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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2020

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	**52-1762325**
(State or other jurisdiction of incorporation or organization)	(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 Securities Exchange Act of 1934:

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

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 23, 2020, the registrant had 11,509,560 shares of common stock outstanding.

Kadant Inc.
Quarterly Report on Form 10-Q
for the Period Ended September 26, 2020
Table of Contents

PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

KADANT INC.
Condensed Consolidated Balance Sheet
(Unaudited)

(In thousands, except share and per share amounts)	September 26, 2020	December 28, 2019
Assets		
Current Assets:		
Cash and cash equivalents	$ 53,554	$ 66,786
Restricted cash	2,650	1,487
Accounts receivable, net of allowances of $3,113 and $2,698	94,145	95,740
Inventories	108,715	102,715
Unbilled revenue	9,095	13,162
Other current assets	15,382	17,686
Total Current Assets	283,541	297,576
Property, Plant, and Equipment, net of accumulated depreciation of $103,664 and $95,309	82,427	86,032
Other Assets	40,565	45,851
Intangible Assets, Net (Note 1)	164,359	173,896
Goodwill (Note 1)	342,999	336,032
Total Assets	$ 913,891	$ 939,387
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term obligations (Note 6)	$ 1,538	$ 2,851
Accounts payable	32,588	45,852
Accrued payroll and employee benefits	27,946	31,968
Customer deposits	25,834	24,012
Advanced billings	4,520	11,280
Other current liabilities	35,436	30,206
Total Current Liabilities	127,862	146,169
Long-Term Obligations (Note 6)	259,049	298,174
Other Long-Term Liabilities	64,735	67,965
Commitments and Contingencies (Note 13)		
Stockholders' Equity:		
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	108,384	106,698
Retained earnings	465,963	435,249
Treasury stock at cost, 3,114,599 and 3,214,888 shares	(76,320)	(78,778)
Accumulated other comprehensive items (Note 9)	(37,232)	(37,620)
Total Kadant Stockholders' Equity	460,941	425,695
Noncontrolling interest	1,304	1,384
Total Stockholders' Equity	462,245	427,079
Total Liabilities and Stockholders' Equity	$ 913,891	$ 939,387

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

KADANT INC.
Condensed Consolidated Statement of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 26, 2020	Three Months Ended September 28, 2019	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
Revenue (Notes 1 and 12)	$ 154,610	$ 173,504	$ 466,597	$ 521,985
Costs and Operating Expenses:				
Cost of revenue	86,294	99,257	263,510	302,852
Selling, general, and administrative expenses	43,853	47,097	134,518	144,883
Research and development expenses	2,658	2,597	8,532	7,980
Restructuring costs (Note 3)	470	—	926	—
	133,275	148,951	407,486	455,715
Operating Income	21,335	24,553	59,111	66,270
Interest Income	52	43	140	158
Interest Expense	(1,670)	(3,066)	(6,060)	(10,143)
Other Expense, Net	(32)	(98)	(95)	(296)
Income Before Provision for Income Taxes	19,685	21,432	53,096	55,989
Provision for Income Taxes (Note 5)	4,705	5,219	13,738	12,310
Net Income	14,980	16,213	39,358	43,679
Net Income Attributable to Noncontrolling Interest	(129)	(98)	(369)	(360)
Net Income Attributable to Kadant	$ 14,851	$ 16,115	$ 38,989	$ 43,319
Earnings per Share Attributable to Kadant (Note 4)				
Basic	$ 1.29	$ 1.43	$ 3.40	$ 3.87
Diluted	$ 1.28	$ 1.41	$ 3.38	$ 3.79
Weighted Average Shares (Note 4)				
Basic	11,504	11,267	11,472	11,198
Diluted	11,589	11,469	11,550	11,434

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

KADANT INC.
Condensed Consolidated Statement of Comprehensive Income
(Unaudited)

(In thousands)	Three Months Ended September 26, 2020	Three Months Ended September 28, 2019	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
Net Income	$ 14,980	$ 16,213	$ 39,358	$ 43,679
Other Comprehensive Items:				
Foreign currency translation adjustment	8,656	(9,091)	824	(7,603)
Pension and other post-retirement liability adjustments, net (net of tax (benefit) provision of $(6), $12, $14 and $22)	(14)	31	34	59
Effect of other post-retirement plan settlement	—	—	(119)	—
Deferred gain (loss) on cash flow hedges (net of tax provision (benefit) of $19, $(47), $(103) and $(190))	51	(123)	(275)	(524)
Total other comprehensive items	8,693	(9,183)	464	(8,068)
Comprehensive Income	23,673	7,030	39,822	35,611
Comprehensive Income Attributable to Noncontrolling Interest	(191)	(24)	(445)	(276)
Comprehensive Income Attributable to Kadant	$ 23,482	$ 7,006	$ 39,377	$ 35,335

