

KADANT

Kadant Reports 2003 Second Quarter Results

July 23, 2003

ACTON, Mass.--(BUSINESS WIRE)--July 23, 2003--For the second quarter of 2003, Kadant Inc. (NYSE:KAI) reported GAAP net income of \$3.9 million, or \$.28 per diluted share, versus \$2.5 million, or \$.20 per diluted share, in the 2002 period. Earnings per diluted share in 2003 included a net gain of \$.01 due to restructuring and unusual items and, in 2002, a gain of \$.02 from the repurchase of debt. Revenues in the second quarter of 2003 increased 20 percent to \$55.8 million (including \$3.3 million from the favorable effect of currency translation), compared with \$46.4 million a year ago.

"We are pleased to report another solid quarter, especially at a time when we see little relief from economic and industry pressures in North America and Europe," said William A. Rainville, chairman and chief executive officer of Kadant. "Net income for the quarter rose more than 50 percent over last year on the 20 percent increase in revenues. The driving force behind this performance continues to be strong sales of our stock-preparation systems in China, coupled with tight spending controls and a shift to net interest income.

"China is the fastest-growing market in the world, and one where we have maintained a leading position in our industry. High demand for our systems that recover and process usable fiber from wastepaper has resulted in more than \$17 million in orders from China in the first half of 2003. We expect to receive additional orders from China during the balance of the year, although not at this level.

"In our composite building products business, revenues for the quarter grew better than 50 percent to \$3.4 million from \$2.2 million a year ago, resulting in breakeven operating performance. While decking products have been our primary source of revenues for this business, we expect to begin seeing modest sales of our composite slate roof tiles later in the year."

Mr. Rainville added, "As we stated previously, we anticipated a stronger first half due to the timing of orders from China. Therefore, we are maintaining our earnings guidance of \$.84 to \$.92 per diluted share (on a GAAP basis) for the full year, and expect to generate revenues of \$195 to \$200 million. For the third quarter of 2003, we expect to earn from \$.17 to \$.19 per diluted share (on a GAAP basis), on revenues of \$44 to \$46 million."

Financial Highlights(unaudited)

(In thousands except per share amounts and percentages)

Consolidated Statement of Operations	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002(a)	June 28, 2003	June 29, 2002(a)
Revenues	\$55,784	\$46,378	\$107,159	\$89,718
Costs and Operating Expenses:				
Cost of revenues	35,086	28,378	67,294	55,565
Selling, general, and administrative expenses	13,382	12,576	26,894	25,267
Research and development expenses	1,310	1,152	2,353	2,440
Restructuring and unusual items	(180)	-	(180)	3,637
	49,598	42,106	96,361	86,909
Operating Income	6,186	4,272	10,798	2,809
Interest Income	214	623	450	1,278
Interest Expense	(11)	(1,207)	(28)	(2,636)
Other Income	-	414	-	461
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle	6,389	4,102	11,220	1,912
Provision for Income Taxes	2,428	1,552	4,264	720
Minority Interest Expense	72	1	72	2

Income Before Cumulative Effect of Change in Accounting Principle	3,889	2,549	6,884	1,190
Cumulative Effect of Change in Accounting Principle (net of income tax benefit of \$12,420)	-	-	-	(32,756)
Net Income (Loss)	\$3,889	\$2,549	\$6,884	\$(31,566)
Earnings per Share Before Cumulative Effect of Change in Accounting Principle				
Basic	\$.29	\$.20	\$.51	\$.10
Diluted	\$.28	\$.20	\$.50	\$.10
Earnings (Loss) per Share				
Basic	\$.29	\$.20	\$.51	\$(2.56)
Diluted	\$.28	\$.20	\$.50	\$(2.52)
Weighted Average Shares				
Basic	13,601	12,446	13,588	12,343
Diluted	13,908	12,661	13,837	12,508
	Three Months Ended		Six Months Ended	
Adjusted Diluted Earnings per Share(b)	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
GAAP Diluted Earnings (Loss) per Share	\$.28	\$.20	\$.50	\$(2.52)
Restructuring and Unusual Items	(.01)	-	(.01)	.18
Gain on Repurchases of Debt	-	(.02)	-	(.02)
Cumulative Effect of Change in Accounting Principle	-	-	-	2.61
	\$.27	\$.18	\$.49	\$.25
	Three Months Ended		Six Months Ended	
Business Segment Information	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002

Revenues:

