (l):			
United States	\$ 48,394	\$ 47,483	\$ 43,418
China (j)	24,380	15,834	6,613
Germany	20,953	22,437	25,188
Finland	19,958	8,942	7,347
Canada	9,136	8,344	8,460
Other	17,683	15,815	16,963
	<u>\$ 140,504</u>	<u>\$ 118,855</u>	<u>\$ 107,989</u>

- (a) Includes results from Clouth, which was acquired between July 19, 2021 and August 10, 2021 (see [Note 2](#), Acquisitions).
- (b) Includes results from Balemaster, which was acquired on August 23, 2021 (see [Note 2](#), Acquisitions).
- (c) Includes restructuring and impairment costs of \$766,000, \$568,000 and \$980,000 in 2023, 2022 and 2021, respectively. Includes acquisition-related expenses of \$254,000 and \$6,191,000 in 2022 and 2021, respectively. Acquisition-related expenses include acquisition costs and amortization expense associated with acquired profit in inventory and backlog. Includes non-cash charges for the write-off of indemnification assets of \$741,000 in 2022.
- (d) Includes other income of \$841,000, acquisition costs of \$1,066,000, and relocation costs of \$798,000 in 2023. Includes a gain on the sale of a facility of \$20,190,000 (see [Note 8](#), Gain on Sale and Other Items, Net), non-cash charges for the write-off of an indemnification asset of \$575,000 and restructuring and impairment costs of \$766,000 in 2022. Includes a gain on the sale of a building of \$515,000 and acquisition-related expenses of \$223,000 in 2021.
- (e) Includes acquisition-related expenses of \$376,000, \$899,000 and \$2,851,000 in 2023, 2022 and 2021, respectively. Includes a non-cash charge for the write-off of an indemnification asset of \$126,000 in 2023.
- (f) Primarily consists of general and administrative expenses.
- (g) The Company does not allocate interest expense, net and other expense, net to its segments.
- (h) Excludes all intercompany receivables or payables and investment in subsidiary balances.
- (i) Primarily includes cash and cash equivalents, tax assets, ROU assets, and property, plant, and equipment, net.
- (j) Includes capital expenditures of \$7,424,000 and \$10,379,000 in 2023 and 2022, respectively, related to the construction of a new manufacturing facility in China (see [Note 8](#), Gain on Sale and Other Items, Net).
- (k) Revenue is attributed to countries based on customer location.
- (l) Represents property, plant, and equipment, net.

Notes to Consolidated Financial Statements
13. Earnings per Share

Basic and diluted EPS were calculated as follows:

(In thousands, except per share amounts)	December 30, 2023	December 31, 2022	January 1, 2022
Net Income Attributable to Kadant	\$ 116,069	\$ 120,928	\$ 84,043
Basic Weighted Average Shares	11,700	11,654	11,579
Effect of Stock Options, Restricted Stock Units and Employee Stock Purchase Plan Shares	29	34	76
Diluted Weighted Average Shares	11,729	11,688	11,655
Basic Earnings per Share	\$ 9.92	\$ 10.38	\$ 7.26
Diluted Earnings per Share	\$ 9.90	\$ 10.35	\$ 7.21

The effect of outstanding and unvested RSUs of the Company's common stock totaling 17,100 shares in 2023, 7,500 shares in 2022, and 14,200 shares in 2021 was not included in the computation of diluted EPS for the respective periods as the effect would have been antidilutive or, for unvested performance-based RSUs, the performance conditions had not been met as of the end of the reporting periods.

14. Accumulated Other Comprehensive Items

Comprehensive income combines net income and other comprehensive items, which represent certain amounts that are reported as components of stockholders' equity in the accompanying consolidated balance sheet.

Changes in each component of AOCI, net of tax, are as follows:

(In thousands)	Foreign Currency Translation Adjustment	Pension and Other Post-Retirement Benefit Liability Adjustments	Deferred Gain (Loss) on Cash Flow Hedges	Total
Balance at December 31, 2022	\$ (54,488)	\$ (148)	\$ 58	\$ (54,578)
Other comprehensive items before reclassifications	11,475	124	3	11,602
Reclassifications from AOCI	—	13	(99)	(86)
Net current period other comprehensive items	11,475	137	(96)	11,516
Balance at December 30, 2023	\$ (43,013)	\$ (11)	\$ (38)	\$ (43,062)

Amounts reclassified out of AOCI are as follows:

(In thousands)	December 30, 2023	December 31, 2022	January 1, 2022	Statement of Income Line Item
Retirement Benefit Plans				
Recognized net actuarial loss	\$ (9)	\$ (36)	\$ (50)	Other expense, net
Amortization of prior service cost	(9)	(10)	(12)	Other expense, net
Total expense before income taxes	(18)	(46)	(62)	
Income tax benefit	5	12	17	Provision for income taxes
	(13)	(34)	(45)	
Cash Flow Hedges (a)				
Interest rate swap agreements	136	(208)	(451)	Interest expense
Forward currency-exchange contracts	—	—	157	SG&A expense
Total income (expense) before income taxes	136	(208)	(294)	
Income tax (provision) benefit	(37)	50	70	Provision for income taxes
	99	(158)	(224)	
Total Reclassifications	\$ 86	\$ (192)	\$ (269)	

(a) See [Note 10](#), Derivatives, for additional information.

Notes to Consolidated Financial Statements

15. Subsequent Events*Acquisitions*

On January 1, 2024, the Company acquired Key Knife, Inc. and certain of its affiliates (collectively, Key Knife) pursuant to a securities purchase agreement dated December 22, 2023, for approximately \$156,000,000 in cash, subject to certain customary adjustments. Key Knife is a global supplier of engineered knife systems for custom chipping, planing, and flaking solutions for wood products industries, with revenue of approximately \$65,000,000 for the twelve months ended September 30, 2023 and 141 employees in the United States and Canada. Key Knife is part of the Company's Industrial Processing segment.

On January 24, 2024, the Company acquired all of the outstanding equity securities of KWS Manufacturing Company, Ltd. (KWS) for approximately \$84,000,000 in cash, subject to certain customary adjustments. KWS is a leading manufacturer of conveying equipment for the bulk material handling industry, with revenue of approximately \$45,000,000 for the twelve months ended September 30, 2023 and 165 employees in the United States. KWS is part of the Company's Material Handling segment.

The Company expects several synergies in connection with these acquisitions, including expansion of product sales into new markets by leveraging Key Knife's and KWS' existing presence, strengthening of relationships and sourcing efficiencies.

The excess of the purchase price for the acquisitions over the net assets acquired will be recorded as goodwill. The Company has not yet completed its preliminary assessment of the fair value of the assets acquired and liabilities assumed in these acquisitions, including the valuation of intangible assets and goodwill, due to the proximity of the acquisitions to the issuance of these consolidated financial statements. Accordingly and as permitted by ASC 805, *Business Combinations*, the Company is unable to provide further disclosures, including the allocation of the purchase price and pro forma financial information, for these acquisitions at this time.

Borrowings Under the Credit Agreement

In January 2024, the Company borrowed \$230,000,000 in aggregate under its existing revolving credit facility, pursuant to the terms of the Credit Agreement, to fund the Key Knife and KWS acquisitions.

SECURITIES PURCHASE AGREEMENT

Date as of December 22, 2023,

By and Among

Key Knife, Inc.,

Key Knife Canadian Investments Corporation,

Key Knife, Inc., Employee Stock Ownership Trust,

Kadant Inc.

and

Kadant Canada Corp.

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SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the “**Agreement**”) is entered into as of December 22, 2023, by and among (i) Key Knife, Inc., an Oregon corporation (the “**Company**”); (ii) Key Knife Canadian Investments Corporation, a corporation formed under the Business Corporations Act (Ontario) (the “**Key Knife Canada**”); (iii) Key Knife, Inc. Employee Stock Ownership Trust (the “**ESOT**”), acting herein through Argent Trust Company, as Trustee (“**Trustee**”) not in its corporate capacity but solely in its capacity as Trustee; (iv) Kadant Inc., a Delaware corporation (the “**US Buyer**”); and (v) Kadant Canada Corp., a corporation formed under the Nova Scotia Companies Act (the “**Canadian Buyer**” and, collectively with the US Buyer, the “**Buyer**”).

Introduction

WHEREAS, the ESOT owns all of the outstanding equity securities of the Company (the “**Company Securities**”), and the Company owns all of the outstanding equity securities of Key Knife Canada (the “**Key Knife Canada Securities**” and, collectively with the Company Securities, the “**Purchased Securities**”);

WHEREAS, the Company sponsors and has adopted the Key Knife, Inc. Employee Stock Ownership Plan (the “**ESOP**”) which provides the terms and conditions by which the ESOT allocates the Company Securities to the benefit of the participants in the ESOP (the “**ESOP Participants**”);

WHEREAS, the Company has appointed the Trustee as the sole trustee of the ESOT;

WHEREAS, the Trustee is appointed to act on behalf of the ESOP Participants and pursuant to the ESOT shall act on behalf of the ESOT in relation to the Company Securities and this Agreement;

WHEREAS, the purchase and sale of the Purchased Securities and the other transactions contemplated hereby and by the other Transaction Documents (as defined below) are sometimes collectively referred to herein as the “**Transactions**”;

WHEREAS, the board of directors of the Company has reviewed the terms and conditions of the Agreement and the Transactions and has approved the same and has recommended the Transactions as in the best interests of the Company;

WHEREAS, the Canadian Buyer desires to purchase, and the Company desires to sell, all of the Key Knife Canada Securities on the terms set forth herein; and

WHEREAS, immediately subsequent to the purchase and sale of the Key Knife Canada Securities, the US Buyer desires to purchase, and the ESOT desires to sell, all of the Company Securities on the terms set forth herein; and

WHEREAS, an index of defined terms used herein is set forth in **Article 12**.

NOW THEREFORE, in consideration of the representations, warranties, covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE 1 PURCHASE AND SALE; CLOSING

1.1 Purchase and Sale. In reliance upon the representations and warranties contained herein, and subject to the terms and conditions hereof, at the Closing, (a) first, the Company shall sell to the Canadian Buyer, and the Canadian Buyer shall purchase from the Company, the Key Knife Canada Securities (the “**Key Knife Canada Closing**”); and (b) second, subsequent to consummation of the Key Knife Canada Closing and distribution of the proceeds of the Key Knife Canada Closing to the ESOT, the ESOT shall sell to the US Buyer, and the US Buyer shall purchase from the ESOT, the Company Securities (the “**Key Knife US Closing**” and, collectively with the Key Knife Canada Closing, the “**Closing**”). At the Closing, the Company, individually and on behalf of the ESOT, will deliver certificates representing the Purchased Securities to the Buyer duly endorsed for transfer and free and clear of all liens, claims, encumbrances, security interests and restrictions of any kind (“**Liens**”), other than restrictions on transfers under applicable securities laws.

1.2 Closing. Unless this Agreement is earlier terminated pursuant to **Section 9.1**, the Closing will take place remotely, via electronic exchange of funds and documents on the later of (a) two business days after the conditions set forth in **Article 8** are satisfied (other than those conditions which by their nature are normally satisfied at the Closing, but subject to the satisfaction of such conditions at the Closing) or waived in writing, but in no event earlier than January 1, 2024 and (b) such other date that is agreed to in writing by the Company and the Buyer (the “**Closing Date**”). The Closing shall be effective as of 12:01 a.m. local time on the Closing Date.

1.3 Certain Definitions; Pre-Closing Deliveries.

(a) **Certain Definitions.** For purposes of this Agreement, the following terms shall have the meanings indicated below:

“**Accounting Principles**” means United States generally accepted accounting principles as of the date hereof (“**GAAP**”) and, to the extent consistent with GAAP, the historical accounting practices of the Company and its Subsidiaries as reflected in the most recent financial statements described in **Section 2.8(a)**, without giving effect to purchase accounting arising from the consummation of the Transactions.

“**Action**” means any arbitration, judicial or administrative action, suit, litigation mediation, claim, complaint, dispute, action, demand, grievance, audit, investigation, inquiry, inspection, examination, notice letter, proceeding (public or private) or governmental proceeding.

“**Accrued Bonuses**” means the amount of accrued but unpaid employee bonuses of the Company and its Subsidiaries on a consolidated basis as of the Closing, including bonuses pursuant to the Company’s Company-wide Operating Profit Bonus Plan.

“Acquisition Proposal” shall mean any inquiry (in writing or otherwise) offer, proposal or indication of interest from any Third Party relating to any transaction or series of related transactions involving (a) any acquisition or purchase by any Third Party, directly or indirectly, of (i) assets (including capital stock of Subsidiaries of the Company) representing (x) 50% or more of the consolidated net revenues of the Company and its Subsidiaries immediately prior to such transaction or series of transactions or (y) 50% or more of the fair market value of the assets of the Company and its Subsidiaries, taken as a whole, or (ii) 50% or more of any class of outstanding voting or equity securities of the Company, (b) any tender offer (including a self-tender) or exchange offer that, if consummated, would result, directly or indirectly, in any Third Party (or the shareholders thereof) beneficially owning 50% or more of any class of outstanding voting or equity securities of the Company or the surviving entity or (c) any merger, amalgamation, consolidation, share exchange, business combination, joint venture or other similar transaction involving the Company or any of its Subsidiaries, or liquidation, dissolution, recapitalization, extraordinary dividend, other significant corporate reorganization or other similar transaction involving the Company or any of its Subsidiaries, (i) pursuant to which 50% or more of any class of outstanding voting or equity securities of the Company or the resulting entity would be beneficially owned by any Third Party (or the direct or indirect parent entity of such Third Party or the shareholders of such Third Party) or (ii) which would result in assets (including capital stock of Subsidiaries of the Company) representing (x) 50% or more of the consolidated net revenues of the Company and its Subsidiaries immediately prior to such transaction, or series of transactions or (y) 50% or more of the fair market value of the assets of the Company and its Subsidiaries, taken as a whole, being, directly or indirectly, acquired by or sold to any Third Party.

“Adequate Consideration” means as such term is defined within ERISA Section 3(18), in the case of an asset other than a security for which there is a generally recognized market, the fair market value of the asset as determined in good faith by the trustee or named fiduciary pursuant to the terms of the plan and in accordance with associated regulations.

“Affiliate” of a specified Person means, any other Person that, directly or indirectly, is controlled by, controls, or is under common control with such Person. The term **“control”** (including, with correlative meaning, the terms “controlled by” and “under common control with”) means and shall include, (i) the ownership of 10% or more of the voting securities or other voting interests of any Person, or (ii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract, as an officer or a director, or otherwise. In the case of a natural person, **“Affiliate”** shall also include any relative of such person and any trust or other entity of which any such relative is a party or a current or contingent beneficiary.

“Base Purchase Price” means One Hundred Fifty-Five Million Eight Hundred Thousand Dollars (\$155,800,000.00).

“Closing Company Indebtedness” means all Indebtedness of the Company and its Subsidiaries as of immediately prior to the Closing.

“Closing ESOT Indebtedness” means all Indebtedness of the ESOT, if any, as of immediately prior to the Closing. ESOT Indebtedness as such debt is incurred as part of an internal

loan between the Company and the ESOT is not considered ESOT Indebtedness for purposes of this Agreement.

“**Closing Payment**” means the Closing Purchase Price *minus* the Escrow Amount.

“**Closing Purchase Price**” means the sum of the Base Purchase Price *plus* (i) the amount, if any, by which the Closing Working Capital exceeds \$16,338,000, or minus the amount, if any, by which the Closing Working Capital is less than \$16,338,000, *plus* (ii) the amount of Purchased Cash, *minus* (iii) the amount of Closing Company Indebtedness, *minus* (iv) the amount of Closing ESOT Indebtedness, if any, *minus* (v) the amount of the Transaction Expenses as of Closing, *minus* (vi) the Accrued Bonuses. The Closing Purchase Price shall be finally determined in accordance with **Section 1.5**.

“**Closing Working Capital**” means, on a consolidated basis as of 12:01 a.m. Eastern Time on the Closing Date, without duplication (i) the accounts receivable, inventory, prepaid expenses and other current assets of the Company and its Subsidiaries, in each case net of reserves, *minus* (ii) the accounts payable, accrued expenses, accrued compensation (including without limitation salaries, employee bonuses, and sales or payroll Tax obligations), and all other current Liabilities of the Company and its Subsidiaries, *provided, however*, that the calculation of Closing Working Capital shall exclude Purchased Cash, Closing Company Indebtedness, Closing ESOT Indebtedness, if any, Transaction Expenses, Accrued Bonuses, deferred Tax assets, assets and liabilities of Key Knife Chile Limitada. and the following items, as noted in **Exhibit 1.1** and consistent with the methodology set forth therein: (v) investment in Subsidiaries; (w) intercompany account receivable with Key Knife Chile Limitada; (x) ESOP payable for ESOP equivalent plan for non-U.S. employees; (y) interest receivable on investments; and (z) reserve for non-sellable inventory. The Closing Working Capital shall be determined in accordance with the Accounting Principles. With respect to Lindsay, only forty-five percent (45%) of Lindsay’s Closing Working Capital shall be included in the calculation of Closing Working Capital, consistent with the manner in which the Closing Working Capital Target of \$16,338,000 was calculated. Attached as **Exhibit 1.1** is a calculation of Closing Working Capital as of June 30, 2023 (a) as though Haskins Canada was then wholly-owned by Key Knife Canadian Investments Canada, and (b) including only forty-five percent (45%) of Lindsay’s Closing Working Capital.

“**Company 401(k) Plan**” means the Key Knife, Inc. 401K and Profit Sharing Plan and Trust.

“**Contract**” shall mean all contracts, agreements, bonds, notes, indentures, instruments, mortgages, debt instruments, licenses, sublicenses, franchises, leases and subleases, sales orders, purchase orders, arrangements, commitments, obligations, all other understandings or undertakings of any nature and any other legally enforceable promise, whether written or oral, and all amendments, restatements, supplements or other modifications thereto or waivers thereunder to which a Person is a party.

“**Environmental Law**” shall mean any Legal Requirement or binding agreement and the common law, in each case concerning (A) the presence, release or threatened release of Hazardous Substances or materials containing Hazardous Substances; (B) the management, manufacture, labeling, handling, use, treatment, storage, generation, recycling, reuse,

transportation, or disposal of or exposure to Hazardous Substances or materials containing Hazardous Substances; or (C) pollution or protection of the environment (including ambient air, soil, soil vapor, surface water or groundwater, or subsurface strata), protection of human health or safety, or protection of natural resources.

“**Environmental Permits**” means all Permits required to be maintained by any Company under any Environmental Law.

“**Escrow Amount**” means Five Million Dollars (\$5,000,000.00), which will be deposited at the Closing with the Escrow Agent pursuant to the Escrow Agreement.

“**Escrow Fund**” means the Escrow Amount initially deposited with the Escrow Agent hereunder plus the amounts, if any, subsequently deposited with the Escrow Agent, plus the earnings thereon, less amounts disbursed therefrom, in accordance with this Agreement and the Escrow Agreement.

“**ESOP Expenses**” means to the extent such costs and expenses are not related to “settlor functions” and are permitted to be paid from ESOP assets under applicable Legal Requirements: (i) expenses incurred by the Trustee or ESOT to restore forfeitures to the participants and beneficiaries of the ESOP; (ii) expenses incurred by the Trustee or ESOT to correct any previously made errors identified in connection with the distribution allocation; and (iii) expenses incurred by the Trustee or ESOT that are required to remedy issues identified in connection with the implementation of the termination of the ESOT.

“**ESOT Distribution Retention Amount**” means Twenty-Three Million Two Hundred Fifty Thousand Dollars (\$23,250,000.00).

“**ESOT Trust Agreement**” means the Key Knife, Inc. Employee Stock Ownership Trust Agreement, dated as of January 1, 2005.

“**Estimated Purchase Price**” means the Base Purchase Price, with any increase or decrease thereto shown on the Estimated Purchase Price Certificate and approved by the Buyer.

“**Fairness Opinion**” means an opinion, in form and substance in accordance with Section 3(18) of ERISA, prepared by the Independent Financial Advisor that: (i) that the consideration to be paid to the ESOT for the Purchased Securities constitutes not less than Adequate Consideration and (ii) that the Transactions are fair to the ESOT and the ESOP Participants from a financial point of view.

“**Final Accrued Bonuses**” shall mean the Accrued Bonuses as finally determined pursuant to **Section 1.5**.

“**Final Closing Company Indebtedness**” shall mean the Closing Company Indebtedness as finally determined pursuant to **Section 1.5**.

“**Final Closing ESOT Indebtedness**” shall mean the Closing ESOT Indebtedness as finally determined pursuant to **Section 1.5**.

“Final Closing Working Capital” shall mean the Closing Working Capital as finally determined pursuant to **Section 1.5**.

“Final Purchased Cash” shall mean Purchased Cash as finally determined pursuant to **Section 1.5**.

“Final Transaction Expenses” shall mean the Transaction Expenses as finally determined pursuant to **Section 1.5**.

“Fraud” means intentional common law fraud under the laws of the State of Delaware.

“Governmental Entity” means any federal, state, municipal, local or foreign government and any court, tribunal, arbitral body, administrative agency, department, subdivision, entity, commission or other governmental, government appointed, quasi-governmental or regulatory authority, reporting entity or agency, domestic, foreign or supranational.

“Haskins Canada” means Haskins Industrial Inc., a corporation formed pursuant to the Ontario Business Corporations Act.

“Hazardous Substances” means any pollutants, contaminants, hazardous substances, hazardous material or hazardous waste regulated pursuant to Environmental Laws including without limitation: (A) those substances defined in or regulated as hazardous materials under the Hazardous Materials Transportation Act, hazardous wastes under the Resource Conservation and Recovery Act, hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act (“**CERCLA**”), pollutants under the Clean Water Act, contaminants under the Safe Drinking Water Act, nuclear material under the Atomic Energy Act, pesticide under the Federal Insecticide, Fungicide, and Rodenticide Act, toxic substance under the Toxic Substances Control Act, and air pollutant under the Clean Air Act, and their state counterparts, as each may be amended from time to time, and all regulations thereunder; (B) petroleum and petroleum products, including crude oil and any fractions thereof; (C) natural gas, synthetic gas, and any mixtures thereof; and (D) polychlorinated biphenyls, asbestos, asbestos-containing materials and radon.

“Indebtedness” means, on a consolidated basis, all principal, interest, fees, premiums, expenses and other obligations and amounts in respect of indebtedness of a Person and its Subsidiaries (whether or not matured or contingent and whether owed to third parties or Affiliates), including: (i) all indebtedness for borrowed money, including deposits or advances of any kind; (ii) all obligations evidenced by mortgages, notes, bonds, debentures, debt securities, or similar interests; (iii) all obligations with respect to letters of credit, bank guarantees, bankers’ acceptances, or surety of performance bonds; (iv) all lease obligations that have been historically recorded as capital leases by the Person and its Subsidiaries or that are required to be recorded as capital leases determined in accordance with GAAP; (v) all obligations of others secured by a Lien on any asset of the Person or any of its Subsidiaries or guaranteed by the Person or any of its Subsidiaries; (vi) all obligations to pay the deferred or unpaid purchase price for assets or services (including, without limitation, all Tax-related payments, earn-out payments, post-closing true up obligations and other similar payments (whether contingent or otherwise) calculated as the

maximum amount payable under or pursuant to such obligation), other than trade payables incurred in the ordinary course of business consistent with past practice; (vii) all off-balance sheet financings; (viii) all obligations for deferred compensation, severance, or similar arrangements (including the employer portion of all applicable withholding, payroll and similar Taxes and Benefit Plan payments); (ix) all obligations with respect to any unpaid contributions to the ESOT required for the Company's fiscal year ended December 31, 2022, or otherwise; (x) in the case of the Company and its Subsidiaries, all accrued or unpaid income Tax Liabilities (calculated in accordance with **Article 7**); (xi) all declared and unpaid dividends or distributions; (xii) all obligations under any interest rate, currency or commodity derivative, hedging or swap agreement or transaction; and (xiii) all payments required to be paid in order to discharge fully all such amounts as of the date of determination. Notwithstanding the preceding, no real property lease obligation in excess of one year following closing will be deemed to be "Indebtedness." With respect to Lindsay, only forty-five percent (45%) of Lindsay's Indebtedness shall be included in the calculation of Indebtedness.