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

KADANT INC.
Condensed Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
Operating Activities		
Net income attributable to Kadant	$ 38,989	$ 43,319
Net income attributable to noncontrolling interest	369	360
Net income	39,358	43,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,260	24,304
Stock-based compensation expense	5,126	5,125
Provision for losses on accounts receivable	505	170
Gain on sale of property, plant, and equipment	(4)	(139)
Other items, net	(250)	954
Changes in current assets and liabilities, net of effects of acquisitions:		
Accounts receivable	1,306	(1,124)
Unbilled revenue	4,332	1,957
Inventories	(6,229)	(10,294)
Other current assets	2,840	(4,093)
Accounts payable	(13,183)	2,798
Other current liabilities	(4,460)	(5,171)
Net cash provided by operating activities	52,601	58,166
Investing Activities		
Acquisitions, net of cash acquired (Note 2)	(7,095)	(177,058)
Purchases of property, plant, and equipment	(5,419)	(6,236)
Proceeds from sale of property, plant, and equipment	55	527
Net cash used in investing activities	(12,459)	(182,767)
Financing Activities		
Repayment of short- and long-term obligations	(69,034)	(108,272)
Proceeds from issuance of short- and long-term obligations	26,000	247,090
Dividends paid	(8,141)	(7,604)
Tax withholding payments related to stock-based compensation	(2,596)	(2,670)
Proceeds from issuance of Company common stock	1,614	2,006
Dividend paid to noncontrolling interest	(525)	—
Other financing activities	(189)	(52)
Net cash (used in) provided by financing activities	(52,871)	130,498
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	660	(2,043)
(Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(12,069)	3,854
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	68,273	46,117
Cash, Cash Equivalents, and Restricted Cash at End of Period	$ 56,204	$ 49,971

See Note 1, under the heading *Supplemental Cash Flow Information* for further details.

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

KADANT INC.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

Three Months Ended September 26, 2020

(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 June 27, 2020	14,624,159	$ 146	$ 107,202	$ 453,874	3,127,565	$ (76,638)	$ (45,863)	$ 1,638	$ 440,359
Net income	—	—	—	14,851	—	—	—	129	14,980
Dividend declared – Common Stock, $0.24 per share	—	—	—	(2,762)	—	—	—	—	(2,762)
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(525)	(525)
Activity under stock plans	—	—	1,182	—	(12,966)	318	—	—	1,500
Other comprehensive items	—	—	—	—	—	—	8,631	62	8,693
Balance at September 26, 2020	14,624,159	$ 146	$ 108,384	$ 465,963	3,114,599	$ (76,320)	$ (37,232)	$ 1,304	$ 462,245

Nine Months Ended September 26, 2020

(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 December 28, 2019	14,624,159	$ 146	$ 106,698	$ 435,249	3,214,888	$ (78,778)	$ (37,620)	$ 1,384	$ 427,079
Net income	—	—	—	38,989	—	—	—	369	39,358
Dividends declared – Common Stock, $0.72 per share	—	—	—	(8,275)	—	—	—	—	(8,275)
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(525)	(525)
Activity under stock plans	—	—	1,686	—	(100,289)	2,458	—	—	4,144
Other comprehensive items	—	—	—	—	—	—	388	76	464
Balance at September 26, 2020	14,624,159	$ 146	$ 108,384	$ 465,963	3,114,599	$ (76,320)	$ (37,232)	$ 1,304	$ 462,245

Three Months Ended September 28, 2019

(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 June 29, 2019	14,624,159	$ 146	$ 103,767	$ 415,605	3,369,304	$ (82,562)	$ (38,251)	$ 1,855	$ 400,560
Net income	—	—	—	16,115	—	—	—	98	16,213
Dividend declared – Common Stock, $0.23 per share	—	—	—	(2,593)	—	—	—	—	(2,593)
Activity under stock plans	—	—	1,452	—	(17,270)	424	—	—	1,876
Other comprehensive items	—	—	—	—	—	—	(9,109)	(74)	(9,183)
Balance at September 28, 2019	14,624,159	$ 146	$ 105,219	$ 429,127	3,352,034	$ (82,138)	$ (47,360)	$ 1,879	$ 406,873

Nine Months Ended September 28, 2019

(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 December 29, 2018	14,624,159	$ 146	$ 104,731	$ 393,578	3,514,163	$ (86,111)	$ (39,376)	$ 1,603	$ 374,571
Net income	—	—	—	43,319	—	—	—	360	43,679
Adoption of ASU No. 2016-02, *Leases*	—	—	—	(17)	—	—	—	—	(17)
Dividends declared – Common Stock, $0.69 per share	—	—	—	(7,753)	—	—	—	—	(7,753)
Activity under stock plans	—	—	488	—	(162,129)	3,973	—	—	4,461
Other comprehensive items	—	—	—	—	—	—	(7,984)	(84)	(8,068)
Balance at September 28, 2019	14,624,159	$ 146	$ 105,219	$ 429,127	3,352,034	$ (82,138)	$ (47,360)	$ 1,879	$ 406,873

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

KADANT INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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 high-value, critical components and engineered systems used in process industries worldwide. Its products, technologies, and services play an integral role in enhancing process efficiency, optimizing energy utilization, and maximizing productivity in resource-intensive industries.

