

# KADANT

## Kadant Reports 2005 Second Quarter Results

August 3, 2005

ACTON, Mass.--(BUSINESS WIRE)--Aug. 3, 2005--For the second quarter of 2005, Kadant Inc. (NYSE:KAI) reported that revenues from continuing operations increased 24 percent to \$65.1 million (including 21 percent, or \$11.1 million, from recently acquired Kadant Johnson and a 2 percent benefit from currency translation), compared with \$52.7 million in the second quarter of 2004. Income from continuing operations was \$3.1 million in the 2005 quarter, or \$.22 of diluted earnings per share (EPS), versus \$4.0 million, or \$.27 of diluted EPS, in the 2004 period, which included a \$.03 tax benefit. Including the discontinued composite building products business, net income in the 2005 quarter was \$3.4 million, or \$.24 per diluted share, versus \$3.7 million, or \$.26 per diluted share, in 2004.

"We had a good quarter overall, meeting our financial targets and achieving several objectives that solidly position Kadant for growth in the long term," said William A. Rainville, chairman and chief executive officer of Kadant. "We closed the acquisition of Kadant Johnson in mid-May, and are pleased to report that this business is already accretive to earnings. In addition to extending our breadth of offerings to the global paper industry, Kadant Johnson greatly strengthens our presence in Asia, where continued market growth is helping to offset lingering weakness in North America and parts of Europe. Since the end of the second quarter, we have received orders from Chinese producers for stock-preparation systems totaling approximately \$7.5 million, suggesting strong bookings performance from China in the third quarter.

"In France, our Kadant Lamort subsidiary reported an operating loss for the quarter as we expected, which lowered our diluted EPS by \$.05. However, we recently completed the necessary consultations with the workers' council and have begun to implement the restructuring plan, which should enable this business to regain profitability by the end of the year. We also continue to make steady progress on the sale of the composite building products business, having recently signed a letter of intent."

Mr. Rainville added, "Just a few months after making a major acquisition, our balance sheet remains strong. With more than \$46 million in cash and \$61 million in debt, our net debt position was only \$15 million at quarter end. Finally, we used \$2.1 million of cash during the quarter to repurchase our stock.

"Looking ahead to the third quarter of 2005, which will include an operating loss from Kadant Lamort comparable to the second quarter, we expect to report GAAP diluted EPS of \$.19 to \$.21 from continuing operations, on revenues of \$65 to \$67 million. For the full year, we are narrowing our GAAP diluted EPS guidance to \$.92 to \$1.00, on revenues of \$250 to \$260 million."

Kadant will hold its earnings conference call on Thursday, August 4, 2005, 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](http://www.kadant.com) and clicking on "Investors." An audio archive of the call will be available on our Web site until September 2, 2005.

Kadant Inc. is a leading supplier to the global pulp and paper industry, with a range of products and services for improving efficiency and quality in pulp and paper production, including paper machine accessories, and systems for stock preparation, fluid handling, and water management. Our fluid-handling products are also used to optimize production in the steel, rubber, plastics, food, and textile industries. In addition, we produce granules from papermaking byproducts for agricultural and lawn and garden applications. Kadant is based in Acton, Massachusetts, and, with the addition of Kadant Johnson in May 2005, has annual revenues of approximately \$270 million and approximately 1,500 employees worldwide. For more information, visit [www.kadant.com](http://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 growth opportunities, our expected future business and financial performance, sale of our composite building products business, impact and timing of the restructuring of our Kadant Lamort subsidiary, our market position, and orders and business outlook for China. 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 April 2, 2005. These include risks and uncertainties relating to our dependence on the pulp and paper industry; international sales and operations; competition; increase in our debt; restrictions in our credit agreement; our ability to successfully integrate Kadant Johnson; our acquisition strategy; our ability to complete the proposed restructuring of our French subsidiary; ability to sell the composite building products business on favorable terms; ability to manufacture and distribute composite building products, and the economic conditions, 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; protection of patents and proprietary rights; fluctuations in quarterly operating results; and anti-takeover provisions. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise.

### Financial Highlights (unaudited) (a)

(In thousands, except per share amounts and percentages)

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Consolidated Statement of Income				
Revenues	\$65,086	\$52,652	\$115,830	\$100,152

Costs and Operating Expenses:

Cost of revenues	40,385	32,255	72,367	60,288
Selling, general, and administrative expenses	18,497	14,575	33,391	28,346
Research and development expenses	1,247	581	2,295	1,469
	60,129	47,411	108,053	90,103
Operating Income	4,957	5,241	7,777	10,049
Interest Income	379	318	851	647
Interest Expense	(473)	(4)	(475)	(12)
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest	4,863	5,555	8,153	10,684
Provision for Income Taxes	1,654	1,558	1,857	3,353
Minority Interest Expense	62	14	62	14
Income from Continuing Operations	3,147	3,983	6,234	7,317
Income (Loss) from Discontinued Operation, Net of Tax	207	(240)	(156)	(846)
Net Income	\$3,354	\$3,743	\$6,078	\$6,471
Basic Earnings per Share				
Income from Continuing Operations	\$.23	\$.28	\$.45	\$.51
Income (Loss) from Discontinued Operation	.01	(.02)	(.01)	(.05)
Net Income	\$.24	\$.26	\$.44	\$.46
Diluted Earnings per Share				
Income from Continuing Operations	\$.22	\$.27	\$.44	\$.50
Income (Loss) from Discontinued Operation	.02	(.01)	(.01)	(.06)
Net Income	\$.24	\$.26	\$.43	\$.44
Weighted Average Shares				
Basic	13,891	14,218	13,909	14,220
Diluted	14,181	14,555	14,196	14,579
	Three Months Ended	Six Months Ended		
Adjusted Net Income and Diluted EPS (b)	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004

Net Income	\$3,354	\$3,743	\$6,078	\$6,471
(Income) Loss from Discontinued Operation, Net of Tax	(207)	240	156	846
Royalty Gain (c)	-	-	-	(631)
Income Taxes (d)	-	(386)	(882)	(386)

Adjusted Net Income	\$3,147	\$3,597	\$5,352	\$6,300
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Diluted Earnings per Share	\$.24	\$.26	\$.43	\$.44
(Income) Loss from Discontinued Operation	(.02)	.01	.01	.06
Royalty Gain (c)	-	-	-	(.04)
Income Taxes (d)	-	(.03)	(.06)	(.03)

Adjusted Diluted Earnings per Share	\$.22	\$.24	\$.38	\$.43
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	Three Months Ended		Six Months Ended	
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Business Segment Information	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
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Revenues:

Pulp and Papermaking Systems	\$62,528	\$50,933	\$110,099	\$96,497
Other (e)	2,558	1,719	5,731	3,655
	\$65,086	\$52,652	\$115,830	\$100,152

Gross Profit Margin:

Pulp and Papermaking Systems	38%	38%	37%	40%
Other (e)	37%	45%	40%	39%
	38%	39%	38%	40%

Operating Income:

Pulp and Papermaking Systems	\$5,934	\$6,152	\$9,310	\$12,495
Corporate and Other(e)	(977)	(911)	(1,533)	(2,446)
	\$4,957	\$5,241	\$7,777	\$10,049

Adjusted Operating Income: (b)

Pulp and Papermaking Systems (c)	\$5,934	\$6,152	\$9,310	\$11,525
Corporate and Other(e)	(977)	(911)	(1,533)	(2,446)
	\$4,957	\$5,241	\$7,777	\$9,079

	Three Months Ended		Six Months Ended	
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Business Segment Information	July 2,	July 3,	July 2,	July 3,
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(continued)	2005	2004	2005	2004
Bookings:				
Pulp and Papermaking				
Systems	\$49,103	\$48,897	\$105,545	\$100,040
Other (e)	2,090	1,823	5,468	3,690
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	\$51,193	\$50,720	\$111,013	\$103,730
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Capital Expenditures:				
Pulp and Papermaking				
Systems	\$612	\$505	\$752	\$835
Corporate and Other(e)	97	50	123	82
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	\$709	\$555	\$875	\$917
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	Three Months Ended		Six Months Ended	
Cash Flow and Other Data from Continuing Operations	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
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Cash Provided by Operations	\$4,435	\$5,977	\$4,883	\$8,262
Depreciation and Amortization Expense	\$1,703	\$900	\$2,719	\$1,833
Balance Sheet Data			July 2, 2005	Jan. 1, 2005
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Cash and Cash Equivalents			\$46,221	\$82,089
Short and Long-term Debt			\$61,017	-
Shareholders' Investment			\$213,564	\$212,461

- (a) All prior-period information has been restated to reflect the composite building products business as a discontinued operation.
- (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 net income, adjusted diluted EPS, and adjusted operating income, which exclude certain non-recurring items. We exclude these items because they are outside our normal operations. We believe that providing such non-GAAP measures helps investors gain a more meaningful understanding of our operating results from period to period, and is consistent with how we measure our performance. The non-GAAP financial measures included in this press release are not meant to be considered superior to or a substitute for results of operations prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this press release may be different from, and therefore may not be comparable to, similar measures used by other companies.
- (c) Represents a pre-tax gain of \$970 in the six-month period ended July 3, 2004, which resulted from renegotiating a series of agreements with one of our licensees, excluded from adjusted operating income.

- (d) Represents effect of a tax benefit of \$882 in the six-month period ended July 2, 2005, received from our former parent company under a tax agreement and the effect of a reduction in tax reserves of \$386 in the three- and six-month periods ended July 3, 2004.
- (e) Other includes the results from the Fiber-based Products business and Kadant Johnson's Specialty Castings business.

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SOURCE: Kadant Inc.