"Indemnified Taxes" means (i) all Taxes due with respect to periods prior to the Closing, as determined pursuant to **Article 7**, (ii) any liabilities for Taxes under Section 965 of the Code, (iii) all Taxes determined pursuant to **Section 7.5**, (iv) all Taxes of any member of an affiliated, consolidated, combined or unitary group of which the Company or any of its Subsidiaries (or any predecessor of any of the foregoing) is or was a member on or prior to the Closing Date, including pursuant to Treasury Regulation §1.1502-6 (or any similar provision of state, local, or foreign law), (v) any and all Taxes of any Person (other than the Company and its Subsidiaries) as a transferee or successor, by contract or otherwise, which Taxes relate to an event or transaction occurring before the Closing, (vi) any Taxes that are imposed on the Company or its direct or indirect equity holders under Sections 951 or 951A of the Code with respect to income accrued or transactions effected by the Company's non-U.S. Subsidiaries on or prior to the Closing Date under a "closing of the books" as if the Closing Date were the last day of the taxable year of the Company's non-U.S. Subsidiaries, and (vii) Losses incurred by the Buyer Indemnified Parties in connection with the foregoing (i) – (vi), including expenses to prepare related Tax Returns.

"IRS" means the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of the Treasury.

"IRS Determination Letter" means the issuance by the IRS following Closing of a favorable determination in regards to the termination of the ESOT.

"Key Knife Canada Securities Purchase Price" shall mean Nine Million Two Hundred Thousand Dollars (\$9,200,000.00).

"Knowledge of the Company" or any similar phrase shall mean (i) the knowledge of Pamela Anderson, Leslie Boatsman, Donald Corcoran, Misty DuPont, Curtis Goff, Thomas Hinchliff, Andrew Karamanos and Christopher McDonald (individually and collectively **"Persons of Knowledge"**), and (ii) the knowledge each such individual would acquire after reasonable inquiry of the relevant employee or contractor of the Company or any Subsidiary that would reasonably be expected to have knowledge of the subject matter being represented, to the extent such Person is a direct report of the applicable Person of Knowledge. Any knowledge by any of

the foregoing persons regarding a representation or warranty in this Agreement will constitute and relate only to their positions with the Company or any Subsidiary, and no personal liability arises to such person because of his or her status as a Person of Knowledge.

“**Liabilities**” means any liabilities or obligations of any kind or nature, whether absolute, accrued, contingent or otherwise, and whether due or to become due.

“**Material Adverse Effect**” means any event, change, effect, occurrence, state of facts or development that, individually or in the aggregate, has, or would reasonably be expected to have, a material adverse effect of \$500,000 or more on the Business or the affairs, assets, condition (financial or otherwise) or results of operations of the Company or any Subsidiary or any material division of the Company or any Subsidiary, or could adversely affect or detract from the value of the Company, any Subsidiary, their respective assets or the Business, whether or not such effect is foreseeable; provided, that none of the following that occurs after the date of this Agreement shall be considered in determining whether a Material Adverse Effect has occurred: (i) changes that are the result of economic or political factors affecting the national, regional or world economy or acts of war or terrorism, but only to the extent such change does not have a disproportionately adverse impact on the Company or any Subsidiary as compared to other businesses in the same industry; (ii) changes that are the result of factors generally affecting the industries in which the Company or any Subsidiary operates, but only to the extent such change does not have a disproportionately adverse impact on the Company or any Subsidiary as compared to other businesses in the same industry; and (iii) any change in any Legal Requirement or GAAP, but only to the extent that such change does not have a disproportionately adverse effect on the Company or any Subsidiary as compared to other businesses in the same industry.

“**Organizational Documents**” means with respect to an entity, the certificate of incorporation, articles of incorporation, certificate of formation, bylaws, partnership agreement, limited liability company agreement, formation agreement, joint venture agreement and other similar organizational documents of such entity (in each case, as in effect from time to time).

“**Permitted Liens**” means (i) prior to the Closing, the Liens designated as such on **Schedule 1.1**, (ii) statutory Liens for current Taxes or assessments not yet due and payable and (iii) such other imperfections in title and easements of record, if any, which do not detract, individually or in the aggregate, from the value of or interfere with the present or proposed use by the Company of the real property subject thereto or affected thereby.

“**Person**” means any natural person or corporation, limited liability company, partnership, trust, unincorporated association, Governmental Entity or other entity or body.

“**Purchased Cash**” means the amount of cash and cash equivalents, including commercial paper and short-term government bonds, of the Company and its Subsidiaries on a consolidated basis as of the Closing, net of any outstanding checks issued by the Company or a Subsidiary thereof. With respect to Lindsay, only forty-five percent (45%) of Lindsay’s Purchased Cash shall be included in the calculation of Purchased Cash.

“**R&W Insurer**” means the named insurers pursuant to the R&W Policy.

“**R&W Policy**” means the Representations & Warranties Insurance Policy to be issued to US Buyer in connection with the Transactions.

“**Release**” has the meaning set forth in Section 101(22) of CERCLA.

“**Subsidiary**” means, with respect to any Person, any other Person of which a majority of the outstanding share capital, voting power, voting securities or other voting equity interest are owned or controlled, or that is otherwise controlled, in each case, directly or indirectly, by such Person. Unless the context clearly requires otherwise, any reference herein to a Subsidiary shall mean a direct or indirect Subsidiary of the Company. For the avoidance of doubt and notwithstanding anything to the contrary contained herein, Lindsay Forest Products Inc., a Washington corporation, Lindsay Forest Products LTD, a corporation formed under the laws of British Columbia, and Haskins Canada shall be deemed to be Subsidiaries of the Company for purposes of this Agreement and the other Transaction Documents.

“**Third Party**” means any Person or “group” (as defined under Section 13(d) of the Securities Exchange Act of 1934, as amended) of Persons, other than Buyer or any of its Affiliates.

“**Transaction Expenses**” means the unpaid portion of (i) aggregate fees, commissions, costs, expenses and obligations incurred or owed by the ESOT, the Company or any of its Subsidiaries in connection with or arising from the Transactions and the sale process leading up to the Transactions including, without limitation, all amounts in respect of legal, accounting, investment banking, brokerage and other similar fees, costs, expenses and obligations, but excluding any ESOP Expenses; (ii) the aggregate amount payable by the Company or any of its Subsidiaries (including the employer’s portion of all withholding, payroll and similar Taxes and all applicable Benefit Plan payments) in respect of all transaction, sale and change of control bonuses, retention bonuses and similar payments incurred and/or payable in connection with or arising from the Transaction; (iii) the costs and expenses associated with obtaining the D&O Tail Policy pursuant to **Section 5.11**; and (iv) post-Closing expenses of the ESOT.

(b) Pre-Closing Deliveries. On the date hereof, the Company will furnish to the Buyer (i) a certificate executed by an executive officer of the Company setting forth in reasonable detail (A) the Company’s good faith estimate of Closing Working Capital (the “**Estimated Closing Working Capital**”), including an itemization of the components thereof; (B) the Company’s good faith estimate of Purchased Cash (the “**Estimated Purchased Cash**”), Closing Company Indebtedness (the “**Estimated Closing Company Indebtedness**”), Closing ESOT Indebtedness, if any (the “**Estimated Closing ESOT Indebtedness**”), Transaction Expenses (the “**Estimated Transaction Expenses**”), and Accrued Bonuses (the “**Estimated Accrued Bonuses**”); and (C) the Company’s calculation of the Closing Purchase Price based thereon (the “**Estimated Purchase Price Certificate**”); (ii) a payoff letter, in form and substance satisfactory to the Buyer, from each holder of Closing Company Indebtedness or Closing ESOT Indebtedness, if any, indicating the amount required to discharge in full such Closing Company Indebtedness or Closing ESOT Indebtedness, if any, at Closing and, if such Closing Company Indebtedness or Closing ESOT Indebtedness, if any, is secured, an undertaking by such holder to discharge at Closing any Liens securing such Closing Company Indebtedness or Closing ESOT

Indebtedness, if any; and (iii) a final bill and wire transfer instructions from each payee of any portion of the Transaction Expenses.

1.4 Payments at Closing.

(a) **Key Knife Canada Closing.** As agreed in **Section 1.1**, the Key Knife Canada Closing shall be consummated prior to the Key Knife US Closing. At the Key Knife Canada Closing, or, if the Closing occurs on January 1, 2024, on the next Business Day following the Closing, the Canadian Buyer shall, at the direction of the Company, contribute the Key Knife Canada Securities Purchase Price to the ESOT.

(b) **Key Knife US Closing.** As agreed in **Section 1.1**, the Key Knife US Closing shall be consummated subsequent to the Key Knife Canada Closing. At the Key Knife US Closing, or, if the Closing occurs on January 1, 2024, on the next Business Day following the Closing, the Buyer will make or cause to be made the following payments by wire transfer as follows:

(i) *first*, to the respective holders of the Closing Company Indebtedness and Closing ESOT Indebtedness, if any, the amounts specified in the pay-off letters delivered pursuant to **Section 1.3(b)**;

(ii) *second*, to the respective payees of the Transaction Expenses, the amounts set forth in the final bills delivered pursuant to **Section 1.3(b)**;

(iii) *third*, to the Escrow Agent, an amount equal to the Escrow Amount; and

(iv) *fourth*, to the ESOT, the Estimated Purchase Price less the Escrow Amount less the Key Knife Canada Securities Purchase Price (which is obligated to have been paid to the Company and then contributed to the ESOT, and not remain an asset of the Company as of the Closing).

1.5 Determination of Closing Purchase Price.

(a) **Initial Determination.** Within 90 days after the Closing Date, the Company will deliver to the Trustee a certificate (the “**Closing Purchase Price Certificate**”), executed by the Company, setting forth an itemized statement of the Closing Working Capital, Purchased Cash, Closing Company Indebtedness, Closing ESOT Indebtedness, if any, Transaction Expenses, and Accrued Bonuses, and a calculation of the Closing Purchase Price based thereon.

(b) **Disputed Items.** Trustee will have the opportunity to review the Closing Purchase Price Certificate for thirty (30) days after the Closing Purchase Price Certificate is delivered to the Trustee (the “**Review Period**”). During the Review Period, Buyer and the Company will provide to Trustee and its representatives reasonable access to all reasonably obtainable Company information, including accountants’ working papers, to enable Trustee to review the Closing Purchase Price Certificate. If the Trustee delivers written notice to the Company and the Buyer prior to the end of the Review Period stating that the Trustee objects to

any items on the Closing Purchase Price Certificate, specifying the basis for such objection in reasonable detail and setting forth the Trustee's proposed modifications to the Closing Purchase Price Certificate (the "**Disputed Items Notice**"), then the Trustee and the Company will attempt to resolve and finally determine and agree upon the Closing Purchase Price as promptly as practicable. If the Trustee does not deliver the Disputed Items Notice to the Company and the Buyer within thirty (30) days after the date of delivery of the Closing Purchase Price Certificate, then the calculation of the Closing Purchase Price specified in the Closing Purchase Price Certificate will be conclusively presumed to be true and correct in all respects and will be final and binding upon the parties.

(c) **Arbitration of Disputes.** If the Trustee and the Company fail to agree upon the Closing Purchase Price within thirty (30) days after delivery of the Disputed Items Notice, the Trustee and the Company will engage a mutually acceptable accounting firm (the "**Independent Accounting Firm**") to resolve, in accordance with this Agreement, the disputed items specified in the Disputed Items Notice that remain in dispute. If the Company and the Trustee are unable to agree upon the selection of the Independent Accounting Firm, either party may petition the American Arbitration Association to appoint the Independent Accounting Firm, with the costs of the American Arbitration Association to be split equally by the Company and the Trustee. The Independent Accounting Firm shall address only the disputed items set forth in the Disputed Items Notice that remain in dispute, and shall select either the Trustee's initial position (as set forth in the Disputed Items Notice) or the Company's initial position (as set forth in the Closing Purchase Price Certificate) as to such disputed items in the aggregate (i.e., a so-called "baseball arbitration"). The Independent Accounting Firm will (i) resolve the disputed items specified in the Disputed Items Notice and (ii) determine the Final Closing Working Capital, the Final Purchased Cash, the Final Closing Company Indebtedness, the Final Closing ESOT Indebtedness, if any, the Final Transaction Expenses and the Final Accrued Bonuses as modified only by the resolution of such items. The Independent Accounting Firm will be instructed by the parties to make its determination within 60 days after being engaged and such determination will be final and binding upon the parties. The fees, costs and expenses of the Independent Accounting Firm will be borne by the party whose positions did not prevail in such determination generally, as determined by the Independent Accounting Firm.

(d) **Payment.** At such time as the Closing Purchase Price is finally determined, either (i) if the Closing Purchase Price is greater than or equal to the Estimated Purchase Price, the Buyer will remit to the Escrow Agent an amount in immediately available funds equal to such excess, to be held as part of the Escrow Fund pursuant to the Escrow Agreement, or (ii) if the Estimated Purchase Price is greater than the Closing Purchase Price, the Buyer and the Trustee shall deliver joint written instructions to the Escrow Agent directing the Escrow Agent to release to the Buyer an amount from the Escrow Fund an amount equal to such excess.

(e) **No Impairment of Other Rights.** The final determination of the Closing Purchase Price under this **Section 1.5** shall not impair any other rights of a party under this Agreement including, without limitation, any rights to indemnification.

(f) **Illustrative Calculation.** For illustrative purposes only, **Exhibit 1.5(f)** sets forth the calculation of the Closing Working Capital, Company's Indebtedness, ESOT

Indebtedness, if any, Transaction Expenses and the Closing Purchase Price based thereon as if the Closing had occurred on June 30, 2023.

1.6 ESOP Amendment, Distribution, and IRS Determination Letter.

(a) All parties hereby agree that prior to Closing the Company shall take or cause to be taken all such actions as may be necessary to legally terminate the ESOP effective as of the Closing. Prior to Closing, the Company shall amend the ESOP (which amendment shall be in a form reasonably acceptable to Buyer and the Trustee) (the “**Amendment**”), which Amendment shall provide that, upon the sale of the Company, the ESOP (i) shall no longer be considered an “employee stock ownership plan” (as defined in Section 4975 of the Code), (ii) shall be terminated effective as of the Closing, (iii) shall no longer permit distributions to participants in the form of “qualifying employer securities” (as defined in Section 407 of ERISA) and (iv) shall permit a cash payment from the account of each participant equal to the participant’s estimated account balance as of the first day after the Closing Date minus the participant’s share of the ESOT Distribution Retention Amount; and (v) shall permit the entire balance of each participant’s account to be distributable in cash (as adjusted for any prior payments) but only after receiving both (I) IRS Determination Letter and (II) all funds to which the ESOP may be entitled under this Agreement, as reasonably determined by the Trustee. The ESOT shall retain the ESOT Distribution Retention Amount to pay any ESOP Expenses or any other amount determined by the Trustee to be an obligation of the ESOT.

(b) Promptly following the Closing, the Company will take all commercially reasonable actions to seek the IRS Determination Letter. Buyer will cause its legal counsel to reasonably cooperate with Trustee and the Company in connection with seeking the IRS Determination Letter. In the event any actions in furtherance of obtaining the IRS Determination Letter are required, the Buyer and the Company shall reasonably cooperate on resolving such matters. Expenses reasonably incurred by the Company and the Buyer in furtherance of obtaining the IRS Determination Letter shall be satisfied from the Escrow Fund. A copy of the IRS Determination Letter will be provided to all parties to this Agreement upon receipt.

1.7 Withholding. The Buyer and the Company shall be entitled to withhold from any consideration payable or otherwise deliverable pursuant to this Agreement such amounts as are required to be withheld under any Legal Requirement with respect to such payment. The withheld amounts will be treated for all purposes of this Agreement as having been paid to the Person in respect of which such withholdings were made.

ARTICLE 2. REPRESENTATIONS AND WARRANTIES CONCERNING THE COMPANY AND ITS SUBSIDIARIES

The Company hereby represents and warrants to the Buyer that each of the statements contained in this **Article 2** is true and correct as of the date hereof and will be true and correct as of the Closing Date. For purposes of this **Article 2** other than **Sections 2.1, 2.2, 2.3, 2.4, 2.6** and **2.7**, each reference to “the Company” shall be deemed to refer to the Company and each of its Subsidiaries (as applicable) and each of their respective predecessors, unless the context in which such term is used requires otherwise.

2.1 Organization, Power and Standing. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Oregon, and has full power and authority to own, lease and operate its properties and to carry on its business (either directly or through its Subsidiaries) as currently conducted and as currently proposed by the Company to be conducted after the Closing (the “**Business**”), including performing its obligations under all Contracts to which it is a party. Copies of the Organizational Documents of the Company and the Organizational Documents of each Subsidiary that have been delivered to the Buyer are complete and correct and neither the Company nor any Subsidiary is in material violation of the terms thereof. **Schedule 2.1** sets forth a complete and accurate list of the officers, directors and managers (as applicable) of the Company.

2.2 Subsidiaries. Except as set forth on **Schedule 2.2(a)**, (i) the Company has no direct or indirect Subsidiaries and (ii) neither the Company nor any of its Subsidiaries, directly or indirectly, owns or has the right (contingent or otherwise) to acquire any equity interest in any other corporation, partnership, limited liability company, joint venture, trust or other business organization. Each Subsidiary is duly organized, validly existing and in good standing under the laws of the state or jurisdiction in which it is organized, as set forth on **Schedule 2.2(a)**. Each of the Subsidiaries has full power and authority to own, lease and operate its properties and to carry on its respective portion of the Business (including performing its obligations under all Contracts to which it is a party). **Schedule 2.2(b)** sets forth a complete and accurate list of the officers, directors and managers (as applicable) of the Company’s Subsidiaries.

2.3 Foreign Qualifications. The Company and each of its Subsidiaries are duly qualified and authorized to do business and are in good standing in the jurisdictions listed on **Schedule 2.3**. Neither the Company nor any of its Subsidiaries is required to qualify to do business as a foreign entity in any other jurisdiction except where the failure to so qualify is not, individually or in the aggregate, material.

2.4 Due Authorization. The Company has full power and authority and has taken all required action on its part necessary to permit it to execute and deliver and to carry out the terms of this Agreement and the other agreements, instruments and documents of the Company contemplated hereby or by the Transactions (such other agreements, instruments and documents, together with the Agreement, are sometimes referred to hereinafter as the “**Transaction Documents**”).

2.5 No-Conflict; Required Consents and Approvals. Except as specified on **Schedule 2.5** and except for any applicable filings and approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “**HSR Act**”), no consent, order, authorization, approval, notice, declaration or filing, including, without limitation, any consent, approval or authorization of or notice or filing with any Governmental Entity or other Person, is required on the part of the Company for or in connection with its execution, delivery or performance of this Agreement or any of the Transaction Documents, or the conduct of the Business by the Company after the Closing (the “**Required Consents**”). To the Knowledge of the Company, the Required Consents will be obtained. Subject to obtaining the Required Consents specified on **Schedule 2.5**, the execution, delivery and performance of this Agreement and the Transaction Documents will not, with or without notice, the happening of any event and/or the

passage of time, result in any breach or violation of, be in conflict with, require any action (including any authorization, consent, approval, exemption, filing or waiver under) constitute a default under, result in the creation of any Lien upon any asset of the Company under, or cause the acceleration of any obligation or loss of any rights under or cause acceleration of the rights of any third party under any Legal Requirement, Contract, instrument, Permit, or Organizational Document, in each case, to which the Company is a party or by which the Company is bound.

2.6 Validity and Enforceability. This Agreement has been duly executed and delivered by the Company. This Agreement is, and each of the Transaction Documents shall be, when executed and delivered by the Company, the valid and binding obligations of the Company enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, and by laws related to the availability of specific performance, injunctive relief or other equitable remedies (the "**Remedies Exception**").

2.7 Capitalization.

(a) The Company's authorized and outstanding securities, including the class, series and number of such securities, are as set forth on **Schedule 2.7(a)** hereto. All of the outstanding securities of the Company are held beneficially and as of record by the ESOT. The offer, issuance and sale of the Purchased Securities were made in compliance with all applicable federal and state securities laws and all applicable preemptive and similar rights. There are no outstanding options, warrants, convertible or exchangeable securities or other securities or rights that could, directly or indirectly, obligate the Company to issue any securities.

(b) Each Subsidiary's authorized and outstanding securities, including the class, series and number of such securities, are as set forth on **Schedule 2.7(b)** hereto. Each Subsidiary's outstanding securities are owned beneficially and as of record by the Persons and in the amounts set forth on **Schedule 2.7(b)** and are duly authorized, validly issued, fully paid and nonassessable. The offer, issuance and sale of such securities were made in compliance with all applicable Legal Requirements and all applicable preemptive and similar rights. There are no outstanding options, warrants, convertible or exchangeable securities or other securities or rights that could, directly or indirectly, obligate any Subsidiary to issue any securities.

(c) There are no outstanding or authorized stock appreciation, phantom stock or similar rights with respect to the Company or any Subsidiary.

(d) Except as set forth in **Schedule 2.7(d)**, there are no agreements, written or oral, relating to any securities of the Company or any Subsidiary including, without limitation, the acquisition, disposition, repurchase, voting or registration thereof.

(e) Except as set forth in **Schedule 2.7(e)**, neither the Company nor any Subsidiary is subject to any obligation to redeem, purchase or otherwise acquire or retire any of its securities. Except as set forth in **Schedule 2.7(e)**, neither the Company, nor any of its Subsidiaries, has agreed to make, or is obligated to make, any future investment in or capital contribution to any other Person. Except as set forth in **Schedule 2.7(e)**, no Person has any right of first offer, right of first refusal, preemptive right or other similar right in connection with the issuance or sale of

the outstanding securities of any Subsidiary, the Purchased Securities, or with respect to any future offer, sale or issuance of securities by the Company or any Subsidiary.

(f) Upon consummation of the transactions contemplated by this Agreement, the Canadian Buyer shall own all of the Key Knife Canada Securities, free and clear of all Liens, other than pursuant to applicable securities laws. The Key Knife Canada Securities constitute all of the fully diluted capitalization of Key Knife Canada. Upon consummation of the transactions contemplated by this Agreement, the Buyer shall own all of the Purchased Securities, free and clear of all Liens, other than pursuant to applicable securities laws. The Company Securities constitute all of the fully diluted capitalization of the Company.

2.8 Financial Information.

(a) The Company has delivered to the Buyer the reviewed, consolidated balance sheets of the Company as of December 31, 2022 and December 31, 2021 (the December 31, 2022 balance sheet is sometimes referred to herein as the “**Balance Sheet**” and the date thereof is sometimes referred to as the “**Balance Sheet Date**”), and the reviewed, consolidated statements of income, cash flows and stockholders’ equity for the fiscal years then ended. The Company has delivered to the Buyer the unaudited trial balance of Lindsay Forest Products, Inc. and Lindsay Forest Products LTD (collectively, “**Lindsay**”) as of December 31, 2022 and for the fiscal year then ended. The Company has delivered to the Buyer the unaudited income statement of Lindsay for the fiscal year ended December 31, 2021. The Company has also furnished to the Buyer the unaudited trial balance of the Company as of September 30, 2023 (the “**Latest Balance Sheet**”) and for the nine (9) month period then ended September 30, 2023. The financial statements of Lindsay were not reviewed by Company’s outside accounting firm, as the ownership stake was acquired in the current fiscal year.

(b) As used in this Agreement, “**Financial Statements**” means the financial statements referenced in clause (a) above together with (as of the Closing) the financial statements delivered pursuant to **Section 5.6**. The Financial Statements and the notes thereto, if any, (i) are complete and accurate in all material respects and fairly present the financial condition of the Company at the respective dates thereof and the results of operations for the periods then ended, and (ii) were prepared in accordance with the books and records of the Company in conformity with the Accounting Principles consistently applied during the periods covered thereby, except, (x) in the case of unaudited Financial Statements, for the omission of footnotes and normal and recurring year-end adjustments which are not and will not be, individually and in the aggregate, material; and (y) in the case of the Financial Statements with respect to Lindsay, such were not prepared in accordance with GAAP.

(c) The Company maintains accurate books and records reflecting its assets, Liabilities, business, financial condition and results of operations. The Company maintains a system of internal accounting controls sufficient to ensure that (i) transactions of the Company are executed in accordance with management’s general or specific authorizations; (ii) transactions of the Company are recorded as necessary to permit preparation of financial statements in conformity with the Accounting Principles and to maintain asset accountability; (iii) access to assets of the Company is permitted only in accordance with management’s general or specific authorization;

and (iv) all material information concerning the Company is made known on a timely basis to the individuals responsible for the preparation of the financial statements of the Company. Except as set forth in **Schedule 2.8(c)**, the Company is in material compliance with its system of internal accounting controls. The Company is not aware of any Fraud relating to its Financial Statements or operations, or any allegations thereof.