COVID-19

On March 11, 2020, the World Health Organization designated the novel coronavirus (COVID-19) a global pandemic, and a national emergency was subsequently declared by the U.S. government. The pandemic has negatively affected the global economy, disrupted global supply chains, and resulted in significant travel and transport restrictions, which have adversely affected the Company’s bookings and financial results. The impact of the COVID-19 pandemic, including the resulting economic impact, continues to evolve and the Company is closely monitoring its impact on all aspects of its business.

Interim Financial Statements

The interim condensed consolidated financial statements and related notes presented have been prepared by the Company, are unaudited, and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company's financial position at September 26, 2020, its results of operations, comprehensive income, and stockholders' equity for the three- and nine-month periods ended September 26, 2020 and September 28, 2019, and its cash flows for the nine-month periods ended September 26, 2020 and September 28, 2019. Interim results are not necessarily indicative of results for a full year or for any other interim period.

The condensed consolidated balance sheet presented as of December 28, 2019 has been derived from the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019. The condensed consolidated financial statements and related notes are presented as permitted by the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-Q and do not contain certain information included in the annual consolidated financial statements and related notes of the Company. The condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019, filed with the SEC.

Financial Statement Presentation

In the first quarter of 2020, the Company realigned its business segments into three new reportable operating segments: Flow Control, Industrial Processing, and Material Handling. The Company previously reported its financial results by combining its operating entities into three reportable operating segments: Papermaking Systems, Wood Processing Systems, and Material Handling Systems, and a separate product line, Fiber-based Products. Financial information for 2019 has been recast to conform to the new segment presentation. See Note 12, Business Segment Information, for further detail regarding the Company's segments.

Use of Estimates and Critical Accounting Policies

The preparation of 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 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 condensed 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 condensed consolidated financial statements.

KADANT INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Notes 1 and 3 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019 describe the significant accounting estimates and policies used in preparation of the consolidated financial statements. There have been no material changes in the Company’s significant accounting policies during the nine months ended September 26, 2020, except that the Company no longer considers its policy with respect to accounting for pension benefits to be a critical accounting policy due to the settlement of its U.S. pension plan in December 2019.

Supplemental Cash Flow Information

	Nine Months Ended	
(In thousands)	September 26, 2020	September 28, 2019
Cash Paid for Interest	$ 5,518	$ 9,711
Cash Paid for Income Taxes, Net of Refunds	$ 9,953	$ 18,037
Non-Cash Investing Activities:		
Fair value of assets acquired	$ 9,295	$ 208,558
Cash paid for acquired businesses	(7,565)	(179,489)
Liabilities Assumed of Acquired Businesses	$ 1,730	$ 29,069
Non-cash additions to property, plant, and equipment	$ 101	$ 304
Non-Cash Financing Activities:		
Issuance of Company common stock upon vesting of restricted stock units	$ 4,557	$ 3,908
Dividends declared but unpaid	$ 2,762	$ 2,593

Restricted Cash

The Company's restricted cash serves as collateral for certain banker's acceptance drafts issued to vendors and 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. The majority of the bank guarantees will expire over the next twelve months.

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

(In thousands)	September 26, 2020	September 28, 2019	December 28, 2019	December 29, 2018
Cash and cash equivalents	$ 53,554	$ 48,650	$ 66,786	$ 45,830
Restricted cash	2,650	1,321	1,487	287
Total Cash, Cash Equivalents, and Restricted Cash	$ 56,204	$ 49,971	$ 68,273	$ 46,117

Inventories

The components of inventories are as follows:

(In thousands)	September 26, 2020	December 28, 2019
Raw Materials	$ 47,918	$ 49,332
Work in Process	17,089	15,344
Finished Goods	43,708	38,039
	$ 108,715	$ 102,715

Intangible Assets, Net

Acquired intangible assets by major asset class are as follows:

(In thousands)	Gross	Accumulated Amortization	Currency Translation	Net
September 26, 2020				
Definite-Lived				
Customer relationships	$ 174,423	$ (62,018)	$ (3,741)	$ 108,664
Product technology	56,568	(30,674)	(1,520)	24,374
Tradenames	6,753	(2,811)	(362)	3,580
Other	18,248	(14,036)	(565)	3,647
	255,992	(109,539)	(6,188)	140,265
Indefinite-Lived				
Tradenames	24,100	—	(6)	24,094
Acquired Intangible Assets	$ 280,092	$ (109,539)	$ (6,194)	$ 164,359
December 28, 2019				
Definite-Lived				
Customer relationships	$ 171,583	$ (51,798)	$ (4,141)	$ 115,644
Product technology	56,011	(27,819)	(1,709)	26,483
Tradenames	6,527	(2,421)	(427)	3,679
Other	17,964	(13,295)	(593)	4,076
	252,085	(95,333)	(6,870)	149,882
Indefinite-Lived				
Tradenames	24,100	—	(86)	24,014
Acquired Intangible Assets	$ 276,185	$ (95,333)	$ (6,956)	$ 173,896

Gross intangible assets include $3,907,000 for acquired intangible assets from acquisitions that occurred in the second quarter of 2020. See Note 2, Acquisitions, for further details.

