

KADANT

Kadant Reports Third Quarter 2003 Results

October 22, 2003

ACTON, Mass.--(BUSINESS WIRE)--Oct. 22, 2003--For the third quarter of 2003, Kadant Inc. (NYSE: KAI - News) reported GAAP diluted earnings per share of \$.19, versus \$.20 in the 2002 period. Earnings in 2003 included a \$.01 charge for restructuring and unusual items. GAAP net income was \$2.7 million in both periods. Revenues in the third quarter of 2003 were \$45.9 million (including \$2.2 million from the favorable effect of currency translation), compared with \$50.1 million a year ago.

William A. Rainville, chairman and chief executive officer of Kadant, said, "Our EPS results this quarter were slightly better than we expected despite weak performance from our composite building products business, which reported an operating loss of \$771,000. We were pleased to generate a record \$17 million of operating cash in the quarter - all from our core papermaking equipment segment. The strong cash flows contributed to a cash balance of \$66 million at quarter-end, up more than \$21 million since the beginning of the year. These results attest to the strength of our core business in spite of ongoing challenges in some of our markets.

"Another positive was our 15 percent increase in total bookings for the quarter over last year, led by strong orders for stock-preparation systems, particularly in China. Just after quarter-end, we received an order for approximately \$3.5 million of these systems, which are used to recover usable fiber from wastepaper in the production of recycled-paper products.

"While the composite building products industry has been experiencing lower-than-expected demand, we continue to believe in the potential opportunities that our business represents. We recently launched an aggressive program to further expand our dealer base, and expect to see the benefit in 2004."

Mr. Rainville added, "With the loss in composites likely to be from \$1.0 to \$1.3 million in the fourth quarter of 2003, we expect to earn \$.15 to \$.17 per diluted share (on a GAAP basis) for the quarter, on revenues of \$45 to \$47 million. For the full year, we expect to earn \$.84 to \$.86 per diluted share (on a GAAP basis), on revenues of \$198 to \$200 million."

Financial Highlights (unaudited)

(In thousands except per share amounts and percentages)

	Three Months Ended		Nine Months Ended	
	Sept. 27,	Sept. 28,	Sept. 27,	Sept. 28,
	2003	2002 (a)	2003	2002 (a)
Consolidated Statement of Operations				
Revenues	\$45,906	\$50,084	\$153,065	\$139,802
Costs and Operating Expenses:				
Cost of revenues	27,768	31,576	95,062	87,141
Selling, general, and administrative expenses	12,775	12,490	39,669	37,757
Research and development expenses	1,149	1,149	3,502	3,589
Restructuring and unusual items	157	101	(23)	3,738
	41,849	45,316	138,210	132,225
Operating Income	4,057	4,768	14,855	7,577
Interest Income	243	676	693	1,954
Interest Expense	(11)	(1,084)	(39)	(3,720)
Other Income	-	8	-	469

Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting

Principle	4,289	4,368	15,509	6,280
Provision for Income Taxes	1,630	1,660	5,894	2,380
Minority Interest Expense (Income)	(4)	1	68	3
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Income Before Cumulative Effect of Change in Accounting Principle	2,663	2,707	9,547	3,897
Cumulative Effect of Change in Accounting Principle (net of income tax benefit of \$12,420)	-	-	-	(32,756)
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Net Income (Loss)	\$2,663	\$2,707	\$9,547	\$(28,859)
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Earnings per Share Before Cumulative Effect of Change in Accounting Principle				
Basic	\$.20	\$.20	\$.70	\$.31
	=====	=====	=====	=====
Diluted	\$.19	\$.20	\$.69	\$.30
	=====	=====	=====	=====
Earnings (Loss) per Share				
Basic	\$.20	\$.20	\$.70	\$(2.26)
	=====	=====	=====	=====
Diluted	\$.19	\$.20	\$.69	\$(2.24)
	=====	=====	=====	=====
Weighted Average Shares				
Basic	13,632	13,547	13,602	12,744
	=====	=====	=====	=====
Diluted	14,041	13,716	13,905	12,911
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	Three Months Ended		Nine Months Ended	
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
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Adjusted Diluted Earnings per Share (b)				
GAAP Diluted Earnings (Loss) per Share	\$.19	\$.20	\$.69	\$(2.24)
Restructuring and Unusual Items	.01	-	-	.18
Gain on Repurchases of Debt	-	-	-	(.02)
Cumulative Effect of Change in Accounting Principle	-	-	-	2.54
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	\$.20	\$.20	\$.69	\$.46
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Business Segment Information	Three Months Ended		Nine Months Ended	
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
Revenues:				
Pulp and Papermaking Equipment and Systems	\$42,023	\$46,322	\$138,254	\$128,822
Composite and Fiber-based Products	3,883	3,762	14,811	10,980
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	\$45,906	\$50,084	\$153,065	\$139,802
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Gross Profit Margin:				
Pulp and Papermaking Equipment and Systems	42%	38%	39%	39%
Composite and Fiber-based Products	11%	27%	28%	26%
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	40%	37%	38%	38%
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Operating Income:				
Pulp and Papermaking Equipment and Systems	\$5,702	\$5,839	\$17,633	\$12,746
Composite and Fiber-based Products (c)	(669)	(272)	314	(2,647)
Corporate	(976)	(799)	(3,092)	(2,522)
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	\$4,057	\$4,768	\$14,855	\$7,577
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Adjusted Operating Income (Excludes Restructuring and Unusual Items) (b):				
Pulp and Papermaking Equipment and Systems (d)	\$5,859	\$5,940	\$17,610	\$14,845
Composite and Fiber-based Products (e)	(669)	(272)	314	(1,008)
Corporate	(976)	(799)	(3,092)	(2,522)
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	\$4,214	\$4,869	\$14,832	\$11,315
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	Three Months Ended		Nine Months Ended	
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Business Segment Information (continued)

	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
Bookings:				
Pulp and Papermaking Equipment and Systems	\$44,559	\$38,983	\$141,203	\$125,275
Composite and Fiber-based Products	2,638	1,919	10,463	11,175
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	\$47,197	\$40,902	\$151,666	\$136,450
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Capital Expenditures:				
Pulp and Papermaking Equipment and Systems	\$537	\$266	\$1,098	\$897
Composite and Fiber-based Products	585	583	1,461	1,173
Corporate	-	18	11	145
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	\$1,122	\$867	\$2,570	\$2,215
	=====	=====	=====	=====
	Three Months Ended		Nine Months Ended	
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Cash Flow and Other Data				
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
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Cash Provided by Operations	\$16,953	\$4,557	\$20,011	\$17,174
Depreciation and Amortization Expense	1,248	1,306	3,855	3,893
Balance Sheet Data				
			Sept. 27, 2003	Dec. 28, 2002
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Cash and Short-term Investments			\$65,687	\$44,429
Short- and Long-term Debt			598	1,165
Shareholders' Investment			197,424	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 nine-month period ended September 28, 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 is consistent with how we measure our performance.

- (c) Includes operating loss of \$771 and \$661 in the three- and nine-month periods ended September 27, 2003, respectively, and operating losses of \$376 in the three- month period ended September 28, 2002, and \$3,285 (including restructuring and unusual costs of \$1,178) in the nine-month period ended September 28, 2002, from the composite building products business.
- (d) Excludes restructuring costs and unusual costs of \$157 in the three-month period ended September 27, 2003, net restructuring and unusual income of \$23 in the nine-month period ended September 27, 2003, and net restructuring and unusual costs of \$101 and \$2,099 in the three- and nine-month periods ended September 28, 2002.
- (e) Excludes restructuring and unusual costs of \$1,639 in the nine-month period ended September 28, 2002.

Kadant will hold its earnings conference call on Thursday, October 23, 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 Thursday, November 20, 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, had \$186 million in revenues in 2002 and approximately 1,100 employees 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 projected operating results and the future performance of our businesses, particularly our composites 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 period ended June 28, 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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