(d) The Company does not have any liability for Indebtedness other than as set forth on **Schedule 2.8(d)(i)** (which schedule includes, for each item of Indebtedness, the amount outstanding and the name of the applicable lender or creditor), and accurate and complete copies of all instruments and documents, if any, evidencing, creating, securing or otherwise relating to such Indebtedness have been made available to Buyer. **Schedule 2.8(d)(ii)** contains a complete and accurate list of all Contracts pursuant to which the Company has guaranteed any Indebtedness, lease or other liability of any other Person (“**Company Guarantees**”), and accurate and complete copies of all Company Guarantees have been made available to Buyer. **Schedule 2.8(d)(iii)** contains a complete and accurate list of all Contracts pursuant to which any present or former owners, stockholders, directors, managers, members, officers or employees of the Company have guaranteed any Indebtedness, leases or other Liabilities of the Company (“**Other Guarantees**”), and accurate and complete copies of all Other Guarantees have been made available to Buyer.

(e) Except for (i) accounts payable and accrued expenses reflected on the Balance Sheet and other similar amounts incurred in the ordinary course of business since the Balance Sheet Date (none of which is a Liability resulting from breach of contract, breach of warranty, tort, infringement or misappropriation or violation of any Legal Requirement), and (ii) obligations of future performance under Contracts set forth or otherwise required to be set forth on a Schedule hereto or not required to be disclosed on a Schedule hereto, the Company does not have any material Liabilities.

2.9 No Material Changes. Since the Balance Sheet Date, except for the Transactions contemplated by this Agreement or as shown on **Schedule 2.9**: (a) the Company has operated only in the usual and ordinary course of business, (b) there has been no event or condition which individually, or together with any other events or conditions, has had or could reasonably be expected to have a Material Adverse Effect and (c) the Company has not:

- (i) changed its operations in any material respect;
- (ii) had any Lien placed upon any of the Company’s assets;
- (iii) disposed, acquired or licensed any assets or properties, other than in the ordinary course of business;
- (iv) adopted a plan or agreement of liquidation, dissolution, restructuring, merger, consolidation or other reorganization;
- (v) made any change in the compensation paid or payable to any officer, director, manager, employee, agent, representative or consultant other than in the ordinary course of business, or paid any special or extraordinary bonus to any officer, manager or employee;

(vi) made or effected any dividend, distribution, redemption, repurchase or similar transaction involving its securities;

(vii) made any change in its accounting policies, practices or procedures;

(viii) amended any Tax Returns, made or changed any election in respect of Taxes, entered into any closing agreement, settled any claim or assessment in respect of Taxes, or consented to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(ix) collected any receivables, paid any payables, or committed to any capital expenditures, other than in the ordinary course of business, or delayed any capital expenditures or other payments;

(x) changed its customer pricing, rebates or discounts, other than in the ordinary course of business;

(xi) canceled or waived any material rights, or settled any material claim;

(xii) suffered any damage, destruction or casualty, condemnation or other loss (whether or not covered by insurance) with respect to any of the assets or properties owned or used by the Company that, individually or in the aggregate, exceeds \$50,000;

(xiii) assigned, transferred, licensed, abandoned, cancelled or otherwise waived or terminated any rights with or in any Company Intellectual Property, except non-exclusive licenses granted to customers in the ordinary course of business;

(xiv) made or authorized any commitment with respect to capital expenditures that are, in the aggregate, in excess of \$150,000;

(xv) conducted any reduction-in-force of employees or other service providers or otherwise implemented any layoffs that could implicate the WARN Act;

(xvi) amended any Tax Return, made or changed any material election in respect of Taxes, entered into any closing agreement, settled any claim or assessment in respect of Taxes, consented to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, changed its method of Tax accounting, prepared any Tax Returns in a manner which is materially inconsistent with the past practices of the Company, incurred any material liability for Taxes other than in the ordinary course of business consistent with past practice or filed any Tax Return in a jurisdiction where the Company did not file a Tax Return of the same type in the immediately preceding tax period;

(xvii) managed its working capital other than in the ordinary course of business consistent with past practices (including (A) not deferring, delaying or postponing the payment of accounts payable or other obligations or Liabilities other than in the ordinary course of business with past practices, and (B) not accelerating the collection of accounts receivable other than in the ordinary course of business consistent with past practices);

(xviii) cancelled any insurance policies or reduced the amount or scope of any insurance coverage provided by such insurance policies with respect to the assets, operations and activities of the Company;

(xix) commenced any lawsuit, arbitration or other legal or quasi-legal proceeding; or

(xx) agreed or committed to do any of the foregoing.

2.10 Material Contracts. Schedule 2.10 sets forth a complete and accurate list (organized by subsection), in each case whether written or unwritten, of all of the following Contracts with respect to the Company:

(a) Contracts with respect to which the Company has any Liability involving more than \$150,000 (“**Material Contract Amount**”), contingent or otherwise;

(b) Contracts with any Material Customers or Material Vendors;

(c) Contracts that may extend for a term of more than one year after the Closing and that have Liability involving more than the Material Contract Amount;

(d) Contracts under which the amount payable by the Company is dependent on the revenue, income or other similar measure of the Company or any other Person;

(e) Contracts and other arrangements with respect to any material property of the Company, including without limitation, distribution, sales and supply Contracts and any Contract containing an assignment or agreement to assign Intellectual Property by the Company to any other Person;

(f) Contracts relating to any Indebtedness (including Contracts that are a mortgage, indenture, guaranty, loan or credit agreement, security agreement or which otherwise create or grant any Lien on any assets of the Company (other than Permitted Liens));

(g) Contracts of the Company with any officer, director, manager, stockholder, member or Affiliate of the Company or any of their respective relatives or Affiliates, which contracts remain in effect;

(h) Contracts which place any limitation on the Business including, without limitation, any agreement that contains any exclusivity, price restriction, non-competition, most-favored nation, non-solicitation, no-hire or similar provisions;

(i) employment, severance, consulting, deferred compensation or collective bargaining Contracts, and benefits or similar plans, Contracts or other arrangements involving the Company (other than those terminable at will without Liability to the Company);

(j) Contracts relating to or involving any franchise, partnership, joint venture or other similar arrangement (including any Contract relating to a profit-sharing arrangement);

- (k) Contracts with respect to mergers or acquisitions, dispositions, purchases or sales of securities or material assets, or investments by the Company;
- (l) Contracts with Governmental Entities;
- (m) reseller, strategic alliance, co-marketing, co-promotion, co-packaging, joint development or similar Contracts;
- (n) Contracts for sales, marketing or other promotional services;
- (o) powers of attorney;
- (p) Contracts that provide for revenue paid to the Company in advance for goods to be delivered or services to be performed by the Company at a later date;
- (q) settlement or similar Contracts pursuant to which the Company has agreed to settle any actual or threatened dispute and under which the Company has any continuing obligations after the date hereof;
- (r) Contracts under which the Company has an obligation with respect to an “earn out,” contingent purchase price, or similar deferred or contingent payment obligation payable by or to the Company;
- (s) Contracts that require the Company to purchase its total requirements of any product or service from a third party or that contain “take-or-pay” provisions;
- (t) Contracts which contain any fixed or indexed pricing or provisions regarding minimum volumes or minimum or fixed purchase requirements, volume discounts or rebates;
- (u) Contracts that provide for the indemnification by the Company of any Person or the assumption of any Tax, environmental or other Liability of any Person;
- (v) any broker, dealer, manufacturer’s representative, franchise, agency, market research or advertising Contracts; and
- (w) other Contracts or other arrangements of the Company outside of the ordinary course of business.

All the foregoing (whether written or unwritten) which are required to be listed on **Schedule 2.10** (whether or not actually listed), including all amendments or modifications thereto, all Real Estate Leases, all IP Licenses and all Insurance Policies are sometimes collectively referred to as “**Material Contracts**.” The Company has furnished to the Buyer true and correct copies of all Material Contracts (or descriptions thereof, in the case of oral Contracts). Each Material Contract (or description) sets forth the entire agreement and understanding between the Company and the other parties thereto. Each Material Contract is valid, binding and in full force and effect and, subject to the Remedies Exception, enforceable in accordance with its terms. There is no event or condition that occurred or exists that constitutes or that, with or without notice, the happening of

any event and/or the passage of time, could constitute a default or breach under any such Material Contract by the Company or, to the Knowledge of the Company, any other party thereto, or could cause the acceleration of any obligation or loss of any rights of any party thereto or give rise to any right of termination or cancellation thereof, and, to the Knowledge of the Company, no allegation of any such event or condition has been made to the Company. To the Knowledge of the Company, the parties to any Material Contract will fulfill their obligations thereunder in all material respects. Since January 1, 2021, the Company has not received any written, or to the Knowledge of the Company, oral notice or request on behalf of any other party to a Material Contract (i) to terminate, cancel, not renew or reduce purchases pursuant to such Material Contract, or to renegotiate any material term thereof, or (ii) alleging or disputing any breach or default under such Material Contract or exercising any material right thereunder. Since January 1, 2021, no party to a Material Contract has adversely modified, and to the Knowledge of the Company no such party intends to adversely modify, their relationship with the Company (including by reducing the amount of products ordered from or sold to the Company under Material Contracts, including by way of purchase order, work order or similar order).

2.11 Real Property.

(a) **Schedule 2.11(a)** sets forth each interest in real property (including all land, buildings, easements, rights of way and other real property rights) owned by the Company (the “**Owned Property**”). The Company has good and marketable title to the Owned Property, free and clear of all Liens, except for Permitted Liens, and enjoys peaceful and quiet possession of the Owned Property. The Owned Property is legally subdivided and consists of separate tax lots so that each is assessed separate and apart from any other real property. There are no Actions pending or, to the Knowledge of the Company, threatened against or affecting any of the Owned Property before any Governmental Entity. Each parcel of the Owned Property is an independent unit which does not now rely on any facilities (other than the facilities of public utility and water companies) located on any other property (i) to fulfill any Legal Requirement or (ii) for structural support or the furnishing to the buildings or other improvements on the Owned Property of any building systems. There are no material Taxes, levies, fees or similar costs or charges which must be paid with respect to existing water or sewer hook-ups or other similar services relating to the Owned Property. None of the Owned Property is located in a flood plain, flood hazard area, wetland or lakeshore erosion area within the meaning of any applicable Legal Requirement.

(b) **Schedule 2.11(b)** sets forth each interest in real property (including all land, buildings, easements, rights of way and other real property rights) leased by the Company, the lessee of such leased property, the lessor of such leased property, the annual rent payable by the Company in respect of such leased property, the expiration date of such lease and each lease or any other arrangement under which such property is leased (the “**Leased Property**” and together with the Owned Property, the “**Real Property**”). The Company enjoys peaceful and quiet possession of its leased premises. The Company has not been informed that any lessor under any of the leases set forth on **Schedule 2.11(b)** (the “**Real Estate Leases**”) has asserted any default or taken action in respect of any Real Estate Lease or threatened to terminate any Real Estate Lease before the expiration date specified in such lease. Except as set forth in **Schedule 2.11(b)**, the Company has not entered into any sublease or other agreement permitting the occupancy by a third-party of any portion of any Leased Property demised under the Real Estate Leases. The

Company is entitled to the benefit of non-disturbance agreements that will permit it to continue to occupy any Leased Property under its existing leases in the event of a change in ownership or foreclosure upon the fee interest in such Leased Property.

(c) The Real Property includes all real property necessary for the conduct of the Business and is adequate to conduct the Business. The Real Property is in compliance in all material respects with all applicable Legal Requirements. The current use of the Real Property by the Company does not breach (either with or without giving effect to any applicable notice and cure periods) or violate any instrument of record, any Lien or other recorded or unrecorded agreement affecting the Real Property, nor shall the consummation of the Transactions result in any such breach or violation.

(d) None of the buildings, plants or structures on any Real Property is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are, individually and in the aggregate, immaterial. All utility systems serving the Real Property are adequate for the Business. Each Real Property has adequate access for ingress from and egress to a public way. There is no pending or, to the Knowledge of the Company, threatened condemnation, eminent domain or similar Action with respect to any Real Property.

(e) The Company has made available to the Buyer true and complete copies of the following: (i) the most recent title insurance policies and surveys (if any) for the Real Property and (ii) all reports (if any) of any engineers or environmental consultants relating to any of the Real Property.

2.12 Property and Assets. The Company has good title to or a valid leasehold or license interest in each item of personal property used by it in the Business, free and clear of all Liens. All material tangible assets of the Company are in good operating condition and repair, normal wear and tear excepted, and are adequate to conduct the Business. The assets and properties of the Company include all assets and properties necessary for or currently used in the conduct of the Business, and are adequate to conduct the Business.

2.13 Intellectual Property.

(a) As used in this Agreement, the following terms have the meanings indicated:

(i) “**Intellectual Property**” means all intellectual property rights of every kind anywhere in the world, including all: (A) issued patents and patent applications (whether provisional or non-provisional), including divisionals, continuations, continuations-in-part, substitutions, reissues, reexaminations, extensions, or restorations of any of the foregoing, and other similar indicia of invention ownership (including certificates of invention, petty patents, and patent utility models); (B) trademarks, service marks, trade dress, trade names and logos (in each case, whether registered or unregistered and including the goodwill associated therewith) and registrations and applications for registration thereof; (C) copyrights (whether registered or unregistered) and registrations and applications for registration thereof; (D) rights in data, databases or other compilations of fact; (E) industrial designs and any registrations and applications therefor, and all other rights corresponding thereto; (F) trade secrets and other

confidential or proprietary information (including without limitation, ideas, formulae, compositions, inventions and invention disclosures (whether patentable or unpatentable and whether or not reduced to practice), software (whether in source code or object code), files, firmware, know-how, manufacturing and production processes and techniques, marketing and other business systems, research and development information, drawings, specifications, designs, plans, proposals, financial and marketing plans and customer and supplier lists and information); (G) Internet domain names and social media accounts and identifiers (i.e., “handles”) and registrations therefor; (H) mask works (whether registered or unregistered) and registrations and applications for registration thereof; (I) right to claim authorship to or to object to any distortion, mutilation, or other modification or other derogatory action in relation to a work, whether or not such would be prejudicial to the author’s reputation, moral rights recognized by applicable law, and any similar right; and (J) goodwill associated with any of the foregoing.

(ii) “**Company Intellectual Property**” means all Intellectual Property owned, purported to be owned or licensed by the Company.

(iii) “**Company Products**” means all of the products marketed, licensed, sold or offered for sale by the Company and all components, prior versions and releases thereof, and any services performed by or on behalf of the Company, in each case whether or not currently offered, distributed or performed.

(b) **Schedule 2.13(b)(i)** hereto contains a complete and accurate list of all Company Intellectual Property that is owned by the Company and is included in clauses (A), (B), (C), (E), (G) and (H) of the definition of Intellectual Property (to the extent registered or registration has been applied for) (the “**Registered Company Intellectual Property**”), in each case enumerating the applicable filing or registration number, title, jurisdiction in which such filing was made or from which registration issued, date of filing and issuance and names of all current applicant(s) and registered owner(s), as applicable. Each item of Registered Company Intellectual Property complies in all material respects with all Legal Requirements, is valid and subsisting and all necessary registration, maintenance and renewal fees in connection with such Registered Company Intellectual Property have been paid to the extent applicable, and all necessary documents and certificates in connection with such Registered Company Intellectual Property have been filed with the relevant authorities for the purposes of registering and maintaining such Registered Company Intellectual Property on behalf of the Company. All assignments of Registered Company Intellectual Property to the Company have been properly executed and recorded in compliance with all Legal Requirements to perfect ownership of such Registered Company Intellectual Property in the Company. There is no known, threatened or reasonably foreseeable loss or expiration of any Registered Company Intellectual Property and the Transactions do not and will not result in the loss, termination or expiration of any license or of any Intellectual Property rights of the Company. There are no actions that must be taken by the Company within 180 days of the date of this Agreement, including the payment of any registration, maintenance or renewal fees or the filing of any responses to office actions, documents, applications or certificates for the purposes of obtaining, maintaining, perfecting or preserving or renewing any Registered Company Intellectual Property. The Company has not claimed “small business status,” or other special status in the application for or registration of any Registered Company Intellectual Property.

(c) **Schedule 2.13(c)** contains a complete and accurate list of (i) all licenses and other rights (including, without limitation, co-existence rights and covenants not to sue) granted by the Company to any Person with respect to any Company Intellectual Property and (ii) all licenses and other rights (including, without limitation, co-existence rights and covenants not to sue) granted by any Person to the Company with respect to any Intellectual Property (excluding, for scheduling purposes only, commercial off-the-shelf software licensed to the Company in the ordinary course of business and easily obtainable without material expense) (collectively for clauses (i) and (ii), the “**IP Licenses**”). The Company complies in all material respects with all of its obligations pursuant to the IP Licenses. The Company is not and will not be required to pay any currently due, future or ongoing royalties or other compensation to any third parties in respect of its ownership or use of any Intellectual Property.

(d) The Company owns exclusively, free and clear of any Liens, or is a party to valid and binding, express, perpetual, royalty free, fully paid up, irrevocable, non-terminable licenses to, all Intellectual Property necessary for or currently used in the conduct of its Business and for the manufacture, production, distribution, marketing, performance, sale or support of all Company Products. The Company has not violated, misappropriated or infringed, and is not violating, misappropriating or infringing, and, by conducting its Business, will not violate, misappropriate or infringe any Intellectual Property of any other Person and, to the Knowledge of the Company, there are no violations, misappropriations or infringements by any Person of any Company Intellectual Property. The Company has not received any notice or communication (including any “invitation to license”) from any Person claiming any violation, misappropriation or infringement by the Company of another Person’s Intellectual Property rights or alerting the Company about another Person’s Intellectual Property as it may relate to the Company’s business (and to the Knowledge of the Company there is no basis for any such notice, communication or claim).

(e) The Company has taken steps that are reasonably required to protect its rights in, and the confidentiality of, the Intellectual Property developed by or on behalf of the Company, and all other confidential or proprietary information belonging to, the Company or provided by any other Person to the Company. Without limiting the foregoing, the Company has, and enforces, a policy requiring each of its employees, consultants and contractors who have access to confidential or proprietary information of the Company or Persons with whom the Company conducts business to execute enforceable proprietary information disclosure, assignment of inventions and confidentiality agreements assigning all rights in any Company Intellectual Property to the Company and all current and former employees and all consultants and contractors of the Company, have executed such agreement in the form provided to the Buyer. To the Knowledge of the Company, no employee of the Company is obligated under any agreement or commitment, or subject to any judgment, decree or order of any court or administrative agency, that could interfere with such employee’s duties to the Company, or that could conflict with the conduct of the Business. Except as set forth in **Schedule 2.13(e)**, no third party has claimed or, to the Knowledge of the Company, has reason to claim that any person employed by or affiliated with the Company has (i) violated or may be violating any of the terms or conditions of such person’s employment, non-competition, non-disclosure, non-use, confidentiality or similar agreement with such third party; or (ii) disclosed or may be disclosing or utilized or may be utilizing any trade secret or confidential or proprietary information or documentation that is or was

confidential or proprietary of such third party. No person employed by or affiliated with the Company has used or proposes to use any trade secret or any information or documentation proprietary to any other Person in connection with the Business or any Company Products or incur any Liability on the Business.

2.14 Accounts Receivable. All of the notes receivable, accounts receivable (net of reserves noted in the Financial Statements) and other receivables of the Company (the “**Accounts Receivable**”) (a) are valid and enforceable claims, (b) are determined in accordance with the Accounting Principles and arose out of bona fide transactions in the ordinary course of business with Persons who are not Affiliates of the Company, (c) are not subject to any setoffs or counterclaims, and (d) are not subject to any reserves other than general reserves recorded in the ordinary course of business. Except for installations in the ordinary course of business, the Accounts Receivable outstanding at Closing do not reflect any changes in discounts, rebates or other benefits offered and no further services are required to be rendered in order to complete the transactions reflected by the Accounts Receivable. No such Accounts Receivable have been assigned or pledged to any Person.

2.15 Inventories. Except as set forth in **Schedule 2.15**, all inventory of the Company reflected on the Latest Balance Sheet, (a) consists of a quality and quantity usable and salable in the ordinary course of business, except for obsolete, damaged, defective or slow-moving items that have been written off or written down to fair market value on the Latest Balance Sheet or for which adequate reserves have been established on the Latest Balance Sheet, and (b) conforms to the specifications established therefor, and has been manufactured in accordance with all applicable Legal Requirements. All such inventory is owned by the Company free and clear of all Liens (other than Permitted Liens), and no inventory is held on a consignment basis.

2.16 Warranty Claims.

(a) Except as set forth in **Schedule 2.16(a)**, no service or product provided, manufactured, sold, leased, licensed or delivered by the Company since January 1, 2018 is subject to any guaranty, warranty, right of return, right of credit, service level agreement obligation or other indemnity other than (i) the Company Standard Terms, and (ii) manufacturers’ warranties for which the Company has no liability. **Schedule 2.16(a)** sets forth the aggregate expenses incurred and expected to be incurred by the Company in fulfilling its obligations under its guaranty, warranty, right of return, service level agreement credit and indemnity provisions during each of the fiscal years and the interim period covered by the Financial Statements; and to the Knowledge of the Company, there is no reason why such expenses should significantly increase as a percentage of sales.

(b) The reserve for warranty claims in the Latest Balance Sheet and any reserves for warranty claims created by the Company in the ordinary course of business subsequent to the date of the Latest Balance Sheet are adequate and were calculated in accordance with GAAP applied on a basis consistent with the application thereof in the Financial Statements.

(c) Other than as specified in the Company Standard Terms (defined hereafter), the Company has no liability to any customer in connection with any service provided or product manufactured, sold, leased or delivered by the Company to provide the customer with any other

services or products of the Company on pre-negotiated terms, including for upgrades to other services or products at prices below the Company's published price for such services or products. The Company has no liability to any customer in connection with any service provided or product manufactured, sold, leased or delivered by the Company, other than those arising in the ordinary course of business and as stipulated in the Company Standard Terms.

(d) No product liability claims are pending or have been received since January 1, 2018 by the Company and, to the Knowledge of the Company, no such claims have been made against any other Person with respect to any products or services of the Company or threatened against the Company relating to any products or services of the Company. There is no judgment, order or decree outstanding against the Company relating to product liability claims and there has been no recall or investigation of the Company by any other Person of any products of the Company.

(e) Each product or service of the Company meets, and at all times since January 1, 2018 has met, in all material respects, all standards for quality and workmanship prescribed by Legal Requirements, industry standards (including UL, CE, RoHS or comparable standards), contractual agreements and the product literature provided by the Company.

2.17 Business Relationships.

(a) **Schedule 2.17(a)** sets forth a (a) true, complete and accurate list of all customers that accounted for at least \$1,000,000 of consolidated net revenue by the Company during the twelve calendar months ended as of December 31, 2022 (collectively, "**Material Customers**") and the amount of revenue generated in such period by each such customer and (b) true, complete and accurate list of the Company's top 10 suppliers, vendors and services providers, measured by expense incurred in the twelve calendar months ended as of December 31, 2022 (collectively, "**Material Vendors**"), replacements for which Material Vendors are reasonably expected to be available to the Company on commercially reasonable terms.

(b) The Company has no Knowledge that (as a result of the Transactions or otherwise) (x) any Material Customer will not continue purchasing, contracting for, arranging or requesting, without significant reductions, products and services from the Company, (y) any Material Vendor will not continue selling the products and provide the services to the Company currently sold and provided by them and (z) any Material Customer or Material Vendor will otherwise alter in any material respect the business relationship between the Company and the Material Customer or Material Vendor as the relationship has historically existed prior to the Closing. Since December 31, 2021, no Material Customer or Material Vendor (i) has terminated or elected not to renew or, to the Knowledge of the Company threatened or intends to terminate or not renew, its relationship with the Company, (ii) has decreased or limited materially or, to the Knowledge of the Company threatened or intends to decrease or limit materially, the services, products, supplies or materials supplied to or purchased from the Company, or (iii) has materially changed or, to the Knowledge of the Company threatened to change materially, its business relationship or contractual terms (including but not limited to pricing or rates) with the Company.