Intangible assets are initially 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 condensed 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.

Goodwill

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

(In thousands)	Flow Control	Industrial Processing	Material Handling	Total
Balance at December 28, 2019 (a)				
Gross balance	$ 97,680	$ 207,536	$ 116,325	$ 421,541
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	97,680	122,027	116,325	336,032
2020 Adjustments				
Acquisition (Note 2)	—	3,985	—	3,985
Currency translation	804	493	1,685	2,982
Total 2020 adjustments	804	4,478	1,685	6,967
Balance at September 26, 2020				
Gross balance	98,484	212,014	118,010	428,508
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	$ 98,484	$ 126,505	$ 118,010	$ 342,999

(a) Goodwill balances as of December 28, 2019 have been recast to conform to the current period presentation. See Note 12, Business Segment Information, for further details regarding the Company's change in reportable operating segments.

Impairment of Indefinite-Lived Assets

The Company evaluates the recoverability of goodwill and indefinite-lived intangible assets 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 Company's market capitalization due to a sustained decrease in its stock price.

In March 2020, the Company experienced a significant decrease in market capitalization due to a decline in the Company's stock price. During that time, the overall U.S. stock market also declined significantly amid market volatility driven by the uncertainty surrounding the COVID-19 pandemic. Based on these occurrences, the Company concluded that a triggering event had occurred related to the indefinite-lived assets within its material handling reporting unit. As a result, the Company prepared a quantitative impairment analysis (Step 1) for its material handling reporting unit, which indicated that its fair value exceeded its carrying value and the indefinite-lived assets were not impaired. In the second and third quarters of 2020, the Company's market capitalization and the overall stock market, which are potential impairment indicators, recovered from their decreased levels that existed at the end of the first quarter of 2020. No other events that would trigger an impairment analysis were identified during the second and third quarters of 2020. The Company will continue to monitor for impairment indicators and will conduct its annual period impairment analysis as of the end of the fiscal year.

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 negotiates the terms regarding warranty coverage and length of warranty depending on the products and applications.

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

	Nine Months Ended	
(In thousands)	September 26, 2020	September 28, 2019
Balance at Beginning of Year	$ 6,467	$ 5,726
Provision charged to expense	3,960	3,332
Usage	(3,809)	(2,778)
Acquisition	—	303
Currency translation	114	(175)
Balance at End of Period	$ 6,732	$ 6,408

Revenue Recognition

The Company recognizes revenue under Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. 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 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 cost of revenue when revenue is recognized.

The remaining portion of the Company's revenue is recognized on an over time basis 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:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Point in Time	$ 137,679	$ 151,101	$ 403,568	$ 457,093
Over Time	16,931	22,403	63,029	64,892
	$ 154,610	$ 173,504	$ 466,597	$ 521,985

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:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenue by Product Type:				
Parts and Consumables	$ 102,729	$ 105,513	$ 305,087	$ 330,280
Capital	51,881	67,991	161,510	191,705
	$ 154,610	$ 173,504	$ 466,597	$ 521,985
Revenue by Geography (based on customer location):				
North America	$ 87,366	$ 92,041	269,907	291,584
Europe	38,951	49,146	112,881	131,944
Asia	18,847	20,971	50,992	61,745
Rest of World	9,446	11,346	32,817	36,712
	$ 154,610	$ 173,504	$ 466,597	$ 521,985

See Note 12, Business Segment Information, for information on the disaggregation of revenue by reportable operating segment.

The following table presents contract balances from contracts with customers:

(In thousands)	September 26, 2020	December 28, 2019
Accounts Receivable	$ 94,145	$ 95,740
Contract Assets	$ 9,095	$ 13,162
Contract Liabilities	$ 31,847	$ 37,216

Contract assets 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 customer deposits, advanced billings, and deferred revenue. Deferred revenue is included in other current liabilities in the accompanying condensed 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 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 $1,656,000 in the third quarter of 2020, $4,780,000 in the third quarter of 2019, $28,522,000 in the first nine months of 2020, and $28,302,000 in the first nine months of 2019 that was included in the contract liabilities balance at the beginning of 2020 and 2019, respectively. The majority of the Company's contracts for capital equipment have an original expected duration of one year or less. For contracts with an original expected duration of over one year, the aggregate amount of the transaction price allocated to the remaining partially unsatisfied performance obligations as of September 26, 2020 was $5,295,000. The Company will recognize revenue for these performance obligations as they are satisfied, all of which is expected to be recognized within the next twelve months.