Pulp and Papermaking

Equipment and Systems	\$50,674	\$41,923	\$96,231	\$82,500
Composite and Fiber-based Products	5,110	4,455	10,928	7,218
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	\$55,784	\$46,378	\$107,159	\$89,718
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Gross Profit Margin:				
Pulp and Papermaking				
Equipment and Systems	37%	40%	38%	39%
Composite and Fiber-based Products	37%	32%	35%	26%
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	37%	39%	37%	38%
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Operating Income:				
Pulp and Papermaking				
Equipment and Systems	\$6,691	\$5,024	\$11,931	\$6,907
Composite and Fiber-based Products (c)	571	98	983	(2,375)
Corporate	(1,076)	(850)	(2,116)	(1,723)
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	\$6,186	\$4,272	\$10,798	\$2,809
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Adjusted Operating Income (Excludes Restructuring and Unusual Items) (b):				
Pulp and Papermaking				
Equipment and Systems(d)	\$6,511	\$5,024	\$11,751	\$8,905
Composite and Fiber-based Products (e)	571	98	983	(736)
Corporate	(1,076)	(850)	(2,116)	(1,723)
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	\$6,006	\$4,272	\$10,618	\$6,446
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	Three Months Ended		Six Months Ended	
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Business Segment	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Information (continued)				
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Bookings:				
Pulp and Papermaking				
Equipment and Systems	\$38,516	\$42,548	\$96,644	\$86,292
Composite and Fiber-based Products	4,886	6,268	7,825	9,256
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	\$43,402	\$48,816	\$104,469	\$95,548
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Capital Expenditures:				
Pulp and Papermaking				
Equipment and Systems	\$359	\$419	\$561	\$631
Composite and Fiber-based Products	228	327	876	590
Corporate	8	7	11	127
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\$595 \$753 \$1,448 \$1,348

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Cash Flow and Other Data	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Cash Provided by Operations	\$4,098	\$9,371	\$3,058	\$12,617
Depreciation and Amortization Expense	1,322	1,245	2,607	2,587
Balance Sheet Data			June 28, 2003	Dec. 28, 2002
Cash and Short-term Investments			\$52,482	\$44,429
Short- and Long-term Debt			598	1,165
Shareholders' Investment			197,726	181,257

- (a) Restated to reflect the reclassification to other income of an extraordinary item in accordance with the adoption of SFAS No. 145, resulting from repurchases of our subordinated convertible debentures. In addition, the six-month period ended June 29, 2002 was restated to include a transitional goodwill impairment charge recorded as a cumulative effect of change in accounting principle in accordance with the adoption of SFAS No. 142.
- (b) In addition to the financial measures prepared in accordance with generally accepted accounting principles (GAAP), we use the non-GAAP financial measures of adjusted diluted EPS and adjusted operating income, which exclude restructuring and other non-recurring items. We exclude these items because they are outside our normal operations. We believe that providing such non-GAAP measures helps investors to gain a better understanding of our operating results from period to period, and are consistent with how management measures our performance.
- (c) Includes operating income of \$26 and \$110 in the three- and six-month periods ended June 28, 2003, respectively, and operating losses of \$677 in the three- month period ended June 29, 2002, and \$2,847 (including restructuring and unusual costs of \$1,116) in the six-month period ended June 29, 2002, from the composite building products business.
- (d) Excludes restructuring and unusual income of \$180 in the three- and six-month periods ended June 28, 2003, and restructuring and unusual costs of \$1,998 in the six-month period ended June 29, 2002.
- (e) Excludes restructuring and unusual costs of \$1,639 in the six-month period ended June 29, 2002.

Kadant will hold its earnings conference call on Thursday, July 24, 2003, at 11 a.m. Eastern time. To listen, call 800-709-2159 within the U.S., or 973-582-2810 outside the U.S. You can also listen to the call live on the Web by visiting www.kadant.com and clicking on "Investors." An audio archive of the call will be available on our Web site until August 21, 2003.

Kadant Inc. is a leading supplier of a range of products for the global papermaking and paper recycling industries, including stock-preparation equipment, water-management systems, and papermaking accessories. We also develop and manufacture composite building materials produced from recycled fiber and plastic. Kadant, based in Acton, Massachusetts, reported \$186 million in revenues in 2002 and employs approximately 1,100 people worldwide. For more information, please visit www.kadant.com.

The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This press release contains forward-

looking statements that involve a number of risks and uncertainties, including forward-looking statements regarding our future financial and operating performance, our sales prospects and market position in China, and performance of our composite building products business. Important factors that could cause actual results to differ materially from those indicated by such statements are set forth under the heading "Risk Factors" in Kadant's quarterly report on Form 10-Q for the fiscal quarter ended March 29, 2003. These include risks and uncertainties relating to our dependence on the pulp and paper industry; international sales and operations; competition; ability to manufacture and distribute composite building products, and the seasonality in sales and the long-term performance of such products; availability of raw materials and exposure to commodity price fluctuations related to the manufacture of composite and fiber-based products; acquisition strategy; protection of patents and proprietary rights; fluctuations in quarterly operating results; and obligations or other consequences arising from our spinoff from Thermo Electron Corporation. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise.

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SOURCE: Kadant Inc.