(c) Other than as set forth on **Schedule 2.17(c)(i)**, each Contract entered into by the Company on or subsequent to January 1, 2018 with respect to the sale or provision of products

or services by the Company is in material conformity with the Company terms and conditions, a copy of which is attached as **Schedule 2.17(c)(ii)** (the “**Company Standard Terms**”).

2.18 Regulatory and Legal Compliance. The Company is and has been at all times in compliance in all material respects with all applicable Legal Requirements, and the Company has not received any notice from any Governmental Entity or any other Person of any alleged violation or noncompliance with respect to any Legal Requirements. “**Legal Requirements**” means, with respect to any Person, all foreign, federal, state and local statutes, laws, ordinances, judgments, decrees, orders, rules, regulations, policies and guidelines applicable to such Person.

2.19 Permits. **Schedule 2.19** sets forth all Permits held by the Company or, to the extent relevant to the Business, each employee, subcontractor and service provider of the Company. The Company is and has been at all times in compliance in all material respects with such Permits, all of which are in full force and effect and will be in full force and effect immediately after giving effect to the Transactions. There are no other Permits which are material to the Company or the Business which the Company is required to obtain or which, in good industry practice, the Company should hold for the conduct of the Business. To the Knowledge of the Company, there is no event or condition that occurred or exists that constitutes or that, with or without notice, the happening of any event and/or the passage of time, could result in the suspension, revocation or invalidation of any of the Permits set forth or required to be set forth on **Schedule 2.19** or any basis therefor, and, to the Knowledge of the Company, no allegation of any such event or condition has been made to the Company. As used in this Agreement, “**Permits**” means all licenses, permits, accreditations, authorizations, franchises, certifications, clearances, approvals and consents of Governmental Entities, industry organizations or other Persons.

2.20 Export Controls and Sanctions. The Company is and has been in compliance with all applicable Export Control Rules. Since January 1, 2018, the Company has not received any notice alleging that it is not in compliance with, or has liability under, such Export Control Rules. The Company has not conducted or initiated any internal investigation, made any mandatory or voluntary disclosure or declined to make a voluntary disclosure with respect to any known violation of Export Control Rules, or failed to make any mandatory report or disclosure to any Governmental Entity pursuant to Export Control Rules. “**Export Control Rules**” means all Laws of any Governmental Entity relating to the import or export of goods, technology, or services or trading embargoes or other trading restrictions, including the Arms Export Control Act, the International Traffic in Arms Regulations, the Export Administration Act, the Export Administration Regulations, the International Economic Emergency Powers Act, and executive orders and regulations administered by the Office of Foreign Assets Control of the U.S. Department of Treasury, and comparable foreign Laws.

2.21 Tax Matters.

(a) **Definitions.** For purposes of this Agreement, the following definitions shall apply:

(i) “**Tax**” or “**Taxes**” means all taxes, charges, fees, levies, penalties, additions or other assessments imposed by any foreign, federal, state or local taxing authority, including, but

not limited to, income, excise, property, sales, use, transfer, franchise, payroll, withholding, value added, social security, customs, abandoned property or other taxes, charges or assessments, including any interest, penalties or additions attributable thereto.

(ii) “**Tax Returns**” means all reports, estimates, declarations of estimated Tax, information statements and returns relating to, or required to be filed in connection with, any Taxes and any schedules attached to or amendments of (including refund claims with respect to) any of the foregoing. Form 5500 as filed by the Company in relation to any of its Benefit Plans shall not be considered a Tax Return for this Section as such form does not include the payment of any Taxes.

(b) Except as set forth on **Schedule 2.21(b)** hereto: (i) all Tax Returns required to be filed by or on behalf of the Company have been duly filed on a timely basis; (ii) such Tax Returns are true, complete and correct in all material respects; (iii) all Taxes owed by the Company for or with respect to any taxable period or partial taxable period ending on or before the Closing Date, whether or not stated as due on such Tax Returns, have been paid or will be timely paid prior to the Closing or are taken into account in the final determination of the Closing Purchase Price; (iv) the Buyer has been supplied with true and complete copies (and such copies have been posted in the data room) of each Tax Return of the Company, including each franchise or excise Tax Return based on income filed for the last three taxable years, and the Tax Return workpapers of the Company and other Tax related information accurately set forth the tax basis of the Company’s consolidated assets and the amount of its consolidated liabilities, net operating loss and other carry forwards, and other tax attributes; (v) the Company (A) has never been audited or received notice of initiation of any audit by any taxing authority for any Tax period for which the statute of limitations for assessment of Taxes remains open, (B) has never extended any applicable statute of limitations regarding Taxes for any Tax period for which the statute of limitations for assessment of Taxes remains open, (C) is not currently the beneficiary of any extension of time within which to file any Tax Return, (D) has not applied for and has not obtained a private letter ruling from the Internal Revenue Service (or comparable rulings from any other Governmental Entity), (E) has not executed any power of attorney with respect to any matter relating to Taxes that is currently in force, (F) has not entered into a gain recognition agreement within the meaning of Section 367 of the Internal Revenue Code of 1986, as amended (the “**Code**”) or a closing agreement within the meaning of Section 7121 of the Code or any similar provision of state, local, or foreign law, (G) has not agreed to and is required to make any adjustment under Section 481(a) or 263A of the Code (as a result of the Transactions or otherwise), (H) has never made any payments, is not obligated to make any payments, and is not a party to any agreement or arrangement that under certain circumstances could obligate it to make any payments that may not be deductible under Section 280G or 404 of the Code or that may be subject to any penalty tax under Section 4999 of the Code, (I) does not have outstanding any capital stock that is subject to a “substantial risk of forfeiture” within the meaning of Section 83 of the Code, (J) is not a party to any allocation, indemnity, sharing or similar agreement with respect to Taxes, (K) has never participated in the filing of any consolidated, combined or unitary Tax Return other than with respect to a consolidated, combined or unitary group of which the Company is the common parent, or has any Liability for the Taxes of any Person (other than Taxes of the Company) under Treasury Regulation §1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by Contract or otherwise, (L) has not received notice of any claim by any authority in

any jurisdiction where it does not file Tax Returns that it is or may be subject to any Taxes or future taxation in such jurisdiction, (M) has not become subject to tax in a jurisdiction other than the country and state/province of its formation or as a result of having an office or fixed place of business or transacting sufficient business in such jurisdiction to constitute transacting business in such jurisdiction under applicable statutes, codes or rules, and (N) is not a party to any joint venture, partnership or other arrangement or Contract that could be treated as a partnership for federal income tax purposes; (vi) all Taxes which the Company is required to withhold or to collect for payment have been duly withheld and collected and timely paid to the proper governmental entity or third party; (vii) all persons characterized and treated as independent contractors or consultants are properly treated as independent contractors under all applicable Legal Requirements; (viii) each of the ESOT and the Company is a “United States person” as such term is used in Section 1445 of the Code, except for Subsidiaries which are foreign entities, and the Company has not been, at any time, a “United States real property holding corporation” within the meaning of Section 897(c)(1) of the Code; and (ix) there has never been an ownership change (within the meaning of Section 382 of the Code) with respect to the Company.

(c) Since January 1, 2011, the Company has not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period or portion thereof after the Closing Date as a result of any (i) installment sale or open transaction disposition occurring on or prior to the Closing Date, (ii) cash basis method of accounting or percentage of completion method of accounting, (iii) election under Section 108(i) of the Code, (iv) prepaid amount received on or prior to the Closing Date, or (v) election under Section 965(h) of the Code.

(d) Each “nonqualified deferred compensation plan” (as defined under Section 409A of the Code) has at all relevant times complied with applicable document requirements of, and been operated in compliance with, Section 409A of the Code. No stock or other equity option or appreciation right has an exercise price or base price that was less than the fair market value of the underlying stock or equity (as the case may be) as of the date of grant of such option or right, or has any feature for the deferral of compensation other than the deferral of recognition of income until the earlier of exercise or settlement of such option or right.

(e) Since January 1, 2011, the Company has not engaged in a transaction that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service has identified by notice, regulation, or other form of published guidance as a listed transaction, as set forth in Treasury Regulation Section 1.6011-4(b)(1), or otherwise identified as a tax avoidance transaction. No Tax Return filed by the Company contained or was required to contain a disclosure statement under Sections 6011 or 6662 of the Code (or any predecessor statute) or any similar provision of state, local, or foreign law.

(f) The Company has not constituted either a “distributing corporation” or a “controlled corporation” in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution that could otherwise constitute part of a “plan” or “series of related transactions” within the meaning of Section 355(e) of the Code in conjunction with the Transactions.

(g) Except as set forth on **Schedule 2.21(g)**, since January 1, 2011, (i) the Company (but not its Subsidiaries) has had in effect continuously a valid election to be classified as an S corporation for U.S. federal and applicable state Tax purposes, (ii) each of the Company's Subsidiaries incorporated or organized in a state within the United States has either had in effect continuously a valid election to be taxable as a "qualified subchapter S subsidiary" or been classified as a disregarded entity for such purposes, and (iii) each of the Company's Subsidiaries not incorporated in a state within the United States has been treated as a C corporation for U.S. federal and applicable state Tax purposes. The Company does not have any "net unrealized built-in gains" within the meaning of Section 1374(d) of the Code, or owns any assets acquired from a C corporation that are subject to Section 1374(d)(8) of the Code.

2.22 Litigation. Except as set forth on **Schedule 2.22**, no Action is pending or, to the Knowledge of the Company, threatened against the Company or, to the Knowledge of the Company, against any current or former stockholder, member, officer, director, manager or employee of the Company or the ESOT in relation to the affairs of the Company and, to the Knowledge of the Company, no basis exists for the foregoing. The matters disclosed on such Schedule will be covered by the Company's insurance policies. The Company is not currently planning to initiate any Action before any arbitrator, mediator or Governmental Entity.

2.23 Employees and Compensation.

(a) Except as set forth on **Schedule 2.23(a)**, the Company is and has been at all times in compliance in all material respects with all applicable Legal Requirements relating to employment and employment practices in the jurisdictions within which they operate, including, without limitation, all Legal Requirements relating to equal employment opportunities, fair employment practices, discrimination, affirmative action, harassment, retaliation, terminations and reductions in force, wage and hour laws, overtime pay, taxes and withholdings, disability laws, immigration, classification, child labor, working conditions and health and safety laws, privacy, leave laws, workers' compensation, unemployment compensation and all other employee benefits. All individuals characterized and treated as independent contractors or consultants are properly treated as independent contractors under all applicable Legal Requirements. All current and former employees of the Company that have been classified by the Company as "exempt" under the applicable wage and hour laws have been properly classified at all times. The Company is and has been at all times in compliance with all immigration laws, including Form I-9 requirements and any applicable mandatory e-Verify obligations.

(b) The Company is not and has not been a party to or bound by any collective bargaining agreement or other contact with a union, works council or labor organization (collectively, a "**Union**"). No Union or any group of employees has sought or, to the Knowledge of the Company, engaged in any efforts to organize the employees of the Company, and no employees are members of any Union. There has not been, nor to the Knowledge of the Company has there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work or other similar labor disruption or dispute affecting the Company or any of its employees.

(c) Other than as set forth on **Schedule 2.23(c)**, there are no claims against the Company pending or, to the Knowledge of the Company, threatened to be brought or filed, with

any Governmental Entity, arbitrator or mediator by any Company employee, consultant or independent contractor, or by any Governmental Entity, arbitrator or mediator relating to the employment or engagement of any such employee, consultant or independent contractor.

(d) There are no employment or consulting Contracts or other arrangements (other than those terminable at will without Liability to the Company) with any employees of or consultants to the Company other than as set forth on **Schedule 2.10(i)**. **Schedule 2.23(d)(i)** sets forth a complete and accurate list of all employees of and consultants to the Company, showing date of hire, job title, work location, part-time or full-time status, hourly rate or salary rate, commission, bonus and other incentive-based compensation, location of residence, classification as exempt or non-exempt under applicable wage and hour laws (and basis for exemption if exempt), and job title. **Schedule 2.23(d)(ii)** sets forth the notice and severance obligations of the Company, whether pursuant to applicable Legal Requirement or Contract, with respect to any termination of employment of any employee outside of the United States. Other than as set forth on **Schedule 2.23(d)(iii)**, the Company has no notice or severance obligations, whether pursuant to applicable Legal Requirement or Contract, with respect to any employee in the United States. To the Knowledge of the Company, no officer or key employee of the Company intends to terminate (or has suggested or expressed that he or she might terminate) his or her employment with the Company.

(e) The Company has paid in full, consistent with the Company's payroll practices and compensation and benefit programs and policies, all amounts due to its employees and consultants, including but not limited to any wages, bonuses, commissions, benefits, encashment of leaves, and severance or notice pay, and there are no outstanding Liabilities whatsoever with respect thereto, or any claims in respect thereof. The Company has complied fully at all times with the WARN Act and any and all state and local counterparts thereto. The Company has not taken any action in the past three months that, either alone or in the aggregate, could, together with any future plant closings or reductions in force, implicate or affect such obligations in the next six months.

(f) Since January 1, 2019, the Company has not received notice of the intent of any Governmental Entity responsible for the enforcement of any Legal Requirement relating to employment and employment practices to conduct an investigation with respect to or relating to the Company or notice that such investigation is in process.

(g) The Company is not a party to any settlement agreement with a current or former service provider in the past three (3) years that specifically involves allegations of harassment. To the knowledge of the Company, in the past three (3) years no claims of sexual harassment have been made against any officer, employee or other service provider of the Company with respect to the conduct or alleged conduct of any such service provider during such service provider's employment or engagement with the Company.

2.24 ERISA; Compensation and Benefit Plans.

(a) **Schedule 2.24(a)** sets forth a true and complete and accurate list of each pension, benefit, retirement, supplemental retirement, compensation, employment, consulting, profit-sharing, deferred compensation, incentive, bonus, performance award, phantom equity,

stock, stock-based, change in control, retention, severance, salary continuation, accrued leave, sick leave, vacation, paid time off, health, medical, welfare, disability, life insurance, accidental death and dismemberment, fringe benefit, and other similar Contract, plan, policy, program, practice, or arrangement (and any amendments thereto), in each case whether or not reduced to writing and whether funded or unfunded, including each “employee benefit plan” within the meaning of Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), and each “voluntary employees’ beneficiary association” within the meaning of Section 501(c)(9) of the Code (“**VEBA**”), whether or not tax-qualified and whether or not subject to ERISA, which is or has been established, sponsored, offered, maintained, contributed to or required to be contributed to by the Company for the benefit of any current or former employee, officer, independent contractor, consultant or director of the Company (or any spouse, beneficiary or dependent thereof), or with respect to which the Company has or may have any Liability, or with respect to which Buyer or any of its Affiliates would reasonably be expected to have any Liability, whether direct or indirect, actual or contingent (including, but not limited to, Liabilities arising from affiliation under Section 414 of the Code or Section 4001 of ERISA) (collectively, the “**Benefit Plans**”), and includes a written description of all Benefit Plans that have not been reduced to writing. The Company has separately identified on **Schedule 2.24(a)**, each Benefit Plan that is maintained, sponsored, contributed to, or required to be contributed to by the Company primarily for the benefit of employees outside of the United States (each, a “**Non-U.S. Benefit Plan**”).

(b) With respect to each Benefit Plan, the Company has delivered to the Buyer accurate, current and complete copies of each of the following, as applicable: (i) any and all plan texts and agreements (including, but not limited to, trust agreements, funding arrangements, custodial agreements, insurance policies and contracts, administration and service provider agreements, side letters and investment management and advisory agreements); (ii) any summary plan descriptions, summaries of material modifications, summaries of benefits and coverage, employee handbooks, and any other material written communications (or a description of any material oral communications); (iii) a copy of the three most recently filed Forms 5500 (with schedules and financial statements attached), and a copy of the three most recently distributed summary annual reports; (iv) the three most recent annual and periodic accounting of plan assets; (v) the most recent determination, opinion or advisory letter received from the Internal Revenue Service and a copy of any determination letter application pending before the Internal Revenue Service and any related correspondence; (vi) in the case of any unfunded or self-insured plan or arrangement, a current estimate of accrued and anticipated Liabilities thereunder; (vii) actuarial valuations and reports for the three most recent plan years; (viii) the results of nondiscrimination and top-heavy testing for the three most recent plan years; (ix) copies of material notices, letters, or other correspondence from any Governmental Entity including, without limitation, the Internal Revenue Service, Department of Labor (“**DOL**”), Department of Health and Human Services or Pension Benefit Guaranty Corporation; (x) fidelity bond and fiduciary liability insurance policies; and (xi) any filings under any amnesty, voluntary compliance, self-correction, or similar program sponsored by any Governmental Entity, including, without limitation, the Employee Plans Compliance Resolution System, Voluntary Fiduciary Correction Program, or Delinquent Filer Voluntary Correction Program.

(c) With respect to each Benefit Plan: (i) if intended to qualify under Section 401(a) of the Code, such plan so qualifies, its trust is exempt from taxation under Section 501(a)

of the Code and nothing has occurred that could adversely affect the qualified status of such plan; (ii) each VEBA has been determined by the Internal Revenue Service to be exempt from federal tax under Section 501(c)(9) of the Code and nothing has occurred that could adversely affect the exempt status of any VEBA; (iii) such plan has been established, administered, maintained and enforced in accordance with its terms and all applicable Legal Requirements (including, without limitation, ERISA, the Code, and the Affordable Care Act) and any applicable collective bargaining agreements; (iv) no breach of fiduciary duty has occurred with respect to which the Company or any Benefit Plan (or fiduciary thereof) have any Liability; (v) no actions or disputes (other than routine benefit claims), nor any audits or investigations by any Governmental Entity, are pending or, to the Knowledge of the Company, threatened; (vi) no “prohibited transaction” (within the meaning of either Section 4975(c) of the Code or Section 406 of ERISA) has occurred with respect to which the Company or any Benefit Plan (or fiduciary thereof) have any Liability; (vii) all contributions, premiums, and other payment obligations have been accrued on the consolidated financial statements of the Company in accordance with GAAP, and, to the extent due, have been made on a timely basis in accordance with the terms of such Benefit Plan and all applicable Legal Requirements and accounting principles; (viii) all contributions or benefit payments made or required to be made under such plan meet the requirements for deductibility under the Code; (ix) the Company has expressly reserved in itself the right to amend, modify or terminate such plan, or any portion of it, at any time without Liability to itself other than ordinary administrative expenses typically incurred in a termination event; (x) the Company has not attempted to maintain the grandfathered health plan status of such Benefit Plan under the Affordable Care Act; (xi) no complete or partial termination of any Benefit Plan has occurred or is expected to occur; (xii) all Non-U.S. Benefit Plans that are intended to be funded or book-reserved are funded or book-reserved, as appropriate, based upon reasonable actuarial assumptions; (xiii) no such plan requires the Company to continue to employ or engage any employee, officer, independent contractor, or director; (xiv) the Company has caused to be filed timely all required Form 5500s and any other filings required by applicable Legal Requirements; and (xv) to the extent applicable, each Non-U.S. Benefit Plan has been approved by the relevant taxation and other Governmental Entities so as to enable: (A) the Company and the participants and beneficiaries under the relevant Non-U.S. Benefit Plan and (B) in the case of any Non-U.S. Benefit Plan under which funds are set aside in advance of the benefits being paid, the assets held for the purposes of such plan, to enjoy the most favorable taxation status possible and the Company is not aware of any ground on which such approval may cease to apply.

(d) Neither the Company nor any ERISA Affiliate (as defined below) has ever contributed to, been required to contribute to, sponsored or maintained any (i) “multiemployer plan” within the meaning of Section 3(37) of ERISA (each a “**Multiemployer Plan**”), (ii) “single-employer plan” within the meaning of Section 4001(a)(15) of ERISA, (iii) “multiple employer plan” within the meaning of Section 413(c) of the Code or (iv) “multiple employer welfare arrangement” within the meaning of Section 3(40) of ERISA. None of the Benefit Plans are subject to the minimum funding standards of Section 302 of ERISA or Sections 412 or 418(B) of the Code, and none of the assets of the Company or any ERISA Affiliate is, or may reasonably be expected to become, the subject of any lien arising under Section 303 of ERISA or Sections 430 or 436 of the Code. “**ERISA Affiliate**” means all employers, trades, or businesses (whether or not incorporated) that would (as of any relevant time) be treated together with the Company or any of its Affiliates as a “single employer” within the meaning of Section 414 of the Code.

(e) Except as specified in **Schedule 2.24(e)**, with respect to each Benefit Plan which provides welfare benefits of the type described in Section 3(1) of ERISA: (i) no such plan provides or promises any post-employment or post-retirement medical, dental, disability, hospitalization, life, medical, death or similar benefits (whether insured or self-insured) with respect to any current or former employee, officer, independent contractor, or director of the Company or its Subsidiaries (or spouses, beneficiaries or dependents thereof), other than coverage mandated by Sections 601-608 of ERISA and 4980B(f) of the Code, (ii) each such plan has been at all times administered in compliance with Sections 601-734 of ERISA, 4980B(f) of the Code, and any similar state Legal Requirements; and (iii) no such plan has reserves, assets, surpluses or prepaid premiums.

(f) Neither the Company nor any of its Subsidiaries has any obligation to gross-up, indemnify or otherwise reimburse any current or former employee or other individual service provider for any Tax incurred by such individual, including under Section 409A, 457A or 4999 of the Code.

(g) Neither the execution and delivery of this Agreement, shareholder approval of this Agreement nor the consummation of the Transactions contemplated by this Agreement (whether alone or together with any other event) will (i) entitle any individual to payment or benefit, including any bonus, retention, severance, retirement or job security payment or any increase in any of the foregoing (ii) accelerate the time of payment or vesting under any Benefit Plan, (iii) increase the amount of compensation (including stock or stock-based compensation) or benefits due to any individual, (iv) trigger any funding (through a grantor trust or otherwise) of any compensation, severance or other benefit under any Benefit Plan or other agreement to which the Company is a party or (v) limit or restrict the right of the Company to merge, amend, or terminate any Benefit Plan. No Benefit Plan, individually or collectively, would reasonably be expected to result in the payment of any amount that would not be deductible under Section 280G of the Code.

(h) There has been no amendment to, announcement by the Company relating to, or change in employee participation or coverage under, any Benefit Plan or collective bargaining agreement that would increase the annual expense of maintaining such plan above the level of the expense incurred for the most recently completed fiscal year with respect to any director, officer, employee, independent contractor, or consultant, as applicable. The Company does not have any commitment or obligation, nor has made any representations to any director, officer, employee, independent contractor, or consultant, whether or not legally binding, to adopt, amend, modify, or terminate any Benefit Plan or any collective bargaining agreement, in connection with the consummation of the transactions contemplated by this Agreement or otherwise.

(i) The Company has correctly classified all individuals who have directly or indirectly performed services for it for purposes of each Benefit Plan, the Code, unemployment compensation, workers' compensation laws, and other applicable Legal Requirements.

(j) Each Benefit Plan that is subject to the Patient Protection and Affordable Care Act of 2010, as amended (the "**Affordable Care Act**") has been maintained and administered

in compliance with the Affordable Care Act, including all notice and coverage requirements, and no Tax or Liability has been or is expected to be incurred as a result of the application of the Affordable Care Act to such Benefit Plan.

2.25 Status of Qualified Retirement Plans.

(a) The Company 401(k) Plan (and related trust) and the ESOP (and related trust) have been formed pursuant to and in material compliance with Code Section 401(a).

(b) The ESOT is now, and has been at all times since its inception, a qualified “employee stock ownership plan” meeting the applicable qualification requirements of Code Section 409. The ESOT has at all times satisfied the applicable provisions of Section 4975(e)(7) of the Code, Section 54.4975-11 of the Treasury Regulations, and Section 407(d)(6) of ERISA that is designed to invest primarily in employer securities within the meaning of Section 4975(e)(8) of the Code.

(c) The Trustee has the authority under the ESOT and the ESOT Trust Agreement to execute this Agreement and enter into the Transaction without a vote of the ESOP Participants.

(d) The Company has no liability or contingent liability under Sections 1042(e), 4971, 4979A or 4980 of the Code.

(e) The Company has duly appointed the Trustee to act as the trustee of the ESOT and to represent the interests of the participants and beneficiaries of the ESOT with respect to this Agreement and the Transaction. The Trustee has engaged Willamette Management Associates to act as an independent financial advisor to the ESOT (the “**Independent Financial Advisor**”) with respect to this Agreement and the Transaction and has engaged independent legal counsel.