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

The Company's 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:

	Nine Months Ended	
(In thousands)	September 26, 2020	September 28, 2019
Balance at Beginning of Period	$ 2,698	$ 2,897
Provision charged to expense	505	170
Accounts written off	(133)	(138)
Currency translation	43	(103)
Balance at End of Period	$ 3,113	$ 2,826

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 noninterest-bearing obligations of the issuing bank and 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 $4,423,000 at September 26, 2020 and $5,230,000 at December 28, 2019, are included in accounts receivable in the accompanying condensed 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.

Recently Adopted Accounting Pronouncements

Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, which changes the way entities recognize impairment of financial assets, such as accounts receivable, by requiring immediate recognition of estimated credit losses expected to occur over their remaining lives. During 2018 and 2019, the FASB issued additional guidance and clarification. The Company adopted this ASU using a modified retrospective method at the beginning of fiscal 2020 and its adoption did not have a material impact on the condensed consolidated financial statements. See *Accounts Receivable and Allowance for Credit Losses* in this section for information on the Company's allowance for credit losses.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In March 2020, the FASB issued ASU No. 2020-04, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of reference rates, such as the London Interbank Offered Rate (LIBOR), if certain criteria are met. Generally, contract modifications related to reference rate reform may be considered an event that does not require remeasurement or reassessment of a previous accounting determination at the modification date. The guidance in this ASU is applicable to the Company's existing contracts and hedging relationships that reference LIBOR and may be adopted prospectively through December 31, 2022. The Company is currently evaluating the effects that the adoption of this ASU will have on its consolidated financial statements.

Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance, including the recognition of franchise tax, the treatment of a step up in the tax basis of goodwill, and the timing for recognition of enacted changes in tax laws or rates in the interim period annual effective tax rate computation. This new guidance is effective in fiscal 2021, with early adoption permitted. The Company is currently evaluating the effects that the adoption of this ASU will have on its consolidated financial statements.

2. Acquisitions

The Company’s acquisitions have been accounted for using the purchase method of accounting and the results of the acquired businesses are included in its condensed consolidated financial statements from the date of acquisition. Historically, acquisitions have been made at prices above the fair value of identifiable net assets, resulting in goodwill. Acquisition costs are included in selling, general, and administrative (SG&A) expenses in the accompanying condensed consolidated statement of income as incurred. The Company recorded acquisition costs of $485,000 in the first nine months of 2020 and $843,000 in the first nine months of 2019.

On June 1, 2020, the Company’s Industrial Processing segment acquired Cogent Industrial Technologies Ltd. (Cogent) for approximately $6,866,000, net of cash acquired. The Company funded the acquisition through borrowings under its revolving credit facility. Intangible assets acquired totaled $3,350,000 and are primarily related to customer relationships. Cogent, based in British Columbia, Canada, is an industrial automation and controls solution provider that offers expertise in process technology integration, industrial automation and controls, industrial safety, project management, and operational performance management systems.

In the second quarter of 2020, the Company’s Industrial Processing segment also acquired certain intellectual property from a company in Austria for $416,000, of which $229,000 was paid in the second quarter of 2020. The Company expects to pay the remaining amount no later than the first quarter of 2022.

3. Restructuring Costs

The Company recorded restructuring costs of $470,000, consisting of $276,000 in its Flow Control segment and $194,000 in its Industrial Processing segment, in the third quarter of 2020 for severance associated with headcount reductions of four employees within its Flow Control segment and 20 employees in its Industrial Processing segment. The Company took these additional cost-containment actions to reduce future payroll-related overhead and operating costs in response to the slowdown in the global economy, largely driven by the COVID-19 pandemic.

The Company recorded total restructuring costs of $926,000, consisting of $732,000 in its Flow Control segment and $194,000 in its Industrial Processing segment, in the first nine months of 2020 for severance associated with headcount reductions of 34 employees within its Flow Control segment and 20 employees in its Industrial Processing segment. The Company also reduced its workforce by 21 employees within its Industrial Processing segment with no associated severance costs.

A summary of the changes in accrued restructuring costs related to the 2020 restructuring plan included in other accrued expenses in the accompanying condensed consolidated balance sheet are as follows:

(In thousands)	Severance
Provision	$ 926
Usage	(430)
Currency translation	(11)
Balance at September 26, 2020	$ 485

The Company expects to pay the remaining accrued restructuring costs primarily in the fourth quarter of 2020.

KADANT INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

4. Earnings per Share

Basic and diluted earnings per share (EPS) are calculated as follows:

	Three Months Ended		Nine Months Ended	
(In thousands, except per share amounts)	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net Income Attributable to Kadant	$ 14,851	$ 16,115	$ 38,989	$ 43,319
Basic Weighted Average Shares	11,504	11,267	11,472	11,198
Effect of Stock Options, Restricted Stock Units and Employee Stock Purchase Plan Shares	85	202	78	236
Diluted Weighted Average Shares	11,589	11,469	11,550	11,434
Basic Earnings per Share	$ 1.29	$ 1.43	$ 3.40	$ 3.87
Diluted Earnings per Share	$ 1.28	$ 1.41	$ 3.38	$ 3.79

The effect of outstanding and unvested restricted stock units (RSUs) of the Company's common stock totaling 11,000 shares in the third quarter of 2020, 8,000 shares in the third quarter of 2019, 30,000 shares in the first nine months of 2020, and 32,000 shares in the first nine months of 2019 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.