(f) The Company has made available to Buyer true and correct copies of all charters, by-laws and other organizational documents and records of the ESOT. The trust created pursuant to the ESOT Trust Agreement is a valid existing trust under the Laws of the State of Oregon where not preempted under Code Section 401(a). There is no Closing ESOT Indebtedness. All allocations of the Purchased Securities and distributions to participants of amounts in exchange for the Purchased Securities, if any, have been made in accordance with the terms of the ESOT, including the requirement that any allocation or sale or exchange of the Purchased Securities be made at a fair market value determined by an independent appraiser. No sale (or purchase) of the Purchased Securities by the ESOT to the Company or to any other disqualified person (within the meaning of Section 4975 of the Code) or party-in-interest (within the meaning of ERISA) has constituted a non-exempt prohibited transaction under Section 4975 of the Code or under ERISA; and each sale (or purchase) of the Purchased Securities by or to the ESOT has been made, with respect to any sale, for no less than (or, with respect to any purchase, no more than) Adequate Consideration. No sale (or purchase) of the Purchased Securities has, or will, result in an imposition of penalties upon the Company or the ESOT under Section 4978 of the Code or Section 4979A of the Code. There is not currently in effect any “verified written statement” signed by the Company or any predecessor in connection with any sale of the Purchased Securities to the ESOT

under a Section 1042 transaction (within the meaning of Section 1042 of the Code). With respect to the ESOT, (i) allocations to participants were made in accordance with Section 409(b) of the Code, to the extent applicable under Section 409(a) of the Code; (ii) all the Company contributions to the ESOT were deductible under Section 404 of the Code for the year made; (iii) the voting requirements of the ESOT and Section 409(e) of the Code and the valuation requirements of Section 408(e) of ERISA have always been complied with; and (iv) no allocations were ever made in violation of Sections 409(n) or 409(p) of the Code. Neither the Trustee nor any participant or beneficiary had or has any right to vote on the transactions contemplated by this Agreement, or any portion thereof, under the terms of the ESOT or applicable Law. There are no current legal Actions or, to the Knowledge of the Company, any threatened legal Actions against the ESOT, any fiduciaries (within the meaning of ERISA) of the ESOT (with respect to their fiduciary duties to the ESOT), or the Company in connection with its administration of the ESOT by current or former participants or beneficiaries, the U.S. Department of Labor or the IRS, and neither the U.S. Department of Labor nor the IRS is auditing or investigating the ESOT or has made inquiries about the form, establishment or administration of the ESOT or any transaction in which the ESOT engaged during the last five (5) full calendar years. No fiduciary (within the meaning of ERISA) of the ESOT is indemnified by, or has any rights to indemnity from, the Company or the ESOT for any fiduciary liability he, she or it may incur or may have incurred as a fiduciary of the ESOT. The Company has fully complied with all of its obligations under the ESOT and under ERISA and the Code with respect to the ESOT.

2.26 Environmental Matters.

(a) The Company is and has been in material compliance with all applicable Environmental Laws. Neither the Company nor any of its officers has received any communication or complaint from a Governmental Entity or other Person alleging that any Company has any material liability under any applicable Environmental Law or is not in material compliance with any applicable Environmental Law.

(b) Except as set forth on **Schedule 2.26(b)**, there is and has been no presence or Release or threatened Release of Hazardous Substances for which such Company would have liability or responsibility pursuant to applicable Environmental Law in connection with the conduct of the Business or on or from any properties currently or formerly owned, leased or operated by or for such Company or any predecessor company, at any location to which such Company or any predecessor company has disposed of or arranged for the disposal of any Hazardous Substances or at any other location the amount of which would reasonably be expected to have a Material Adverse Effect and, as to any properties currently or formerly leased or operated, but not owned, by such Company, arose out of such Company's activities during the applicable period of such lease or operations. Except as set forth on **Schedule 2.26(b)**, no underground storage tank or water, gas, or oil well, is located on any Owned Property. Except as set forth on **Schedule 2.26(b)**, there are no past or present actions, activities, circumstances, conditions, events or incidents, including without limitation the presence or Release of Hazardous Substances, that could form the basis for assertion of liability under Environmental Laws against the Buyer, the Company, the Business or any property used therein. There is no pending or, to the Knowledge of the Company, threatened investigation by any Governmental Entity, nor any pending or, to the Knowledge of the Company, threatened Action with respect to the Company, the Business or any

property used therein or against any predecessor, relating to Hazardous Substances or otherwise under any Environmental Law.

(c) **Schedule 2.26(c)** sets forth a complete list of all Environmental Permits that are required with respect to the occupation of the properties and the operation of the Business. The Company holds all Environmental Permits that are required with respect to the occupation of the properties and the operation of the Business, and is and has for the past five (5) years been in material compliance therewith. All such Environmental Permits are in full force and effect, and to the Knowledge of the Company, no Action, revocation Action, amendment procedure, writ, injunction or claim is pending or threatened concerning any such Environmental Permits.

(d) Except as set forth in **Schedule 2.26(d)**, the Company has not agreed to assume, undertake or provide indemnification for any liability of any other Person under Environmental Laws, including without limitation any obligation for any response action.

(e) Neither the execution, delivery or performance of this Agreement nor the consummation of the Transactions contemplated hereby will (i) require any notice to or consent of any Governmental Entity or other Person pursuant to any applicable “transaction-triggered” Environmental Law or any Environmental Permit or (ii) subject any Environmental Permit to suspension, cancellation, modification, revocation or nonrenewal.

(f) No restrictions have been imposed on the operation or use of the Owned Property in connection with any liability or potential liability arising from or related to Environmental Laws, and to the Knowledge of the Company, there is no Action pending or threatened which would reasonably be expected to result in the imposition of any such restriction.

(g) The Company has provided to the Buyer all “Phase I,” “Phase II” or other environmental assessment or compliance audit reports in their possession or to which they have reasonable access addressing locations ever owned, operated or leased by the Company or any predecessor company at which the Company or any predecessor actually, potentially or allegedly may have liability under any Environmental Law.

2.27 Information Technology Infrastructure; Privacy and Data Security.

(a) The Company has sufficient rights to use all computer software, firmware, networks, middleware and systems, information technology equipment used or held for use in connection with the operation of the Business (the “**IT Assets**”) and associated documentation, all of which rights shall survive unchanged upon the consummation of the Transactions. The IT Assets have not materially malfunctioned or failed. The IT Assets provide commercially reasonable redundancy and speed to meet the performance requirements of the Business as currently conducted. The IT Assets do not contain any viruses, malware, Trojan horses, worms, other undocumented contaminants, material bugs, vulnerabilities identified in the U.S. National Vulnerability Database maintained by the Department of Homeland Security and the National Institute of Standards and Technology, faults, disabling codes, or other devices or effects that reasonably could (i) enable or assist any Person to access without authorization the IT Assets or any information in the IT Assets, or (ii) otherwise adversely affect the functionality of the IT Assets. The Company deploys such patches, updates and hotfixes that it believes are commercially

prudent. To the Knowledge of the Company, no Person has gained unauthorized access to any IT Assets.

(b) The Company has written privacy and security policies that govern its collection, storage, use, disclosure and transfer of Personal Information that satisfy applicable Legal Requirements and Contracts and the Company complies in all material respects with such privacy and security policies and applicable Legal Requirements and Contracts. The Company has not collected any Personal Information from any third parties, except for Personal Information collected from employees and vendors in the ordinary course of business and as a service provider for its respective customers pursuant to customer Contracts. The Company has not received any claim or complaint regarding its collection, storage, use, disclosure or transfer of Personal Information. The Company has taken reasonable actions and measures to protect the confidentiality, integrity and security of Personal Information and all of its IT Assets against any unauthorized use, access, interruption, modification or corruption. As used in this Agreement, “**Personal Information**” means information in the possession or under the control of the Company regarding any Person, including personally identifiable information, financial information and protected health information, the use or disclosure of which is protected by applicable Legal Requirements.

(c) The Company has not received from any Governmental Entity or any other Person any complaint, notice or other notification of a complaint regarding the Company’s compliance with any Legal Requirement or Contract applicable to Personal Information. The Company has not received notice of, and is not otherwise aware of, any complaints, breaches, non-permitted uses or disclosures, or other incidents of alleged compromises to the privacy or security of any Personal Information.

(d) There has been no material breach of security or other unauthorized access by third parties to the Personal Information or confidential information in the Company’s possession, custody or control and there have been no successful unauthorized intrusions or breaches of the security of information technology systems of the Company. The Company has written policy guidelines for all parties with access to its computer systems regarding use of its computer systems, including use of the Internet and e-mail, and, to the Knowledge of the Company, such policy guidelines have been and are being complied with. With respect to all Personal Information gathered or accessed in the course of the operations of the Company, the Company has taken commercially reasonable steps, consistent with industry standards and Legal Requirements, to protect such Personal Information against loss and against unauthorized access, use, modification, disclosure or other misuse.

(e) The Company has in place disaster recovery plans, procedures and facilities that are appropriate to minimize the disruption of its Business in the event of any material failure of any of the IT Assets and in accordance with applicable Legal Requirements and Contracts. The disaster recovery and security plans, procedures and facilities specified meet all representations made to, and obligations with, all customers and vendors, and the Company is in compliance in all material respects therewith.

(f) The Company's receipt, collection, monitoring, maintenance, creation, transmission, use, analysis, disclosure, storage, disposal and security of all Personal Information has complied, and complies, in all material respects, with (i) all applicable Company privacy policies, (ii) all Contracts to which the Company is party or bound and (iii) all Legal Requirements.

2.28 Insurance. Schedule 2.28 sets forth all insurance policies under which the Company is insured (the "**Insurance Policies**"), the name of the insurer of each policy, the type of policy provided by such insurer, the amount, scope and period covered thereby and a description of any material claims made thereunder. True and correct copies of all such policies have been provided to the Buyer. Such insurance policies are valid and in full force and effect and are adequate to insure against all Liabilities, claims and risks against which it is customary for companies similarly situated as the Company to insure, including but not limited to claims made against the Company or its officers and directors post-transaction involving pre-transaction conduct. All premiums due to date under such policies have been paid, all required notices under such policies have been provided, no default exists thereunder and, with respect to any material claims made under such policies, no insurer has made any "reservation of rights" or refused to cover, or disputed, all or any portion of such claims. Such insurance policies do not provide for any retrospective premium adjustment or other experience-based Liability on the part of the Company. The Company has not received any notice of cancellation of or proposed material increase in the premiums payable for, or proposed reduction in the scope (or discontinuation) of, coverage under any of such insurance policies. Such insurance policies will not be affected in any way as a result of the Transactions.

2.29 Affiliate Transactions. Except as set forth on Schedule 2.29, (a) the Company is not a party to any Contract or other arrangement with, or indebted to, either directly or indirectly, any of its officers, directors, managers, direct or indirect equity holders or Affiliates, or any of their respective relatives or Affiliates, (b) none of such Persons is indebted to the Company or has any direct or indirect ownership interest in, or any contractual or business relationship with, any Person (i) who is or was an Affiliate of the Company, (ii) with which the Company has a business relationship, or (iii) who is a competitor of the Company, and (c) none of such Persons has any interest in any property, real or personal, tangible or intangible, including inventions, copyrights, trademarks, trade names or other intellectual property, used in or pertaining to the conduct of the Business or any supplier, distributor or customer of the Company.

2.30 Brokers. Except as set forth on Schedule 2.30, no finder, broker, agent, financial advisor or other intermediary has acted on behalf of the ESOT or the Company in connection with the negotiation or consummation of this Agreement or the Transactions and no such Person is entitled to any brokerage, finder's or other fee, payment, commission or other consideration in connection therewith as a result of any arrangement made by any of them. The obligations of the Company to each Person listed on or required to be listed on Schedule 2.30 shall constitute Transaction Expenses.

2.31 Absence of Certain Payments. Neither the Company nor to the Knowledge of the Company, any Person associated with or acting for or on behalf of the Company has, directly or indirectly, on behalf of or with respect to the Company: (a) made an unreported political contribution, (b) made or received any payment that was not legal to make or receive, (c) engaged

in any material transaction or made or received any material payment that was not properly recorded on the books of the Company, (d) created or used any “off-book” bank or cash account or “slush fund,” or (e) engaged in any conduct constituting a violation of the Foreign Corrupt Practices Act of 1977, as amended, or any other anti-bribery, anti-fraud, anti-corruption or similar Legal Requirements (collectively, “**Anti-Bribery Laws**”). Neither the Company nor any Person acting on its behalf is or has been the subject of any proceeding or, to the Knowledge of the Company, investigation regarding an alleged violation of any Anti-Bribery Laws.

2.32 Bank Accounts. Schedule 2.32 sets forth the account numbers and names of each bank, broker or other depository institution at which the Company maintains a depository account.

2.33 No Other Agreements. Except for this Agreement and the Transaction Documents, the Company does not have any other agreements, arrangements or understandings with any security holder, director, officer, manager, member, employee, consultant or affiliate of the Company in respect of the Transactions and the Transaction Documents.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES CONCERNING THE ESOT

The Company warrants to the Buyer that the information contained in this Article 3 is true and correct as of the date hereof and will be true and correct as of the Closing Date:

3.1 Title. The ESOT is the record and beneficial owner of the Company Securities, free and clear of all Liens, other than pursuant to applicable securities laws. On the Closing Date, the Company and Trustee on behalf of the ESOT shall transfer to the Buyer good title to such Company Securities, free and clear of all Liens, other than pursuant to applicable securities laws. The ESOT has not granted any option or right, and is not a party to or bound by any agreement that requires or, upon the passage of time, the payment of money or occurrence of any other event, would require the ESOT to transfer any of the Company Securities to anyone other than the Buyer.

3.2 Organization and Authority. The ESOP, including the ESOT, each have been duly authorized, adopted and established by all necessary corporate action on the part of the Company; the ESOP is a valid employee stock ownership plan within the meaning of Code Section 4975(e)(7), qualified under Section 401(a) and the ESOT is a trust exempt from taxation under Code Section 501(a).

3.3 No Conflict. Other than as set forth on Schedule 3.3 and for any applicable filings and approvals under the HSR Act, no consent, approval or authorization of or notice, declaration or filing with any Governmental Entity or other Person is required on the part of the ESOT for or in connection with the execution, delivery or performance by ESOT of this Agreement and the other agreements, documents and instruments of the ESOT contemplated hereby to which the ESOT is a party. The execution, delivery and performance of this Agreement and the other agreements, documents and instruments contemplated hereby by the ESOT will not result in any breach or violation of, be in conflict with, constitute a default or an event that, with or without notice or a lapse of time or both, would constitute a default under, or cause the acceleration of any obligation or loss of any rights under any Legal Requirement, Contract, instrument, charter, by-

laws, operating agreement, partnership agreement, organizational document, license, permit, authorization, franchise, resolutions or certification to which the ESOT is a party or by which the ESOT is bound.

3.4 Validity and Enforceability. This Agreement is, and each of the other agreements, documents and instruments contemplated hereby to which the ESOT is a party shall be when executed and delivered by the ESOT, the valid and binding obligations of the ESOT enforceable in accordance with its terms except as limited by the Remedies Exception.

3.5 Litigation. No Action against the ESOT is pending or, to the knowledge of the ESOT, threatened against the ESOT, in relation to the affairs of the Company or that would materially interfere with the Buyer's ability to consummate the Transactions.

3.6 Ownership of Company Assets. The ESOT has no direct or indirect rights, title and/or interest in any property, real or personal, tangible or intangible, used in, necessary for or currently contemplated for future use in the Business (including any Company Intellectual Property).

ARTICLE 4. REPRESENTATIONS AND WARRANTIES CONCERNING THE BUYER

The Buyer represents and warrants to the ESOT and the Company that each of the statements contained in this **Article 4** is true and correct as of the date hereof and will be true and correct as of the Closing Date:

4.1 Organization, Power and Standing. The Buyer is a corporation validly existing and in good standing under the laws of the State of Delaware, with all requisite power and authority to own its properties and to carry on its business as such business is now conducted.

4.2 Authority; No-Conflict. The Buyer has full power and authority and has taken all required corporate action on its part necessary to permit it to execute and deliver and to carry out the terms of this Agreement and the other agreements, documents and instruments contemplated hereby to which it is a party (the "**Buyer Transaction Documents**"). No consent, approval or authorization of or notice, declaration or filing with any Governmental Entity or other Person is required by the Buyer for or in connection with its execution, delivery or performance of this Agreement and any Buyer Transaction Documents. The execution, delivery and performance of this Agreement and the Buyer Transaction Documents will not result in any breach or violation of, be in conflict with, or constitute a default or an event that, with or without notice or a lapse of time or both, would constitute a default under any Legal Requirement, agreement, contract, instrument, charter, by-laws, operating agreement, partnership agreement, organizational document, license, permit, authorization, franchise or certification to which the Buyer is a party or by which the Buyer is bound.

4.3 Validity and Enforceability. This Agreement is, and each of the Buyer Transaction Documents shall be, when executed and delivered by the Buyer, the valid and binding obligations of the Buyer enforceable in accordance with its terms, except as limited by the Remedies Exception.

4.4 Investment Representations. The Purchased Securities are being acquired by the Buyer for the Buyer's own account, for investment purposes only and with no present intention of distributing, selling or otherwise disposing of them in violation of the Securities Act of 1933, as amended. The Buyer has such knowledge and experience in financial and business matters that the Buyer is capable of evaluating the merits and risks of the proposed investment in the Purchased Securities. The Buyer understands that the Company Securities may not be sold, transferred or otherwise disposed of by it without registration under the Securities Act of 1933, as amended, and any applicable state securities laws, or an exemption therefrom, and that in the absence of an effective registration statement covering such Company Securities or an available exemption from registration, such Company Securities may be required to be held indefinitely. The foregoing shall not affect in any way any Buyer Indemnified Parties' rights under this Agreement, other than as such may limit the ability of the Buyer to sell, transfer or convey the Purchased Securities subsequent to the Closing.

4.5 Brokers. Except as set forth on **Schedule 4.5**, no finder, broker, agent, financial advisor or other intermediary has acted on behalf of the Buyer in connection with the negotiation or consummation of this Agreement or the Transactions and no such Person is entitled to any fee, payment, commission or other consideration in connection therewith as a result of any arrangement made by any of them.

4.6 Financial Ability. The Buyer has and will have at the Closing the financial capability to consummate the Transactions.

ARTICLE 5. COVENANTS OF THE COMPANY AND THE ESOT

5.1 Access. Prior to the Closing, the Company and its Subsidiaries will permit the Buyer, its financing sources and their respective representatives, during normal business hours, reasonable access to (a) the Real Property, assets, premises, properties, records, books of account, contracts and other documents of the Company and its Subsidiaries and (b) with reasonable notice to Company's management, any employees, advisors, consultants, other personnel, customers, service providers, vendors or suppliers of, or others having material business relations with, the Company or any of its Subsidiaries. Until the Closing Date, the Company and its Subsidiaries will furnish promptly to the Buyer such additional data and other information as to its affairs, assets, business, properties or prospects as the Buyer, its financing sources or their representatives may from time to time reasonably request. Without limiting the foregoing, the Company shall permit the Buyer and its representatives to conduct environmental due diligence of the Company, its Subsidiaries and the Real Property and other investigations of the Real Property, including the collecting and analysis of samples of indoor or outdoor air, surface water, groundwater or surface or subsurface land on, at, in, under or from the Company, its Subsidiaries and the Real Property and investigations of the condition of the Real Property. No investigation by the Buyer or other information received by the Buyer shall operate as a waiver or otherwise affect any representation, warranty or agreement given or made by the ESOT or the Company and its Subsidiaries in this Agreement.

5.2 Conduct of the Business. Prior to the Closing, the Company and each Subsidiary will, comply with the following covenants prior to the Closing, unless otherwise approved in writing by the Buyer or as explicitly required by this Agreement:

(a) The Company and each Subsidiary will, except as set forth in **Schedule 5.2(a)**:

(i) maintain its legal existence and good standing;

(ii) use commercially reasonable efforts to:

(A) preserve the Business and its business organization intact, retain its Permits, and preserve its rights, relationships, Contracts and goodwill of its customers, lenders, suppliers, regulators, vendors, service providers, personnel and others having business relations with it;

(B) conduct its business only in the ordinary course of business consistent with past practice (including without limitation the collection of receivables and the payment of payables and capital expenditures);

(C) maintain its assets, Intellectual Property, rights and business relationships;

(D) make capital expenditures and expenditures for sales and marketing costs in the ordinary course of business reflected on the Company's budget for the current calendar year (which was made available to the Buyer) and consistent with past practices; and

(E) keep in full force and effect the insurance policies (comparable in amount and scope) covering the assets and Intellectual Property of the Company and its Subsidiaries.

(b) Except as set forth on **Schedule 5.2(b)**, or as otherwise agreed in writing by the Buyer referencing this **Section 5.2(b)**, such consent not to be unreasonably withheld, conditioned or delayed, the Company and each Subsidiary will not:

(i) change its method of management or operations in any material respect;

(ii) dispose, acquire or license any assets or properties or make any commitment to do so, other than in the ordinary course of business to the extent less than \$50,000 in the aggregate;

(iii) incur any Indebtedness, or make any loans or advances, assume, guarantee or endorse or otherwise become responsible for the obligation of any other Person, or subject any of its properties or assets to any Lien, other than Permitted Liens;

(iv) modify, amend, cancel or terminate any Material Contract or any other existing Contract or instrument material to the Company, any Subsidiary or the Business, or any Benefit Plan (including any plan or arrangement that would constitute a Benefit Plan if it were in existence on the date hereof);

(v) make any change in the compensation paid or payable to any officer, director, manager, employee, agent, representative or consultant, or pay or agree to pay any bonus or similar payment (other than bonus payments or other amounts to which the Company or any Subsidiary is committed and which are expressly disclosed in this Agreement);

(vi) promote, change the job title of, or otherwise alter in any material respect the responsibilities or duties of, any management employee or officer of the Company or any Subsidiary;

(vii) enter into any Contract (A) with respect to which the Company or any Subsidiary has any Liability involving more than \$150,000, (B) which may place any limitation on the method of conducting or scope of the Business, or (C) which would otherwise be a Material Contract and involve a Liability more than \$150,000;

(viii) enter into any lease for any Real Property as a lessor, sublessor or lessee or sublessee;

(ix) enter into or modify any Contract with an Affiliate;

(x) make or cause to be made any dividend, distribution, redemption, repurchase, recapitalization, reclassification, issuance, split, combination or other transaction involving the capital stock or other equity securities of the Company or any Subsidiary, or any option, warrant or right to acquire any such capital stock or equity securities, other than cash distributions;

(xi) make any change in its accounting practices or procedures, other than any change required by GAAP or Legal Requirements;

(xii) file, amend or make any change to any Tax election or any Tax Return, except as required by Legal Requirements;

(xiii) change its customer pricing or offer any rebates, discounts or promotions, other than in the ordinary course of business;

(xiv) acquire any business or entity, whether by merger or consolidation, purchase of assets or equity securities or any other manner;

(xv) cancel or waive any rights of substantial value, or pay, discharge or settle any claim of substantial value;

(xvi) implement any layoffs that could implicate the WARN Act;

(xvii) initiate, settle or respond to any legal disputes that result in a Liability to the Company or its Subsidiaries in excess of \$50,000;

(xviii) allow any material insurance policies to lapse without renewal or replacement on commercially reasonable terms;

(xix) accelerate any rights, payments or vesting under a Benefit Plan;

(xx) accelerate the collection of accounts receivable, delay the purchase of supplies, delay normal repairs or maintenance, or delay payment of accounts payable or accrued expenses, in each case in any material respect and except in the ordinary course of business;

(xxi) take any other action which could have a Material Adverse Effect; or

(xxii) commit to do any of the foregoing referred to in clauses (i) - (xxi).

5.3 Efforts. Pending the Closing, the Company will use commercially reasonable efforts to cause the conditions specified in **Section 8.1** to be satisfied as soon as practicable.

5.4 ESOT Matters.

5(i) At the Closing, the Trustee will provide a copy of the Fairness Opinion to the Buyer.

(a) Prior to the Closing, the Company will make or have made a contribution to the ESOT (the “**Company’s 2023 Contribution**”) for the ESOP plan year ending December 31, 2023 representing the anticipated full contribution for such plan year.

5.5 Third Party Approvals.

(a) General. Prior to the Closing:

(i) the Company shall, and shall cause its Subsidiaries to, use commercially reasonable efforts to obtain all the Required Consents, and give all the third party notices required in connection with the Transactions;

(ii) the Buyer shall, and shall cause its Affiliates to, use commercially reasonable efforts to obtain all the authorizations, consents and approvals of, and give all notices to, the Governmental Authorities and third parties set forth on **Schedule 5.5(a)(ii)**; and

(iii) each party shall use commercially reasonable efforts to cooperate with the other party and its Affiliates in seeking to obtain all authorizations, consents and approvals hereunder.

(b) Governmental Approvals.

(i) Cooperation. The Company shall cooperate in all respects with the Buyer in connection with any filing, submission or other communication with any Governmental Entity in connection with the Transactions.

(ii) Scope of Efforts. Notwithstanding the foregoing, neither the Buyer, nor any of its Affiliates shall be required to sell, divest, dispose of, or license any assets, properties, products, product lines, services, businesses, or rights of the Buyer, its Affiliates (including, following the Closing, the Company and its Subsidiaries) or any interests therein, or otherwise take or commit to take any action that limits its freedom of action with respect to, or its ability to retain, any of the assets, properties, products, product lines services, or businesses of the Buyer, its Affiliates (including, following the Closing, the Company and its Subsidiaries) or any interests therein, or litigate any claim asserted before any Governmental Entity.

(c) Allocation of Expenses. Notwithstanding anything to the contrary contained herein:

(i) The Buyer shall be responsible for the filing fees under the HSR Act.

(ii) Any fee or other cost required to be incurred to obtain any other Required Consent shall constitute a Transaction Expense, subject to the availability of funds in the Escrow Fund to pay for such fee or other cost. If there are not funds available in the Escrow Fund to pay the fee or other cost required to be incurred to obtain any other Required Consent, then the Buyer will pay such fee or other cost.

5.6 Stub Period Financial Statements. For the period commencing as of the date hereof and ending as of the Closing Date, the Company shall deliver to the Buyer the consolidated unaudited balance sheet and consolidated statements of income of the Company for each month after the month of the most recent financial statements listed in **Section 2.8**. Such financial statements shall be delivered within twenty (20) days after the end of such month or, if earlier, contemporaneously with the delivery of such financial statements to the directors, stockholders, managers, members or lenders of the Company or any Subsidiary.

5.7 Nonsolicitation. Prior to the Closing, none of the Company or its Subsidiaries will directly or indirectly, or take action causing the ESOT to directly or indirectly, (a) solicit any competing offers for the recapitalization or purchase of the Company or any Subsidiary or the purchase of all or any material portion of the securities or assets (including by merger or in any other form of transaction) of the Company or any Subsidiary, (b) negotiate or otherwise respond, other than to decline to enter into such negotiations, with respect to any unsolicited offer or indication of interest with respect to any such transaction, or (c) furnish any information to any Person in connection with any such transaction; provided, that nothing in the preceding clause (b) shall restrict or impair actions by the Trustee reasonably determined by the Trustee to be required to be taken by the Trustee to fulfill its fiduciary duties in its capacity as trustee of the ESOT. The Company will promptly disclose to the Buyer and the Trustee all such unsolicited offers or indications of interest and, as determined by the Buyer to be reasonably necessary, engage in

discussions with the Buyer with respect to such offer or indication of interest. The parties agree and acknowledge that by the terms of the constating documents of the ESOT, the Trustee is obligated to report and deliver any such solicitation or offer to the Company.

5.8 Remedies. The Company and the ESOT acknowledge that any breach or threatened breach of the provisions of **Section 5.7** of this Agreement would be a breach of a material covenant under this Agreement and permit Buyer to terminate this Agreement under **Section 9.1(b)**. The Company further acknowledges that any breach or threatened breach of the provisions of **Section 5.7** of this Agreement would cause irreparable injury to the Buyer for which an adequate monetary remedy does not exist. Accordingly, in the event of any such breach or threatened breach, the Buyer shall be entitled, in addition to the exercise of other remedies, to seek and (subject to court approval) obtain injunctive and other equitable relief, without necessity of posting a bond, restraining the Company and/or its Subsidiaries from committing such breach or threatened breach. The rights provided under this **Section 5.8** shall be in addition to, and not in lieu of, any other rights and remedies available to the Buyer.

5.9 Reasonable Restrictions. The Company (a) has carefully read and understands all of the provisions of this Agreement and has had the opportunity for this Agreement to be reviewed by counsel, (b) except for representations, warranties and covenants of Buyer specified in this Agreement, has not relied upon any representation or statement made by the Buyer or any of its Affiliates, directors, officers, employees, consultants, stockholders, managers, members, partners, agents, investors, advisors or representatives with regard to the subject matter of this Agreement, (c) acknowledges the goodwill of the business transferred pursuant to this Agreement and that the Buyer would not have closed the Transactions without the benefits contained in this Agreement, and (d) understands that this Agreement is assignable by the Buyer and, following the Closing, the Company and its Subsidiaries shall inure to the benefit of their respective successors and permitted assigns, as long as such successors and assigns are responsible for the representations, warranties and covenants of Buyer under this Agreement. The provisions of **Sections 5.7** are in addition to, and not a replacement for, any similar restrictions contained in any other agreement with the Buyer, Company or its Subsidiaries to which the Company, its Subsidiaries or the ESOT is a party. In the event of any conflict between the provisions of this Agreement and such other restrictions, the provisions most favorable to the Buyer and, subsequent to the Closing, the Company and its Subsidiaries shall control, except that this provision does not relieve the Buyer, or its successors or assigns, from its obligations under any representation, warranty or covenant under this agreement.

5.10 Benefit Plans.

(a) Effective as of the date immediately prior to the Closing Date, the Company and the Subsidiaries will terminate each of the Benefit Plans identified on **Schedule 5.10(a)** (the “**Specified Benefit Plans**”) and no employee shall have any right thereafter to contribute any amounts to any such plan. The Company will provide the Buyer with evidence that each such Specified Benefit Plan has been terminated effective immediately prior to the Closing Date pursuant to resolutions duly adopted by the Company’s board of directors or the board of directors of a Subsidiary, as applicable.

(b) The Company and Buyer hereby agree that the ESOT Trust Agreement provides that the plan administrator shall affirmatively direct and authorize the Trustee to make all distributions. The Company and Buyer agree that in the event of any conflict between this Agreement and the ESOT Trust Agreement the terms and conditions of the ESOT Trust Agreement shall control.

5.11 Tail Policy. At the Closing, the Company shall obtain, maintain and fully pay for an irrevocable “tail” insurance policy for the Company’s and each Subsidiary’s directors’ and officers’ liability, fiduciary and employment practices liability (the “**D&O Tail Policy**”) insurance coverage that provides coverage for at least six (6) years from Closing. The costs and expenses of such policies shall be Transaction Expenses hereunder. The Company understands, agrees and acknowledges that the “tail policy” described in this Section shall be the sole recourse for any rights to indemnification and expense advances covered by such policy for a Person as a stockholder, member, manager, director, officer or employee of the Company or any Subsidiary for pre-Closing matters (“**pre-Closing Indemnitee**”). This limitation does not limit a pre-Closing Indemnitee or the Trustee from receiving benefits, including reimbursement of expenses, legal defense, and or indemnity, from other insurance coverages of Company or ESOT, including, but not limited to, Directors and Officers coverage, liability coverage and employment practices coverage which was in effect prior to Closing, to the extent then available.

5.12 Litigation Cooperation. The Company and its Subsidiaries, shall use commercially reasonable efforts to cooperate with the Buyer, the Company, its Subsidiaries and their respective Affiliates in connection with any pending or threatened internal, governmental or third party Action that relates to events that transpired prior to the Closing related to the Business. Such cooperation shall include, without implication of limitation, being available to meet with counsel to prepare for discovery or trial and to testify truthfully as a witness when requested by the Buyer. This Section shall not apply to litigation between any Buyer Indemnified Party, on the one hand, and the ESOT and, prior to the Closing, the Company or its Subsidiaries, on the other hand.

5.13 Subsidiary Dispositions. Prior to the Closing, the Company and its Subsidiaries shall use commercially reasonable efforts to dissolve, liquidate or otherwise dispose of all interests, direct or indirect, in, and cause to be discharged all obligations and liabilities of the Company and its Subsidiaries related to, each of Key Knife Chile Limitada, a Chile limited liability company and Peerless Instrument Company, Inc., a Florida corporation (each a “**Subsidiary Disposition**” and collectively the “**Subsidiary Dispositions**”). The Company shall promptly notify the Buyer of the completion of each Subsidiary Divestment and make available all final documentation related thereto.

5.14 Updates to Schedules. Prior to the Closing, the Company shall, as soon as possible, supplement the schedules to this Agreement by delivery to the Buyer of one or more supplements (each, a “**Disclosure Supplement**”) to reflect (i) an occurrence, or non-occurrence, of any event that has caused any representation or warranty made by the Company or the ESOT to be untrue or inaccurate in any material respect at any time after the date of this Agreement; (ii) any material failure of the Company, any of its Subsidiaries or the ESOT to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; (iii) any

circumstance, event or action the existence of which could reasonably be expected, individually or in the aggregate, to result in the failure of any of the conditions set forth in **Section 8.1** to be satisfied; and (iv) any other material development affecting the ability of the ESOT to consummate the Transactions. To the extent that a Disclosure Supplement materially modifies the transaction specified in this Agreement as specified in this **Section 5.14(i)** through **(iv)**, then Buyer may terminate this Agreement. Other than as contemplated by **Section 1.5**, no Disclosure Supplement shall modify the Closing Purchase Price.

ARTICLE 6. COVENANTS OF THE BUYER

6.1 Representations and Warranties. Until the Closing Date, the Buyer will not take any action that would cause any of the representations and warranties made by the Buyer in this Agreement not to be true and correct on and as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of the Closing Date.

6.2 Efforts. Pending the Closing, the Buyer will use commercially reasonable efforts to cause the conditions specified in **Section 8.2** to be satisfied as soon as practicable.

6.3 Operation of Business. The Buyer shall operate the Business as set forth on **Schedule 6.3** for the period of time set forth therein.

6.4 Confidentiality/Non-Disparagement. Pending the Closing, all proprietary information obtained by the Buyer from or on behalf of the Company or any of its Subsidiaries will be kept confidential, will not be disclosed, and will not be used by the Buyer other than in connection with the Transactions and other than disclosure to its Affiliates, partners, directors, officers, employees, advisors and financing sources, who will maintain its confidential nature; provided that the foregoing restriction shall not apply to information which (a) is lawfully and independently obtained by the Buyer from a third party without restriction as to disclosure by the Buyer, (b) was known by the Buyer prior to its disclosure by or on behalf of the Company or its Subsidiaries, (c) is in the public domain or enters into the public domain through no fault of the Buyer, (d) is independently developed by the Buyer without reference to information provided by the Company or its Subsidiaries or (e) the Buyer is required by applicable Legal Requirements or stock exchange rules to disclose. Following Closing, Buyer and Company will keep confidential and will not disclose any confidential information of ESOT and/or ESOP Participants in their capacity as such, except as required by applicable Legal Requirements. Before and after Closing, Buyer will not make any disparaging statements regarding the Company, its Subsidiaries, or any of their respective investors, directors, managers, officers, employees, consultants, representatives, business or affairs; provided, that the foregoing shall not preclude the Buyer from providing truthful testimony in any legal proceeding, communicating with any governmental agency or representative, or making any truthful disclosure required by applicable Legal Requirements.

6.5 Benefit Plans. The Buyer shall reasonably cooperate with the Company regarding the termination of the Specified Benefit Plans and any required governmental or regulatory filing relating to pre-closing activities of the Specified Benefit Plans. This shall include but not be limited to the filing of the Form 5500 and completion of any required independent audit relating to such Specified Benefit Plan filings.

ARTICLE 7.
TAX COVENANTS

7.1 Tax Periods Ending on or Before the Closing Date. The Company shall prepare or cause to be prepared and file or cause to be filed all Tax Returns of the Company and all Subsidiaries for taxable periods ending on or before the Closing Date (“**Pre-Closing Taxable Periods**”) that have not been filed prior to the Closing Date. The Company shall permit the Buyer to review and comment on each such Tax Return described in the prior sentence at least ten (10) days prior to filing and shall make such revisions to such Tax Returns as are reasonably requested by the Buyer. All Tax Returns to be prepared by or for the Company pursuant to this **Section 7.1** shall be prepared in a manner consistent with the past practice of the Company except as otherwise required by Legal Requirements. Any deferred revenue shall be treated as a liability assumed by Buyer, which does not result in any deemed payment to Buyer.

7.2 Tax Periods That Include But Do Not End on the Closing Date. The Company shall cause to be prepared and filed any Tax Returns of the Company and all Subsidiaries for taxable periods that include but do not end on the Closing Date. For purposes of this Agreement, in the case of any Taxes that are imposed on a periodic basis and are payable for a taxable period that includes (but does not end on) the Closing Date, the portion of such Tax that relates to the pre-Closing period shall (a) in the case of any property Taxes and Taxes other than those based upon or related to income, payroll, sales or receipts, be deemed to be the amount of such Tax for the entire taxable period multiplied by a fraction the numerator of which is the number of days in the taxable period ending on the Closing Date and the denominator of which is the number of days in the entire taxable period, and (b) in the case of any Tax based upon or related to income, payroll, sales or receipts, be deemed equal to the amount which would be payable if the relevant Taxable period ended on the Closing Date.

7.3 Cooperation on Tax Matters.

(a) The Buyer and the Company shall cooperate fully, to the extent reasonably requested by the others, in connection with the filing of Tax Returns pursuant to **Sections 7.1** and **7.2** or otherwise, and any audit, examination, litigation, or other Action with respect to Taxes (each, a “**Contest**”) and will provide prompt written notice thereof. Such cooperation shall include the retention and (upon the other party’s request) the provision of records and information which are reasonably relevant to any such Tax Return filing or Contest and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder.

(b) After the Closing, the ESOT shall make available to the Company such books and records to the extent reasonably necessary for a reasonable purpose related to the ESOT’s ownership of the Purchased Securities prior to the Closing.

(c) If requested by the Buyer, the Company and the ESOT will reasonably cooperate with the Buyer to obtain any certificate or other document from any Governmental Entity or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed upon the Company or any Subsidiary (including, but not limited to, with respect to the Transactions contemplated hereby).

(d) To the extent received prior to the three year anniversary of the Closing Date, all Tax refunds and overpayments relating to Taxable periods or any portion thereof ending on or prior to the Closing Date, whether received in cash or applied to a subsequent Taxable period, shall be solely for the benefit of the ESOT, and the Buyer shall cause the same to be deposited with the Escrow Agent to constitute part of the Escrow Fund.

(e) The Buyer, the Company and the ESOT further agree, upon request, to provide the other parties with all information that any party may be required to report pursuant to Section 6043 of the Code and all Treasury Department Regulations promulgated thereunder.

7.4 Control of Audits. After the Closing Date, the Company shall control the conduct, through counsel of its own choosing, of any Contest involving any asserted Tax Liability or refund with respect to the Company or any of its Subsidiaries.

7.5 Certain Taxes. All transfer, documentary, sales, use, real property gains, stamp, registration, and other such Taxes and fees incurred in connection with this Agreement shall be paid by the Company when due and, if required by applicable law, the Buyer and the ESOT will join in the execution of any such Tax Returns and other documentation.

7.6 Election under Code Section 338(h)(10).

(a) Buyer and the ESOT shall join in an election under Code Section 338(h)(10) (and any corresponding elections under foreign, state or local Tax law) with respect to the sale and purchase of the Purchased Securities hereunder (“**Section 338(h)(10) Election**”). The ESOT shall cooperate fully with Buyer in making the Section 338(h)(10) Election, including causing IRS Form 8023 and all other forms, returns, elections, schedules, and documents required to effect the Section 338(h)(10) Election (the “**338(h)(10) Forms**”) to be executed and delivered to Buyer at the Closing as provided in **Section 8.1(r)**. The Buyer shall be authorized to complete the 338(h)(10) Forms in accordance with the provisions of this Agreement and file the 338(h)(10) Forms with the applicable governmental authorities.

(b) Buyer and ESOT shall prepare the 338(h)(10) Forms based on the Agreed Asset Valuation described in **Section 7.6(d)**, and shall allocate the aggregate deemed sales price (within the meaning of Treasury Regulations Section 1.338-4) of the Company assets deemed sold, and the adjusted grossed-up basis (within the meaning of Treasury Regulations Section 1.338-4) of the assets of the Company and its Subsidiaries deemed purchased, in accordance with Treasury Regulations Section 1.338-4 and the other requirements of the Code, including any adjustments thereto required under Treasury Regulations Section 1.338-4, based in each case upon the Agreed Asset Valuation. Buyer shall prepare and cause to be timely filed respective income Tax Returns and the 338(h)(10) Forms for the taxable year in which the Closing occurs giving effect to the valuation and allocation procedures set forth in this **Section 7.6**.

(c) Consistent with **Section 7.6(a)**, the ESOT shall join in timely making (or causing to be timely made) the Section 338(h)(10) Election, including timely executing any IRS Form 8023. The ESOT shall at all times cooperate with Buyer in the making of the Section 338(h)(10) Election and executing such 338(h)(10) Forms. Prior to the Closing, the ESOT shall not revoke the Company’s election to be taxed as, or take or allow any action (other than the

transactions contemplated by this Agreement) that would result in the termination of the Company's status as, a validly existing S corporation with the meanings of Code Section 1361, the Treasury Regulations promulgated thereunder or any analogous or similar provision of state or local Law.

(d) The Buyer and the ESOT agree that for purposes of reporting the effects of the Section 338(h)(10) Election, the value of the assets of the Company and its Subsidiaries deemed sold by any "old T" under applicable Treasury Regulations and the value of the assets deemed purchased by "new T" under applicable Treasury Regulations, shall be set forth on an allocation schedule (the "**Allocation Schedule**") to be prepared by Buyer and delivered to the ESOT within one hundred and twenty (120) calendar days following the Closing Date. The parties hereto agree that such amounts will be adjusted in accordance with Section 1060 of the Code and the Treasury Regulations promulgated thereunder as a result of any adjustments to the Closing Purchase Price pursuant to **Article 1** hereof or any other provision of this Agreement (such valuation, the "**Agreed Asset Valuation**").

(e) As a result of making the Section 338(h)(10) Election, the taxable year of the Company will close for federal income Tax purposes at the end of the day on the Closing Date in accordance with Treasury Regulations Section 1.338(h)(10)-1(d)(2), resulting in a closing of the books of the Company.

(f) The ESOT, the Company and the Buyer shall (i) treat and report the Transaction in all respects consistently with the provisions of this Agreement for purposes of any federal, state, local or foreign Tax and (ii) not take any actions or positions inconsistent with the obligations of the parties set forth herein.

ARTICLE 8. CONDITIONS TO CLOSING

8.1 Conditions to Obligations of the Buyer. Unless waived in writing by the Buyer, the obligation of the Buyer hereunder to consummate the Transactions is subject to the satisfaction at or prior to the Closing of the following conditions:

(a) **Representations and Warranties True.** Each of the representations and warranties contained in (i) **Sections 2.1, 2.2, 2.4, and 2.7** and **Article 3** shall be true and correct in all respects and (ii) any other section of **Article 2** of this Agreement shall be true and correct in all material respects (without giving effect to any materiality, Material Adverse Effect or similar qualifier), in each case, as of the date of this Agreement and on and as of the Closing Date with the same force and effect as though made on and as of such date.

(b) **Covenants Performed.** Each of the ESOT, the Company and its Subsidiaries shall have performed and complied in all material respects with each of the covenants, agreements and conditions required to be performed or complied with by them hereunder on or prior to the Closing Date.

(c) **Compliance Certificate.** The Buyer shall have received a certificate of the Company certifying as to the matters set forth in **Sections 8.1(a)** and **(b)**.

(d) **Required Consents Received.** The Company shall have obtained and delivered to the Buyer copies of all Required Consents listed on or required to be listed on **Schedule 2.5** and marked with an asterisk, in a form reasonably satisfactory to the Buyer, and no such Required Consents shall have been withdrawn, suspended or conditioned.

(e) **No Injunction.** The consummation of the Transactions shall not violate any order, decree or judgment of any court, arbitrator or Governmental Entity having competent jurisdiction, and no Action that seeks to enjoin, restrain, or prohibit the consummation of the Transactions shall have been commenced.

(f) **Certificates; Documents.** The Buyer shall have received copies of each of the following for the Company certified to its satisfaction by an officer of the Company: (i) the Company's certificate of incorporation, as amended, certified by the Secretary of State of Oregon as of a recent date; (ii) a certificate of the Secretary of State of Oregon as of a recent date as to the legal existence and good standing of the Company; (iii) the Company's by-laws, as amended; (iv) the requisite corporate votes and resolutions authorizing the execution, delivery and performance of this Agreement and the Transaction Documents and the consummation of the Transactions by the Company; and (v) evidence as of a recent date of the qualification of the Company as a foreign entity in the jurisdictions listed on **Schedule 2.3**. The Buyer shall have also received (a) copies of each of the following for each Subsidiary certified to its satisfaction by an officer of such Subsidiary: (x) each Subsidiary's organizational documents, certified by the appropriate governmental authority as of a recent date, (y) a certificate as to each Subsidiary's legal existence and good standing, certified by the appropriate governmental authority as of a recent date and (z) each Subsidiary's by-laws, operating agreement or equivalent governing document, as amended and (b) copies of the following with respect to the ESOT: (x) the organizational documents of the ESOT and (y) a copy of the ESOP. The Buyer shall also have received such other certificates, documents and materials as it shall reasonably request.

(g) **Escrow Agreement.** The Buyer, the ESOT and U.S. Bank, National Association, as escrow agent (the "**Escrow Agent**"), have entered into the Escrow Agreement in substantially the form attached hereto as **Exhibit 8.1(g)** (the "**Escrow Agreement**").

(h) **Pre-Closing Deliveries.**

(i) The Company shall have delivered the items, certificates and documents required by **Section 1.3(b)**.

(ii) The amount of Purchased Cash shall not be less than \$2,000,000, nor more than \$4,000,000.

(i) **Delivery of Certificates.** The Company, individually and on behalf of the ESOT, shall have delivered to the Buyer all stock certificates evidencing the Purchased Securities, duly endorsed in blank or accompanied by stock powers duly endorsed in blank, in proper form for transfer, and with any required stock transfer tax stamps affixed, if any.

(j) **Fairness Opinion.** The ESOT shall have delivered to the Buyer a copy of the Fairness Opinion.

(k) Trustee Certificate. The Trustee shall have delivered a trustee certificate reasonably acceptable to the Buyer dated as of the Closing Date that the Trustee has (i) approved the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement, subject to the terms and conditions set forth herein, and (ii) determined that the sale of the Company Securities is in the best interest of the ESOP Participants.

(l) Benefit Plans.

(i) ESOP Termination. The Company shall have delivered to the Buyer evidence of action by the Company's board of directors of a written resolution in a form to terminate the ESOP effective as of the date immediately prior to the date of Closing.

(ii) Specified Benefit Plans. The Company shall have delivered to the Buyer evidence of action by the Company's board of directors of a written resolution in a form to terminate each of the Specified Benefit Plans.

(m) Director and Officer Resignations. Except as set forth in **Schedule 8.1(m)**, the Company shall have delivered to the Buyer executed resignations and releases effective as at Closing of each director and officer of the Company and its Subsidiaries specified by Buyer in writing. The directors and officers of Lindsay Forest Products, Inc. and Lindsay Forest Products, LTD will be as specified in **Schedule 8.1(m)**.

(n) R&W Policy. The applicable insurer shall have bound coverage under the R&W Policy and such policy shall be in full force and effect as of the execution and delivery of this Agreement.

(o) No Material Adverse Effect. No Material Adverse Effect shall have occurred.

(p) Actions and Proceedings. Prior to the Closing, all actions, proceedings, instruments and documents required to carry out the Transactions and all other legal matters required for such Transactions shall have been reasonably satisfactory to counsel for the Buyer.

(q) Withholding Certificate. The Company shall have delivered to the Buyer a properly executed IRS Form W-9 in a form reasonably acceptable to the Buyer.

(r) 338(h)(10) Forms. The Company and the Trustee, on behalf of the ESOT, shall have delivered to the Buyer properly executed 338(h)(10) Forms executed by the Company and the ESOT, in a form reasonably acceptable to the Buyer.

(s) D&O Tail Policy. The Company shall have obtained the D&O Tail Policy.

(t) Affiliate Agreements. The Company shall have terminated each of those agreements listed on **Schedule 2.29** (other than those marked with an asterisk) and each such agreement shall be of no further force and effect.