5. Provision for Income Taxes

The provision for income taxes was $13,738,000 in the first nine months of 2020 and $12,310,000 in the first nine months of 2019. The effective tax rate of 26% in the first nine months of 2020 was higher than the Company's statutory rate of 21% primarily due to nondeductible expenses, the distribution of worldwide earnings, and state taxes. This incremental tax expense was offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate of 22% in the first nine months of 2019 was higher than the Company's statutory rate of 21% primarily due to the distribution of the Company's worldwide earnings, nondeductible expenses, tax expense associated with the Global Intangible Low-Taxed Income (GILTI) provisions of the Tax Cuts and Jobs Act of 2017, state taxes, and the cost of repatriating the earnings of certain foreign subsidiaries. This incremental tax expense was offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements, a net tax benefit associated with foreign exchange losses and tax costs recognized upon the Company's repatriation of certain previously taxed foreign earnings, and the reversal of tax reserves associated with uncertain tax positions.

6. Long-Term Obligations

Long-term obligations are as follows:

(In thousands)	September 26, 2020	December 28, 2019
Revolving Credit Facility, due 2023	$ 245,010	$ 265,419
Commercial Real Estate Loan	—	19,425
Senior Promissory Notes, due 2023 to 2028	10,000	10,000
Finance Leases, due 2020 to 2025	1,775	2,308
Other Borrowings, due 2020 to 2023	3,802	4,000
Unamortized Debt Issuance Costs	—	(127)
Total	260,587	301,025
Less: Current Maturities of Long-Term Obligations	(1,538)	(2,851)
Long-Term Obligations	$ 259,049	$ 298,174

See Note 10, Derivatives, for the fair value information related to the Company's long-term obligations.

Revolving Credit Facility

The Company entered into a five-year, unsecured multi-currency revolving credit facility, dated as of March 1, 2017 (as amended and restated to date, the Credit Agreement). Pursuant to the Credit Agreement, the Company has a borrowing capacity of $400,000,000, with an uncommitted, unsecured incremental borrowing facility of $150,000,000, and a maturity date of December 14, 2023. 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, plus an applicable margin of 0% to 1.25%, or (ii) LIBOR (with a zero percent floor), as defined, plus an applicable margin of 1% to 2.25%. The Base Rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate as published by Citizens Bank, N.A. (Citizens) and (c) thirty-day U.S. dollar LIBOR (USD LIBOR), as defined, plus 0.50%. The applicable margin is determined based upon the ratio of the Company's total debt, net of unrestricted cash up to $30,000,000 and certain debt obligations, to earnings before interest, taxes, depreciation, and amortization as defined in the Credit Agreement.

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 for the quarter during which a material acquisition occurs and for the three fiscal quarters thereafter, 4.00 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. In addition, one of the Company's foreign subsidiaries entered into a separate guarantee agreement limited to certain obligations of two foreign subsidiary borrowers. As of September 26, 2020, the outstanding balance under the Credit Agreement was $245,010,000, and included $50,656,000 of euro-denominated borrowings and $14,354,000 of Canadian dollar-denominated borrowings. As of September 26, 2020, the Company had $154,790,000 of borrowing capacity available under the Credit Agreement, which was calculated by translating its foreign-denominated borrowings using borrowing date foreign exchange rates.

See Note 10, Derivatives, under the heading *Interest Rate Swap Agreements*, for information relating to the swap agreements used to hedge the Company's exposure to movements in the three-month USD LIBOR on its U.S. dollar-denominated debt borrowed under the Credit Agreement.

The weighted average interest rate for the outstanding balance under the Credit Agreement was 1.82% as of September 26, 2020.

Commercial Real Estate Loan

In 2018, the Company and certain domestic subsidiaries borrowed $21,000,000 under a ten-year promissory note (Real Estate Loan), which was repayable in quarterly principal installments of $262,500 with the remaining principal balance of $10,500,000 due July 6, 2028. Interest accrued and was payable quarterly in arrears at a fixed rate of 4.45% per annum.

In July 2020, the Company prepaid the outstanding principal balance on the Real Estate Loan of $18,900,000, together with accrued interest and a prepayment fee of 1.00% of the outstanding principal balance, resulting in a loss on the extinguishment of debt of $189,000, which is included in selling, general, and administrative expenses in the accompanying condensed consolidated statement of income. To prepay the Real Estate Loan, the Company used $19,000,000 of borrowings available under the Credit Agreement.

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 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 a minimum amount of $1,000,000, or the foreign currency equivalent thereof, if applicable) 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.

In accordance with the Note Purchase Agreement, the Company may also issue additional senior promissory notes (together with the Initial Notes, the Senior Promissory Notes) up to an additional $115,000,000 until the earlier of December 14, 2021 or the thirtieth day after written notice to terminate the issuance and sale of additional notes pursuant to the Note Purchase Agreement. The Senior Promissory 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 Senior Promissory Notes are guaranteed by certain of the Company's domestic subsidiaries.