(u) **HSR Act.** The waiting period under the HSR Act applicable to the Transactions contemplated by this Agreement shall have expired or been terminated.

(v) **Data Room.** The Company shall have delivered to the Buyer a true, complete and accurate electronic copy of the virtual data room established by the Company in connection with the Transactions as of immediately prior to the signing of this Agreement and as of the Closing.

8.2 Conditions to Obligations of the Company and the ESOT. Unless waived in writing by the Trustee, the obligation of the ESOT and, to the extent required, the Company, hereunder to consummate the Transactions is subject to the satisfaction at or prior to the Closing of the following conditions:

(a) **Representations and Warranties True.** The representations and warranties of the Buyer contained in **Article 4** shall be true and accurate in all material respects (disregarding any materiality or similar qualifiers) as of the date of this Agreement and on and as of the Closing Date with the same force and effect as though made on and as of such date.

(b) **Covenants Performed.** The Buyer shall have performed and complied in all material respects with the covenants, agreements and conditions required to be performed or complied with by it under this Agreement, including under **Article 6**, on or prior to the Closing Date, including payment of the Estimated Purchase Price (which may be thereafter adjusted pursuant to this Agreement).

(c) **Compliance Certificate.** The Company shall have received a certificate of the Buyer certifying as to the matters set forth in **Sections 8.2(a)** and **(b)** above.

(d) **No Injunction.** The consummation of the Transactions contemplated hereby shall not violate any order, decree or judgment of any court, arbitrator or Governmental Entity having competent jurisdiction.

(e) **HSR Act.** The waiting period under the HSR Act applicable to the Transactions contemplated by this Agreement shall have expired or been terminated.

(f) **Fairness Opinion.** The ESOT shall have obtained the Fairness Opinion.

(g) **Satisfaction as to Prudence.** The Trustee, as the independent fiduciary under the terms of the ESOT, shall have determined, in the sole exercise of its fiduciary discretion under ERISA, that the consummation by the ESOT of the transactions contemplated by this Agreement is prudent, is for the exclusive purpose of providing benefits to the ESOP Participants and beneficiaries of the ESOP, and does not constitute a prohibited transaction or otherwise violate ERISA, and the Trustee shall have therefore decided to consummate the transactions contemplated by this Agreement.

**ARTICLE 9.
TERMINATION**

9.1 Termination. This Agreement and the Transactions contemplated hereby may be terminated at any time prior to the Closing:

(a) by mutual written consent of the Buyer and the Company;

(b) by the Buyer, if the ESOT and/or the Company or a Subsidiary thereof shall have breached or failed to perform in any material respect any of their respective obligations, covenants or agreements under this Agreement, or if any of the representations and warranties set forth in this Agreement shall not be true and correct to the extent set forth in **Section 8.1(a)**, and such breach, failure or misrepresentation is not cured to the Buyer's reasonable satisfaction within ten (10) days after the Buyer gives the ESOT or the Company, as applicable, written notice identifying such breach, failure or misrepresentation;

(c) by the ESOT or Company, if the Buyer shall have breached or failed to perform in any material respect any of its obligations, covenants or agreements under this Agreement, or if any of the representations and warranties of the Buyer set forth in this Agreement shall not be true and correct to the extent set forth in **Section 8.2(a)**, and such breach, failure or misrepresentation is not cured to the reasonable satisfaction of the Company and the ESOT within ten (10) days after the Company or the ESOT gives the Buyer written notice identifying such breach, failure or misrepresentation;

(d) by the Buyer, if the conditions set forth in **Section 8.1** become incapable of satisfaction;

(e) by the ESOT or Company, if the conditions set forth in **Section 8.2** become incapable of satisfaction; or

(f) by the Buyer, Company or the ESOT, if the Closing shall not have occurred on or before March 1, 2024 or such other date, if any, as the Buyer, the Company and the ESOT may agree in writing (the "**Termination Date**").

9.2 Effect of Termination. If this Agreement is terminated as provided in **Section 9.1**, the parties shall have no further Liabilities or obligations hereunder except that (a) this **Section 9.2**, **Section 9.3** and **Article 11** shall survive and continue in full force and effect in accordance with their terms, and (b) each party shall remain liable for any material breach or violation of any representation, warranty, covenant, agreement or obligation contained in this Agreement.

9.3 Termination Fee.

(a) In the event that this Agreement is terminated pursuant to **Section 9.1(b)**, **Section 9.1(d)**, or **Section 9.1(f)** and the ESOT or the Company or its Subsidiaries consummates any Acquisition Proposal within twelve (12) months after such termination or the ESOT, Company or its Affiliates enters into a definitive agreement within twelve (12) months after such termination to effect any Acquisition Proposal that is subsequently consummated, then (i) the Company shall

notify the Buyer thereof concurrent with the occurrence of such event, (ii) the Buyer shall then promptly notify the Company of the aggregate amount of expenses reasonably incurred by Buyer in connection with the proposed Transactions, not to exceed \$1,500,000 (the “**Termination Fee**”), and (iii) the Company shall remit the Termination Fee to Buyer by wire transfer of same-day funds substantially concurrent with the consummation of the transactions contemplated by such Acquisition Proposal. For the avoidance of doubt, any payment made by the Company under this **Section 9.3(a)** shall be payable only once with respect to this **Section 9.3(a)** and not in duplication even though such payment may be payable under one or more provisions hereof.

(b) The parties acknowledge and agree that the agreements contained in this **Section 9.3** are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Buyer would not enter into this Agreement. In the event that the Company fails to pay the Termination Fee when due, the term “Termination Fee” shall be deemed to include the reasonable costs and expenses actually incurred or accrued by the Buyer (including reasonable fees and expenses of counsel) in connection with the collection under and enforcement of this **Section 9.3**, together with interest on such unpaid Termination Fee, commencing on the date that the Termination Fee became due, at a rate equal to the “prime rate” as published in The Wall Street Journal, Eastern Edition, in effect on the date such payment was required to be made through the date of payment (calculated daily on the basis of a year of 365 days and the actual number of days elapsed, without compounding).

ARTICLE 10. SURVIVAL; INDEMNIFICATION

10.1 Survival. The representations, warranties, covenants and agreements contained herein shall survive the Closing and any investigation or finding made by or on behalf of any party hereto. No claim for a breach or inaccuracy of any representation or warranty contained herein shall be brought more than eighteen (18) months following the Closing Date, except for:

(a) claims arising out of any of the representations and warranties contained in **Article 3**, **Article 4** or **Sections 2.1** (Organization, Power and Standing), **2.2** (Subsidiaries), **2.4** (Due Authorization), **2.5** (No Conflict; Required Consents and Approvals), **2.6** (Validity and Enforceability), **2.7** (Capitalization), **2.29** (Affiliate Transactions) or **2.30** (Brokers), which shall survive for thirty-six (36) months after the Closing Date; and

(b) claims arising out of the representations and warranties contained in **Section 2.21** (Tax Matters), **2.24** (ERISA; Compensation and Benefit Plans), **2.25** (Status of Qualified Retirement Plans), or **2.26** (Environmental Matters), which shall survive until ninety (90) days after the expiration of all statutes of limitations (including all extensions thereof) applicable to the underlying subject matter being represented, but in no case longer than seven (7) years following the Closing Date.

In addition, no claims relating to the covenants set forth in **Section 6.3** may be brought subsequent to three (3) years following the Closing Date.

The representations and warranties specified in **Sections 10.1(a)** and **10.1(b)** are sometimes collectively referred to herein as the “**Fundamental Representations**”.

Notwithstanding the foregoing, any claim or claims asserted in writing by notice from the applicable non-breaching party to the breaching party prior to the expiration date of the applicable survival period (and any subsequent claim or claims based on substantially the same facts) shall not thereafter be barred by the expiration of the relevant representation or warranty and such claims shall survive until finally resolved.

10.2 Indemnification of Buyer Indemnified Parties. Subject to the applicable limitations of this Article 10, the ESOT shall indemnify and hold the Buyer and its Affiliates (subsequent to the Closing, including the Company and its Subsidiaries) and each of their respective directors, officers, managers, employees, agents and other representatives (the “**Buyer Indemnified Parties**”) harmless from and against, and compensate and reimburse the Buyer Indemnified Parties for, all claims, Liabilities, obligations, costs, damages, losses and expenses (including reasonable attorneys’ fees and costs of investigation) of any nature (and whether direct or in connection with a third party claim) (collectively, “**Losses**”), in any way arising out of, relating to or based on (i) any breach or inaccuracy of any of the representations or warranties set forth in Article 2, Article 3, or the certificate referenced in Section 8.1(c), or any third party claim arising out of or relating to any such breach or inaccuracy or any third party claim alleging facts that, if true, would constitute such a breach or inaccuracy of a representation or warranty set forth in Article 2, Article 3, or the certificate referenced in Section 8.1(c); (ii) any breach or violation of the covenants or agreements of the Company or its Subsidiaries set forth in this Agreement required to be performed prior to or at the Closing; (iii) any breach or violation of the covenants or agreements of the ESOT set forth in this Agreement; (iv) the failure of any portion of the Closing Company Indebtedness, Closing ESOT Indebtedness, the Transaction Expenses to be paid at or prior to the Closing and/or deducted from the Closing Purchase Price; (v) any claim by any Person, seeking to assert, or based upon (A) ownership or rights to ownership of any equity of the Company or any Subsidiary or (B) any rights under the governance instruments of the Company or any of its Subsidiaries related to pre-Closing claims; (vi) Fraud by or on behalf of the Company or a Subsidiary of the Company or the ESOT; (vii) any Indemnified Taxes; or (viii) any of the matters set forth on Schedule 10.2(a).

10.3 Indemnification of ESOT. Subject to the applicable limitations of this Article 10, the Buyer shall indemnify and hold the ESOT harmless from and against, and compensate and reimburse such Person for, all Losses arising out of or relating to any breach or inaccuracy of the representations, warranties, covenants or agreements of the Buyer set forth in this Agreement.

10.4 Indemnification Limits.

(a) The indemnification obligations of ESOT pursuant to Section 10.2 (or otherwise related to the transactions specified in this Agreement) shall not exceed the amount of the Escrow Fund. Subject to the terms and conditions of the Escrow Agreement, promptly following January 1, 2027, the parties shall cause the Escrow Agent to disburse to the ESOT the full amount of the Escrow Fund as of such date less any then-pending claimed amounts.

(b) For purposes of clarity, no Buyer Indemnified Party shall have any claims for indemnification against the ESOT Distribution Retention Amount in connection with the ESOT’s indemnification obligations under Section 10.2.

(c) For all purposes of this **Article 10**, when determining whether a representation or warranty of the Company or its Subsidiaries or the ESOT is inaccurate or has been breached, and the amount of the Losses, any Material Adverse Effect or other materiality qualifier contained in any such representation or warranty will be disregarded.

(d) The Buyer Indemnified Parties may not (individually or collectively) collect on a claim against the Escrow Fund pursuant to this **Article 10** (it being agreed this **Section 10.4(d)** shall not apply to disbursements pursuant to **Section 1.5** hereof) until the aggregate amount of Losses exceeds \$100,000, at which time the Buyer Indemnified Parties may recover the entirety of such Losses.

10.5 Procedures for Indemnification of Third Party Claims.

(a) A party or parties entitled to indemnification hereunder with respect to a third party claim (the “**Indemnified Party**”) will give the party or parties required to provide such indemnification (the “**Indemnifier**”) reasonably prompt written notice of any Action instituted by any third party (in each case, a “**Third Party Claim**”) in respect of which the Indemnified Party is entitled to indemnification hereunder; provided that the failure to provide reasonably prompt notice shall not relieve the Indemnifier of its indemnification obligations hereunder, except to the extent (and only to the extent) that the Indemnifier is actually and materially prejudiced by the failure of the Indemnified Party to provide such prompt notice.

(b) If the Indemnifier provides written notice to the Indemnified Party stating that the Indemnifier (i) is responsible for the entire Third Party Claim and (ii) waives the provisions of **Section 10.4** with respect to such Third Party Claim, within ten (10) days after the Indemnifier’s receipt of written notice from the Indemnified Party of such Third Party Claim, the Indemnifier shall have the right, at the Indemnifier’s expense, to defend against, negotiate, settle or otherwise deal with such Third Party Claim and to have the Indemnified Party represented by counsel, reasonably satisfactory to the Indemnified Party, selected by the Indemnifier; *provided*, that the Indemnifier may not assume the defense of any Third Party Claim (A) that the Buyer believes in good faith is having or could reasonably be expected to have a material and adverse effect on the Buyer, the Company or any of their Subsidiaries, (B) that relates to or arises in connection with any criminal matter, (C) unless the Indemnifier demonstrates to the Indemnified Party’s reasonable satisfaction that the Indemnifier is able to pay the entire Third Party Claim, (D) that involves any current or prospective business relationship with the Company or its Affiliates, including any customer or supplier, (E) if an actual or potential conflict of interest exists between the Indemnifier and the Indemnified Party that precludes effective joint representation, (F) that is brought, commenced or joined by a Governmental Entity, or (G) if legal defenses are available to any Indemnified Party that are different from or additional to those available to the Indemnifier; and *provided further*, that the Indemnifier may not enter into a settlement of any Third Party Claim without the written consent of the Indemnified Party unless such settlement provides the Indemnified Party with a full release from such Third Party Claim and requires no more than a monetary payment for which the Indemnified Party is fully indemnified. In the event that the Indemnifier does not assume the defense of a Third Party Claim or is prohibited from doing so, or if at any time the Indemnifier has failed or is failing to vigorously prosecute or defend a Third Party Claim, the Buyer Indemnified Parties may initiate, assume or defend the defense of or

otherwise deal with such Third Party Claim in good faith with counsel of its choice and be fully indemnified therefor. Notwithstanding anything to the contrary in this Section, the Indemnified Party may participate in any Action with counsel of its choice and at its expense.

(c) The parties will cooperate reasonably with each other in connection with the defense of any Third Party Claim. The parties shall not take any action with respect to any claim (including but not limited to any Third Party Claim) that could reasonably be expected to conflict with any rights of the R&W Insurer under the R&W Policy, or conflict with, or cause any Buyer Indemnified Party to breach any of its obligations under, any terms of the R&W Policy. In the event of any conflict between this **Section 10.5** and the terms of the R&W Policy, the terms of the R&W Policy shall control, except that R&W Insurer will not have any rights (including rights of subrogation) against ESOT, Trustee, Company or any Affiliate of Company, or any officer, director, manager, shareholder, agent, employee or attorney of Company or any Affiliate of Company, other than in the case of Fraud.

10.6 No Contribution. Notwithstanding anything contained in any statute, organizational documents or agreement to the contrary, neither the ESOT, the Trustee, nor any of their respective Affiliates (including any director, officer, manager, employee, agent or other representative of any of the foregoing) shall have any right of contribution, subrogation, indemnification, advancement of expenses or other claim against the Company or its Subsidiaries with respect to any claims by Buyer or any other Buyer Indemnified Party in respect of this Agreement, any other Transaction Document or the Transactions. For purposes of clarity, this **Section 10.6** does not limit employees of the Company or its Subsidiaries from making claims against the Company or its Subsidiaries with respect to matters other than as related to this Agreement, the Transaction Documents or the Transactions, including with respect to Benefit Plans (other than the ESOT).

10.7 Representations and Warranties Policy. Nothing contained in this Agreement shall in any way restrict the ability of the Buyer Indemnified Parties to make any claim or recover any losses under the R&W Policy.

10.8 Right of Set-Off. If the ESOT has not satisfied in cash any indemnification obligation owed by it hereunder, the Buyer or any of its Affiliates may, at their discretion, to the extent permitted by applicable Legal Requirements, and to the extent allowed under this Agreement, may set-off any amounts due and owing from any Buyer Indemnified Party to the ESOT and/or the Trustee against such unpaid indemnification obligation.

10.9 Reduction for Insurance. The amount of any Losses that are subject to indemnification under this **Article 10** shall be reduced by the amount by which (a) any insurance proceeds received by the indemnified party relating to such Loss exceeds (b) the amount of expenses incurred by such indemnified party in procuring such insurance recovery, including Taxes and reasonable legal fees and expenses and any prospective or increased premiums or costs (including, without limitation any applicable deductibles, co-payments, premium increases, "retro premium" adjustments and similar costs or payments) as a result of such claim for which insurance proceeds are received. This **Section 10.9** shall only apply to recoveries under the R&W Policy in respect of such Loss in excess of \$1,491,900 and then only to the amount of such excess.

10.10 Exclusive Remedy. From and after the Closing, subject to any other provisions of this Agreement, the indemnification provisions of this **Article 10** shall be the exclusive remedy of the parties with respect to any breach or violation of this Agreement, except (a) that the Buyer Indemnified Parties, the Company and the ESOT may seek declaratory, injunctive or equitable relief in connection with any actual or threatened breach of this Agreement and (b) to the extent that a Buyer Indemnified Party suffers Losses as a result of Fraud of the Trustee.

10.11 No Effect. The rights to indemnification of any party set forth in this **Article 10** shall not be affected by any knowledge acquired or capable of being acquired by such party, or any waiver by such party of any closing condition relating to the accuracy of representations and warranties or the performance of or compliance with agreements and covenants hereunder.

ARTICLE 11. MISCELLANEOUS

11.1 Notices. Any notice, demand or communication to a party hereunder shall be in writing and shall be deemed to have been duly given and received (a) if sent via certified mail, return receipt requested, three business days after being mailed, (b) if sent via a recognized overnight or next day delivery service, one business day after being given to such delivery service, (c) if sent via electronic mail or similar electronic transmission, as of the date sent or (d) if delivered personally or by any other means, as of the date received, and in each case shall be addressed to such party at its address set forth below (or such other address as it may from time to time designate in a notice given in accordance with this **Section 11.1**):

- (a) if to the Company, prior to the Closing, to:

Key Knife, Inc.
19100 SW 125th Court
Tualatin, OR 97062
Attention: Christopher W. McDonald
with a copy (which shall not constitute notice) to:

Sussman Shank, LLP
Attn: Darin D. Honn
1000 SW Broadway, Suite 1400
Portland, OR 97205

- (b) if to the ESOT, to:

Key Knife, Inc. Employee Stock Ownership Trust
Argent Trust Company
Attn: Marc Hansberger, Senior VP
1100 Abernathy Road
500 Northpark Suite 550
Atlanta, GA 30328
Phone: 855.504.1376
Email: mhansberger@argenttrust.com

with a copy (which shall not constitute notice) to:

Warner Norcross + Judd LLP
Attn: Matthew D. Johnson
150 Ottawa Avenue NW, Suite 1500
Grand Rapids, MI 49503
Direct: (616) 752-2529
Email: mjohnson@wnj.com

(c) if to the Buyer or, after the Closing, the Company, to:

Kadant Inc.
One Technology Park Drive
Westford, MA 01886
Attention: Stacy D. Krause, Vice President, General Counsel and Secretary
E-mail: stacy.krause@kadant.com

with a copy (which shall not constitute notice) to:

Choate, Hall & Stewart LLP
Two International Place
Boston, Massachusetts 02110
Attention: John R. Pitfield
E-mail: jpitfield@choate.com

11.2 No Waiver; Nonexclusive Remedies. No failure or delay of any party in exercising any right, power or remedy hereunder or relating hereto shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or remedy hereunder or relating hereto preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The rights and remedies under this Agreement are in addition to and not in substitution for any other rights and remedies available at law or in equity or otherwise.

11.3 Amendments and Waivers. The provisions of this Agreement shall not be modified, amended or waived at any time except by a writing signed by the Buyer and the ESOT, and any such modification, amendment or waiver shall be binding on each of the parties hereto.

11.4 Choice of Law; Forum. This Agreement, and any dispute arising under or relating to this Agreement or the Transactions, shall in all respects, be governed by and construed in accordance with the internal substantive and procedural laws of the State of Delaware, without regard to any conflicts of laws principles. The parties irrevocably and unconditionally (a) submit to the exclusive jurisdiction of the Court of Chancery of the State of Delaware and to the jurisdiction of the United States District Court for the District of Delaware (the “**Courts**”) for the purpose of any Action arising under or relating to this Agreement, (b) agree not to commence any Action arising under or relating to this Agreement except in the Courts or to enforce a judgment or order of a Court, and (c) waive, and agree not to assert, by way of motion, as a defense, counterclaim or otherwise, in any such Action, any claim that such party is not subject personally to the jurisdiction of the Courts, that its property is exempt or immune from attachment or execution, that the Action is brought in an inconvenient forum, that the venue of the Action is improper or that this Agreement or the subject matter hereof may not be enforced in or by the Courts. Each of the parties irrevocably and unconditionally consents to the service of process in the manner provided for notices in **Section 11.1**. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by applicable Legal Requirements.

11.5 WAIVER OF JURY TRIAL. EACH PARTY AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER OR OTHERWISE RELATES TO THIS AGREEMENT OR IN CONNECTION WITH IT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT.

11.6 Successors and Assigns. This Agreement, and all provisions hereof, shall be binding upon and shall inure to the benefit of the parties and their respective heirs, successors and assigns, but the rights, interests and obligations hereunder of a party hereunder may not be assigned without the prior written consent of the other parties hereunder; provided that the Buyer and, subsequent to the Closing, the Company may each assign its rights and obligations hereunder to any of its Affiliates or to any future owner of the Company or its assets or may collaterally assign its rights under this Agreement to any lender to the Buyer, the Company or any of their respective Affiliates as security to such lender.

11.7 Entire Agreement. This Agreement, together with the other Transaction Documents and the exhibits, schedules and annexes attached hereto, embodies the entire agreement and understanding among the parties and their respective Affiliates with respect to the subject matter hereof and the matters covered hereby and supersedes all prior discussions, understandings and agreement concerning such matters.

11.8 Schedules and Exhibits. All schedules and exhibits to this Agreement are an integral part of this Agreement and are incorporated herein by reference in this Agreement for all purposes of this Agreement. All Schedules delivered with this Agreement shall be arranged to correspond with the numbered and lettered Sections and Subsections contained in this Agreement,

and the disclosures in such Schedules shall qualify only the corresponding Sections and Subsections contained in this Agreement, unless otherwise expressly provided herein.

11.9 Counterparts. This Agreement may be executed in two or more counterparts, and with counterpart signature pages, each of which shall be an original, but all of which together shall constitute one and the same Agreement, binding on all of the parties hereto notwithstanding that all such parties have not signed the same counterpart. Counterpart signature pages to this Agreement transmitted by electronic mail in “portable document format” (“**.pdf**”) form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

11.10 Expenses. All legal and other costs and expenses incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such costs and expenses, except as otherwise expressly provided herein. In the event of any Action under or in connection with this Agreement, the non-prevailing party or parties in such Action shall reimburse the prevailing party or parties on demand for all reasonable out-of-pocket expenses (including reasonable legal fees and other costs) incurred by the prevailing party or parties in connection with and preparation for such Action.

11.11 No Third Party Beneficiaries. Except as otherwise expressly set forth in this Agreement, nothing in this Agreement shall be construed as giving any third party any right, remedy or claim under or in respect of this Agreement or any provision hereof.

11.12 Publicity. No party shall issue a press release or make any other public announcement, or provide any information to industry press, analysts or the like for purposes of publicity, concerning the Transactions without the prior written consent of the Buyer and the ESOT, except to the extent required by applicable Legal Requirement or stock exchange rule, or as otherwise consistent with previously approved or required statements.

11.13 Further Assurances. Each of the parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances, and assurances and take such further actions as may be reasonably requested by any other party to carry out the provisions hereof and to give effect to the Transactions, in each case at the expense of the requesting party.

11.14 Specific Performance.

(a) In addition to any and all other remedies that may be available hereunder in the event of any breach of this Agreement, the parties shall be entitled to specific performance of the agreements and obligations of the parties hereunder and to such other injunctive or other equitable relief as may be granted by a court of competent jurisdiction, without bond or other security being required.

(b) Each party agrees that it shall not oppose the granting of an injunction, specific performance or other equitable relief on the basis that (i) another party has an adequate remedy at law or (ii) an award of specific performance is not an appropriate remedy for any reason

at law or in equity. Each of the parties hereby waives any requirement under applicable Legal Requirements to post a bond or other security as a prerequisite to obtaining equitable relief.

11.15 Construction of Agreement.

(a) Business Days and Calculation of Days. Any reference to a “**business day**” shall mean any day except Saturday, Sunday, and nationally recognized holidays or any other day on which the principal chartered banks in New York City and/or Portland, Oregon are closed for business. When calculating the period of time within which or following which any act is to be done or step taken pursuant to this Agreement, the date which is the reference date in calculating such period shall be excluded. If the last day of such period is a non-business day, the period in question shall end on the next business day.

(b) Dataroom. As used in this Agreement, when any information or document is referred to as “posted in the data room” or by any similar language, it is agreed and understood that irrespective of the manner, method or mode of initial delivery, no information and no document shall be considered to have been “delivered,” “provided” or “made available” unless such information or document was uploaded to the virtual data room created by the Company and was available to view, download and print in unredacted form by the Buyer no later than two (2) business days prior to the date hereof, unless otherwise agreed in writing by Buyer referencing this **Section 11.15(b)**.

(c) No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement and the other Transaction Documents. In the event an ambiguity or question of intent or interpretation arises under any provision of this Agreement or any other Transaction Documents, this Agreement and such other Transaction Documents shall be construed as if drafted jointly by the parties thereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of authoring any of the provisions of this Agreement or any other Transaction Documents.

(d) Headings. The headings of Articles and Sections herein are inserted for convenience of reference only and shall be ignored in the construction or interpretation hereof.

(e) Currency. Unless otherwise specified herein, any references to “dollars”, “\$” or other dollar amounts in this Agreement shall mean the lawful currency of the United States.

(f) Pronouns. All word and personal pronouns shall be read and construed as the number and gender of the party or parties referred to in each case require and the verb shall be construed as agreeing with the required word and pronoun.

(g) Legal Requirements and Documents. Unless otherwise specified, (i) any references herein to any Legal Requirement shall be construed as a reference thereto as amended, restated and supplemented from time to time, and (ii) any reference to this Agreement or any other document is a reference to this Agreement or such document as amended, restated and supplemented from time to time and includes all schedules and exhibits thereto.

(h) **References to this Agreement.** The words “hereof,” “herein,” “hereto,” “hereunder,” “hereby,” and other similar expressions refer to this Agreement as a whole and not to any particular section or portion of it.

(i) **Including.** Where the word “including” or the word “includes” is used in this Agreement, it means “including (or includes) without limitation.”

(j) **Severability.** Except for (a) the obligation to deliver the Purchased Securities to Buyer as specified in **Section 1.1** of this Agreement and (b) Buyer’s obligation to pay the Closing Payment to the Trustee pursuant to **Section 1.4** of this Agreement, which obligations are dependent, this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision hereof shall be prohibited or invalid under any such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating or nullifying the remainder of such provision or any other provisions of this Agreement. If any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, such provisions shall be construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by applicable law.

11.16 Actions as Trustee. Trustee has executed and delivered this Agreement not in its corporate capacity, but solely in its capacity as the trustee of the ESOT; provided however, notwithstanding any other provision of this Agreement, the Trustee has executed and delivered this Agreement and the other agreements, instruments and documents of the Trustee contemplated hereby or by the Transactions (“**Trustee Transaction Documents**”) solely with respect to the terms and conditions specifically set forth herein. The performance of the Trustee Transaction Documents by Trustee, and all duties, obligations, and liabilities of Trustee under the agreements contemplated hereby, will be undertaken by Trustee only in its capacity as the trustee of the ESOT.

ARTICLE 12. DEFINITIONS

The following terms, as used in this Agreement, have the meanings given to them where indicated below:

Term	Section or Place Where Defined
338(h)(10) Forms	Section 7.6(a)
Accounting Principles	Section 1.3(a)
Accounts Receivable	Section 2.14
Accrued Bonuses	Section 1.3(a)
Acquisition Proposal	Section 1.3(a)
Action	Section 1.3(a)
Adequate Consideration	Section 1.3(a)
Affiliate	Section 1.3(a)
Affordable Care Act	Section 2.24(j)
Agreed Asset Valuation Agreement	Section 7.6(d)
	Preamble

Term	Section or Place Where Defined
Allocation Schedule	Section 7.6(d)
Amendment	Section 1.6(a)
Anti-Bribery Laws	Section 2.31
Balance Sheet	Section 2.8(a)
Balance Sheet Date	Section 2.8(a)
Base Purchase Price	Section 1.3(a)
Benefit Plans	Section 2.24(a)
Business	Section 2.1
business day	Section 11.15(a)
Buyer	Preamble
Buyer Indemnified Parties	Section 10.2
Buyer Transaction Documents	Section 4.2
Canadian Buyer	Preamble
CERCLA	Section 1.3(a)
Closing	Section 1.1
Closing Date	Section 1.2
Closing ESOT Indebtedness	Section 1.3(a)
Closing Company Indebtedness	Section 1.3(a)
Closing Payment	Section 1.3(a)
Closing Purchase Price	Section 1.3(a)
Closing Purchase Price Certificate	Section 1.5(a)
Closing Working Capital	Section 1.3(a)
Code	Section 2.21(b)
Company	Preamble
Company 401(k) Plan	Section 1.3(a)
Company Guarantees	Section 2.8(d)
Company Intellectual Property	Section 2.13(a)(ii)
Company Products	Section 2.13(a)(iii)
Company Securities	Introduction
Company Standard Terms	Section 2.17(c)
Company's 2023 Contribution	Section 5.4(b)
Contest	Section 7.3(a)
Contract	Section 1.3(a)
control	Section 1.3(a)
Courts	Section 11.4
Disclosure Supplement	Section 5.14
Disputed Items Notice	Section 1.5(b)
DOL	Section 2.24(b)
D&O Tail Policy	Section 5.11
Environmental Law	Section 1.3(a)
Environmental Permits	Section 1.3(a)
ERISA	Section 2.24(a)
ERISA Affiliate	Section 2.24(d)
Escrow Agent	Section 8.1(g)

Term	Section or Place Where Defined
Escrow Agreement	Section 8.1(g)
Escrow Amount	Section 1.3(a)
Escrow Fund	Section 1.3(a)
ESOP	Introduction
ESOP Expenses	Section 1.3(a)
ESOP Participants	Introduction
ESOT	Preamble
ESOT Distribution Retention Amount	Section 1.3(a)
ESOT Trust Agreement	Section 1.3(a)
Estimated Accrued Bonuses	Section 1.3(b)
Estimated Closing ESOT Indebtedness	Section 1.3(b)
Estimated Closing Working Capital	Section 1.3(b)
Estimated Closing Company Indebtedness	Section 1.3(b)
Estimated Purchase Price	Section 1.3(a)
Estimated Purchase Price Certificate	Section 1.3(b)
Estimated Purchased Cash	Section 1.3(b)
Estimated Transaction Expenses	Section 1.3(b)
Export Control Rules	Section 2.20
Fairness Opinion	Section 1.3(a)
Final Accrued Bonuses	Section 1.3(a)
Final Closing Company Indebtedness	Section 1.3(a)
Final Closing ESOT Indebtedness	Section 1.3(a)
Final Closing Working Capital	Section 1.3(a)
Final Purchased Cash	Section 1.3(a)
Final Transaction Expenses	Section 1.3(a)
Financial Statements	Section 2.8(b)
Fraud	Section 1.3(a)
Fundamental Representations	Section 10.1
GAAP	Section 1.3(a)
Governmental Entity	Section 1.3(a)
handles	Section 2.13(a)(i)
Haskins Canada	Section 1.3(a)
Hazardous Substances	Section 1.3(a)
HSR Act	Section 2.5
Indebtedness	Section 1.3(a)
Indemnified Party	Section 10.5(a)
Indemnified Taxes	Section 1.3(a)
Indemnifier	Section 10.5(a)
Independent Accounting Firm	Section 1.5(c)
Independent Financial Advisor	Section 2.25(e)
Insurance Policies	Section 2.28
Intellectual Property	Section 2.13(a)(i)
IP Licenses	Section 2.13(c)
IRS	Section 1.3(a)

Term	Section or Place Where Defined
IRS Determination Letter	Section 1.3(a)
IT Assets	Section 2.27(a)
Key Knife Canada	Preamble
Key Knife Canada Closing	Section 1.1
Key Knife Canada Securities	Introduction
Key Knife Canada Securities Purchase Price	Section 1.3(a)
Key Knife US Closing	Section 1.1
Knowledge of the Company	Section 1.3(a)
Latest Balance Sheet	Section 2.8(a)
Leased Property	Section 2.11(b)
Legal Requirements	Section 2.18
Liabilities	Section 1.3(a)
Liens	Section 1.1
Lindsey	Section 2.8(a)
Losses	Section 10.2
Material Adverse Effect	Section 1.3(a)
Material Contract(s)	Section 2.10
Material Contract Amount	Section 2.10(a)
Material Customers	Section 2.17(a)
Material Vendors	Section 2.17(a)
Multiemployer Plan	Section 2.24(d)
Non-U.S. Benefit Plan	Section 2.24(a)
Organizational Documents	Section 1.3(a)
Other Guarantees	Section 2.8(d)
Owned Property	Section 2.11(a)
.pdf	Section 11.9
Permits	Section 2.19
Permitted Liens	Section 1.3(a)
Person	Section 1.3(a)
Personal Information	Section 2.27(b)
Persons of Knowledge	Section 1.3(a)
pre-Closing Indemnitee	Section 5.11
Pre-Closing Taxable Periods	Section 7.1
Purchased Cash	Section 1.3(a)
Purchased Securities	Introduction
R&W Insurer	Section 1.3(a)
R&W Policy	Section 1.3(a)
Real Property	Section 2.11(b)
Real Estate Leases	Section 2.11(b)
Registered Company Intellectual Property	Section 2.13(b)
Release	Section 1.3(a)
Remedies Exception	Section 2.6
Required Consents	Section 2.5
Review Period	Section 1.5(b)

Term	Section or Place Where Defined
Section 338(h)(10) Election	Section 7.6(a)
Specified Benefit Plans	Section 5.10(a)
Subsidiary	Section 1.3(a)
Subsidiary Disposition(s)	Section 5.13
Tax or Taxes	Section 2.21(a)(i)
Tax Returns	Section 2.21(a)(ii)
Termination Date	Section 9.1(f)
Termination Fee	Section 9.3(a)
Third Party	Section 1.3(a)
Third Party Claim	Section 10.5(a)
Transaction Documents	Section 2.4
Transaction Expenses	Section 1.3(a)
Transactions	Introduction
Trustee	Introduction
Trustee Transaction Documents	Section 11.16
Union	Section 2.23(b)
US Buyer	Preamble
VEBA	Section 2.24(a)

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as a sealed instrument as of the date first above written.

KEY KNIFE, INC.

By: /s/ Christopher W. McDonald
Name: Christopher W. McDonald
Title: President

**KEY KNIFE CANADIAN INVESTMENTS
CORPORATION**

By: /s/ Christopher W. McDonald
Name: Christopher W. McDonald
Title: President

**KEY KNIFE, INC., EMPLOYEE STOCK
OWNERSHIP TRUST**

By: Argent Trust Company, not in its corporate capacity,
but solely in its capacity as the Transactional Trustee of
the Key Knife, Inc. Employee Stock Ownership Trust

By: /s/ Marc Hansberger
Marc Hansberger, Senior Vice President, not in his
individual capacity but solely as a duly authorized officer
of Argent Trust Company as Transactional Trustee

KADANT INC.

By: /s/ Jeffrey L. Powell
Name: Jeffrey L. Powell
Title: President & CEO

KADANT CANADA CORP.

By: /s/ Michael C. Colwell
Name: Michael C. Colwell
Title: President

Kadant Inc.
Subsidiaries of the Registrant

At February 16, 2024, the Registrant owned the following subsidiaries:

Name	State or Jurisdiction of Incorporation	Percent of Ownership
Kadant Black Clawson LLC	Delaware	100
Kadant Japan K.K.	Japan	100
Sundance Partners LLC	Delaware	100
Verus Lebanon, LLC	Delaware	100
Arcline Products LLC	New York	100
Kadant Fibergen Inc.	Delaware	100
Kadant GranTek Inc.	Delaware	100
Kadant Composites LLC	Delaware	100
Cogent Industrial Technologies Ltd.	Canada	100
Fiberprep Inc. (31.05% owned by Kadant Lamort SAS and 68.95% owned by Kadant Inc.)	Delaware	100
Kadant Cayman Ltd.	Cayman Islands	100
Kadant PAAL LLC	Delaware	100
Kadant Northern U.S. LLC	Delaware	100
Nicholson Manufacturing Company LLC	Delaware	100
VK North America LLC	Delaware	100
Kadant Syntron Holdings, LLC	Delaware	100
Syntron Material Handling Group, LLC	Delaware	100
Syntron Material Handling Holdings, LLC	Delaware	100
Syntron Material Handling Intermediate Holdings, LLC	Delaware	100
Syntron Material Handling, LLC	Delaware	100
Syntron Material Handling Holdings Limited	Hong Kong	100
Syntron Material Handling (Changshu) Co., Ltd.	China	100
Syntron Material Handling (Changshu) Trading Co., Ltd.	China	100
Kadant Johnson LLC	Delaware	100
Kadant Australia Pty Ltd	Australia	100
Kadant Johnson Australia Pty Limited	Australia	100
Kadant Johnson Corporation Asia Pacific Pty Ltd	Australia	100
Kadant Johnson Argentina S.A. (99% owned by Kadant Johnson LLC and 1% owned by Kadant Johnson Latin America Holding Inc.)	Argentina	100
Kadant Johnson China-TZ Holding Inc.	Michigan	100
Tengzhou Feixuan Rotary Joints Manufacturing Co., Ltd.	China	100
Kadant Johnson Latin America Holding Inc.	Michigan	100
Kadant South America Ltda. (99.9% owned by Kadant Johnson Latin America Holding Inc. and 0.1% owned by Kadant Johnson LLC)	Brazil	100
Kadant Johnson Holdings Inc.	Michigan	100
Kadant Unaflex LLC	Delaware	100
The Johnson Corporation de Mexico S.A. de C.V.	Mexico	100
East Chicago Machine Tool Corporation	Indiana	100

Name	State or Jurisdiction of Incorporation	Percent of Ownership
Key Knife, Inc.	Oregon	100
Key Knife Chile Limitada	Chile	100
Key Knife US Investments LLC	Oregon	100
Lindsay Forest Products Inc. (45% owned by Key Knife US Investments LLC)	Washington	45
Kadant International Holdings LLC	Delaware	100
Kadant Asia Holdings Inc.	Mauritius	100
Kadant Fiberline (China) Co., Ltd.	China	100
Kadant Luxembourg Holdings S.à r.l.	Luxembourg	100
Kadant Northern UK Co. Ltd.	United Kingdom	100
Valon Kone Oy	Finland	100
Valon Kone OOO	Russia	100
Valon Kone AB	Sweden	100
Kadant Luxembourg S.à r.l.	Luxembourg	100
Kadant Johnson Europe B.V.	Netherlands	100
Kadant Canada Corp.	Canada	100
Key Knife Canadian Investments Inc.	Canada	100
Haskins Industrial Inc.	Canada	100
Lindsay Forest Products Ltd. (45% owned by Key Knife Canadian Investments Inc.)	Canada	45
Nicholson Manufacturing Ltd.	Canada	100
Kadant Cyprus (Canada) Limited	Cyprus	100
Kadant UK Holdings Limited	United Kingdom	100
Fibertek U.K. Limited	United Kingdom	100
Kadant U.K. Limited	United Kingdom	100
D.S.T. Pattern and Engineering Company Limited	United Kingdom	100
Vickers Limited	United Kingdom	100
Winterburn Limited	United Kingdom	100
Kadant Mexico, S.A. de C.V. (0.002% owned by Kadant Johnson Europe B.V. and 99.998% owned by Kadant UK Holdings Limited)	Mexico	100
Johnson-Fluiten Srl	Italy	50
Johnson Corporation (JoCo) Limited	United Kingdom	100
Kadant Johnson (Wuxi) Technology Co. Ltd.	China	100
Kadant Johnson Systems International Limited	United Kingdom	100
Kadant Lamort SAS	France	100
Kadant BC- Lamort UK Limited	United Kingdom	100
Kadant Lamort SL	Spain	100
Kadant Lamort S.r.l.	Italy	100
VN Services NV (99.95% owned by Kadant Johnson Europe B.V. and 0.05% owned by Nicholson Manufacturing Company LLC)	Belgium	100
Kadant Noss AB	Sweden	100
Joh. Clouth GmbH	Germany	100
Alcaidesa AG	Switzerland	100
Joh. Clouth Composite Technology Spolka z. o. o. (40% owned by Joh. Clouth GmbH and 60% owned by Alcaidesa AG)	Poland	100

Name	State or Jurisdiction of Incorporation	Percent of Ownership
Clouth Sprenger GmbH	Germany	100
Clouth Sprenger, LLC	Ohio	100
Joh. Clouth Technical Service GmbH	Germany	100
Joh. Clouth PaperTec GmbH	Germany	100
Joh. Clouth Services Ltd.	Canada	100
Kadant Johnson Deutschland GmbH	Germany	100
Kadant PAAL Holding GmbH	Germany	100
Kadant PAAL Limited	United Kingdom	100
J&H Rentals Limited	United Kingdom	100
Kadant PAAL SAS	France	100
Kadant PAAL GmbH	Germany	100
Kadant PAAL S.A.	Spain	100
Kadant India Private Limited (84.93% owned by Kadant Johnson Europe B.V. and 15.07% owned by Kadant Lamort SAS)	India	100
Kadant Nordic AB	Sweden	100
Kadant Johnson Systems International - S.r.l.	Italy	100
Kadant Finland International Holdings Oy	Finland	100
Kadant Finland Holdings Oy	Finland	100
Kadant Sweden International Holdings AB	Sweden	100
Kadant Sweden Holdings AB	Sweden	100
FrontWay AB	Sweden	100
KWS Manufacturing Company, Ltd.	Texas	100

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (No. 333-202855, 33-67190, 333-48498, 333-142247, 333-176371, 333-238305) on Form S-8 and the registration statement (No. 333-263181) on Form S-3ASR of our reports dated February 27, 2024, with respect to the consolidated financial statements of Kadant Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts
February 27, 2024

CERTIFICATION

I, Jeffrey L. Powell, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended December 30, 2023 of Kadant Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2024

/s/ Jeffrey L. Powell

Jeffrey L. Powell

President and Chief Executive Officer

CERTIFICATION

I, Michael J. McKenney, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended December 30, 2023 of Kadant Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2024

/s/ Michael J. McKenney

Michael J. McKenney

Executive Vice President and Chief Financial Officer

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

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Jeffrey L. Powell, Chief Executive Officer, and Michael J. McKenney, Chief Financial Officer, of Kadant Inc., a Delaware corporation (the "Company"), do hereby certify, to our best knowledge and belief, that: The Annual Report on Form 10-K for the period ended December 30, 2023 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the information contained in this Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2024

/s/ Jeffrey L. Powell

Jeffrey L. Powell

President and Chief Executive Officer

/s/ Michael J. McKenney

Michael J. McKenney

Executive Vice President and Chief Financial Officer

This certification accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

KADANT INC.

Dodd-Frank Compensation Recovery Policy

This Compensation Recovery Policy (this “Policy”) is adopted by Kadant Inc. (the “Company”) in accordance with Section 303A.14 of the NYSE Listed Company Manual (“Section 303A.14”), which implements Rule 10D-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (as promulgated pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010). This Policy is effective on the effective date of Section 303A.14” (the “Effective Date”).

1. Definitions

(a) **“Accounting Restatement”** means a requirement that the Company prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the U.S. federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. Changes to the Company’s financial statements that do not represent error corrections are not an Accounting Restatement, including: (A) retrospective application of a change in accounting principle; (B) retrospective revision to reportable segment information due to a change in the structure of the Company’s internal organization; (C) retrospective reclassification due to a discontinued operation; (D) retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; and (E) retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.

(b) **“Committee”** means the Compensation Committee of the Company’s Board of Directors (the “Board”).

(c) **“Covered Person”** means a person who served as an Executive Officer at any time during the performance period for the applicable Incentive-Based Compensation. This Policy (or designated portions hereof as the case may be) will also apply to such other employees (or classes of employees), as the Committee may designate from time to time as Covered Persons.

(d) **“Erroneously Awarded Compensation”** means the amount of Incentive-Based Compensation that was Received that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had the amount of Incentive-Based Compensation been determined based on the restated amounts, computed without regard to any taxes paid by the Covered Person or by the Company on the Covered Person’s behalf. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement, the amount of Erroneously Awarded Compensation will be based on a reasonable estimate by the Committee of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received. The Company will maintain documentation of the determination of that reasonable estimate and provide such documentation to NYSE upon request or as required.

(e) **“Executive Officer”** means the Company’s officers as defined in Rule 16a-1(f) under the Exchange Act.

(f) **“Financial Reporting Measures”** means (A) measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial

statements, and any measures that are derived wholly or in part from such measures (whether or not such measures are presented within the Company's financial statements or included in a filing made with the SEC), (B) stock price and (C) total shareholder return.

(g) **"Incentive-Based Compensation"** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(h) Incentive-Based Compensation is deemed to be **"Received"** in the Company's fiscal period during which the Financial Reporting Measure specified in the applicable Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period or is subject to additional time-based vesting requirements.

(i) **"Recovery Period"** means the three completed fiscal years immediately preceding the earlier of: (A) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or (B) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement. In addition, if there is a change in the Company's fiscal year end, the Recovery Period will also include any transition period to the extent required by Section 303A.14.

2. Recovery of Erroneously Awarded Compensation

(a) Application of Prior Policy. If the Company is required to prepare an Accounting Restatement and the provisions of Section 2(b) of this Policy are inapplicable, the Clawback Policy previously adopted by the Board on March 9, 2016 (the "Prior Policy") will apply in accordance with its terms. The Prior Policy will not apply when Section 2(b) of this Policy is applicable.

(b) Application of this Policy. Subject to the terms of this Policy and the requirements of Section 303A.14, if, on or after the Effective Date, the Company is required to prepare an Accounting Restatement, the Company will attempt to recover, reasonably promptly from each Covered Person, any Erroneously Awarded Compensation that was Received by such Covered Person during the Recovery Period pursuant to Incentive-Based Compensation that is subject to this Policy.

3. Interpretation and Administration

(a) Role of the Committee. This Policy will be interpreted by the Committee in a manner that is consistent with Section 303A.14 and any other applicable law and will otherwise be interpreted in the business judgment of the Committee. All decisions and interpretations of the Committee that are consistent with Section 303A.14 will be final and binding.

(b) Compensation Not Subject to this Policy. This Policy does not apply to Incentive-Based Compensation that was Received before the Effective Date. With respect to any Covered Person, this Policy does not apply to Incentive-Based Compensation that was Received by such Covered Person before beginning service as an Executive Officer or, if earlier, first being designated by the Committee as a Covered Person.

(c) Determination of Means of Recovery. Subject to the requirement that recovery be made reasonably promptly, the Committee will determine the appropriate means of recovery, which may vary between Covered Persons or based on the nature of the applicable Incentive-Based Compensation, and which may involve, without limitation, establishing a deferred repayment plan or setting off against current or future compensation otherwise payable to the Covered Person. Recovery of Erroneously

Awarded Compensation will be made without regard to income taxes paid by the Covered Person or by the Company on the Covered Person's behalf in connection with such Erroneously Awarded Compensation.

(d) Determination That Recovery is Impracticable. The Company is not required to recover Erroneously Awarded Compensation if a determination is made by the Committee that either (A) after the Company has made and documented a reasonable attempt to recover such Erroneously Awarded Compensation, the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered or (B) recovery of such Erroneously Awarded Compensation would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of Section 401(a)(13) or 411(a) of the Internal Revenue Code and regulations thereunder.

(e) No Indemnification or Company-Paid Insurance. The Company will not indemnify any Covered Person against the loss of Erroneously Awarded Compensation and will not pay or reimburse any Covered Person for the purchase of a third-party insurance policy to fund potential recovery obligations.

(f) Interaction with Other Clawback Provisions. The Company will be deemed to have recovered Erroneously Awarded Compensation in accordance with this Policy to the extent the Company actually receives such amounts pursuant to any other Company policy, program or agreement (including the Prior Policy), pursuant to Section 304 of the Sarbanes-Oxley Act or otherwise.

(g) No Limitation on Other Remedies. Nothing in this Policy will be deemed to limit the Company's right to terminate employment of any Covered Person, to seek recovery of other compensation paid to a Covered Person, or to pursue other rights or remedies available to the Company under applicable law.

Adopted by the Board on May 18, 2023.