Debt Compliance

As of September 26, 2020, 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 its vehicles.

Other Borrowings

Other borrowings include a sale-leaseback financing arrangement for a manufacturing facility in Germany. Under this arrangement, the quarterly lease payment includes principal, interest, and a payment to the landlord toward a loan receivable. The interest rate on the outstanding obligation is 1.79%. The secured loan receivable, which is included in other assets in the accompanying condensed consolidated balance sheet, was $1,127,000 at September 26, 2020. The lease arrangement provides for a fixed price purchase option, net of the projected loan receivable, of $1,549,000 at the end of the lease term in 2022. If the Company does not exercise the purchase option for the facility, it will receive cash from the landlord to settle the loan receivable. As of September 26, 2020, $3,704,000 was outstanding under this obligation.

7. Stock-Based Compensation

The Company recognized stock-based compensation expense of $1,610,000 in the third quarter of 2020, $1,658,000 in the third quarter of 2019, $5,126,000 in the first nine months of 2020, and $5,125,000 in the first nine months of 2019 within SG&A expenses in the accompanying condensed consolidated statement of income. 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 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 stock-based compensation totaled approximately $6,913,000 at September 26, 2020 and will be recognized over a weighted average period of 1.7 years.

8. Retirement Benefit Plans

The Company includes the service cost component of net periodic benefit cost in operating income and all other components are included in other expense, net in the accompanying condensed consolidated statement of income.

In 2018, the Company's board of directors and its compensation committee approved amendments to freeze and terminate its U.S. pension plan (Retirement Plan) and its restoration plan (Restoration Plan). In the fourth quarter of 2019, the Company settled its Retirement Plan obligation. In the first quarter of 2020, the Company settled its Restoration Plan obligation of $2,427,000 by paying a lump sum to its plan participants. No benefit costs were incurred related to these plans in 2020.

The components of net periodic benefit cost are as follows:

	Three Months Ended September 26, 2020		Three Months Ended September 28, 2019		
(In thousands, except percentages)	Non-U.S. Pension	Other Post-Retirement	U.S. Pension	Non-U.S. Pension	Other Post-Retirement
Service Cost	$ 45	$ 2	$ —	$ 43	$ 1
Interest Cost	22	9	283	27	37
Expected Return on Plan Assets	(14)	(1)	(248)	(16)	(1)
Recognized Net Actuarial Loss	10	4	8	5	3
Amortization of Prior Service Cost	2	—	—	—	—
	$ 65	$ 14	$ 43	$ 59	$ 40
The weighted average assumptions used to determine net periodic benefit cost are as follows:					
Discount Rate	2.05 %	3.80 %	4.10 %	2.82 %	4.44 %
Expected Long-Term Return on Plan Assets	7.21 %	7.21 %	4.10 %	9.22 %	9.22 %
Rate of Compensation Increase	3.14 %	5.57 %	— %	2.99 %	5.57 %

	Nine Months Ended September 26, 2020		Nine Months Ended September 28, 2019		
(In thousands, except percentages)	Non-U.S. Pension	Other Post-Retirement	U.S. Pension	Non-U.S. Pension	Other Post-Retirement
Service Cost	$ 131	$ 5	$ —	$ 129	$ 3
Interest Cost	66	29	850	84	112
Expected Return on Plan Assets	(45)	(3)	(745)	(50)	(3)
Recognized Net Actuarial Loss	31	12	24	15	9
Amortization of Prior Service Cost	5	—	—	—	—
	$ 188	$ 43	$ 129	$ 178	$ 121
The weighted average assumptions used to determine net periodic benefit cost are as follows:					
Discount Rate	2.12 %	3.83 %	4.10 %	2.81 %	4.44 %
Expected Long-Term Return on Plan Assets	7.21 %	7.21 %	4.10 %	9.22 %	9.22 %
Rate of Compensation Increase	3.17 %	5.57 %	— %	2.99 %	5.57 %

Other than the payment made for the settlement of the Restoration Plan obligation in January 2020, the Company does not plan to make any material cash contributions to its other pension and post-retirement plans in 2020.

9. 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 condensed consolidated balance sheet.

Changes in each component of accumulated other comprehensive items (AOCI), net of tax, are as follows:

(In thousands)	Foreign Currency Translation Adjustment	Pension and Other Post-Retirement Benefit Liability Adjustments	Deferred Loss on Cash Flow Hedges	Total
Balance at December 28, 2019	$ (36,145)	$ (831)	$ (644)	$ (37,620)
Other comprehensive income (loss) before reclassifications	748	(1)	(420)	327
Reclassifications from AOCI	—	(84)	145	61
Net current period other comprehensive items	748	(85)	(275)	388
Balance at September 26, 2020	$ (35,397)	$ (916)	$ (919)	$ (37,232)

Amounts reclassified from AOCI are as follows:

	Three Months Ended		Nine Months Ended		
(In thousands)	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019	Statement of Income Line Item
Retirement Benefit Plans (a)					
Recognized net actuarial loss	$ (14)	$ (16)	$ (43)	$ (48)	Other expense, net
Amortization of prior service cost	(2)	—	(5)	—	Other expense, net
Total expense before income taxes	(16)	(16)	(48)	(48)	
Income tax benefit	4	4	132	12	Provision for income taxes
	(12)	(12)	84	(36)	
Cash Flow Hedges (b)					
Interest rate swap agreements	(109)	(10)	(215)	17	Interest expense
Forward currency-exchange contracts	47	—	24	(129)	Cost of revenue
Total expense before income taxes	(62)	(10)	(191)	(112)	
Income tax benefit	15	2	46	35	Provision for income taxes
	(47)	(8)	(145)	(77)	
Total Reclassifications	$ (59)	$ (20)	$ (61)	$ (113)	

(a) Included in the computation of net periodic benefit cost. See Note 8, Retirement Benefit Plans, for additional information.
(b) See Note 10, Derivatives, for additional information.

10. Derivatives

Interest Rate Swap Agreements

The Company has entered into interest rate swap agreements to hedge its exposure to movements in USD LIBOR on its U.S. dollar-denominated debt. In 2018, the Company entered into an interest rate swap agreement (2018 Swap Agreement) with Citizens, which has a $15,000,000 notional value and expires on June 30, 2023. On a quarterly basis, the Company receives three-month USD LIBOR, which is subject to a zero percent floor, and pays a fixed rate of interest of 3.15% plus an applicable margin as defined in the Credit Agreement. In 2015, the Company entered into an interest rate swap agreement (2015 Swap Agreement) with Citizens which had a $10,000,000 notional value and expired on March 27, 2020. Under the 2015 Swap

Agreement, the Company received three-month USD LIBOR and paid a fixed rate of interest of 1.5% plus an applicable margin as defined in the Credit Agreement.

The interest rate swap agreements have been designated as cash flow hedges and are structured to be 100% effective. Unrealized gains and losses related to the fair values of the swap agreements are recorded to AOCI, net of tax. In the event of early termination of the 2018 Swap Agreement, the Company will receive from or pay to the counterparty the fair value of the interest rate swap agreement, and the unrealized gain or loss outstanding will be recognized in earnings.

The counterparty to the 2018 Swap Agreement could demand an early termination of that agreement if the Company were to be in default under the Credit Agreement, or any agreement that amends or replaces the Credit Agreement in which the counterparty is a member, and if it were to be unable to cure the default. See Note 6, Long-Term Obligations, for further details.

Forward Currency-Exchange Contracts

The Company uses forward currency-exchange contracts that 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.

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.

The Company recognized within SG&A expenses in the accompanying condensed consolidated statement of income gains of $27,000 in the third quarter of 2020, losses of $14,000 in the third quarter of 2019, losses of $1,000 in the first nine months of 2020, and losses of $46,000 in the first nine months of 2019 associated with forward currency-exchange contracts that were not designated as hedges.

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

		September 26, 2020		December 28, 2019	
(In thousands)	Balance Sheet Location	Asset (Liability) (a)	Notional Amount (b)	Asset (Liability) (a)	Notional Amount
Derivatives Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contract	Other Current Assets	$ 4	$ 1,311	$ —	$ —
2015 Swap Agreement	Other Current Assets	$ —	$ —	$ 11	$ 10,000
Derivatives in a Liability Position:					
Forward currency-exchange contracts	Other Current Liabilities	$ (14)	$ 842	$ (75)	$ 4,825
2018 Swap Agreement	Other Long-Term Liabilities	$ (1,202)	$ 15,000	$ (770)	$ 15,000
Derivatives Not Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contracts	Other Current Assets	$ 25	$ 713	$ 3	$ 387
Derivatives in a Liability Position:					
Forward currency-exchange contracts	Other Current Liabilities	$ (5)	$ 686	$ (43)	$ 2,545

(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 total 2020 notional amounts are indicative of the level of the Company's recurring derivative activity.

The following table summarizes the activity in AOCI associated with derivative instruments designated as cash flow hedges as of and for the nine months ended September 26, 2020:

(In thousands)	Interest Rate Swap Agreements	Forward Currency-Exchange Contracts	Total
Unrealized Loss, Net of Tax, at December 28, 2019	$ (589)	$ (55)	$ (644)
Loss (gain) reclassified to earnings (a)	163	(18)	145
(Loss) gain recognized in AOCI	(487)	67	(420)
Unrealized Loss, Net of Tax, at September 26, 2020	$ (913)	$ (6)	$ (919)

(a) See Note 9, Accumulated Other Comprehensive Items, for the income statement classification.

As of September 26, 2020, the Company expects to reclassify losses of $351,000 from AOCI to earnings over the next twelve months based on the estimated cash flows of the 2018 Swap Agreement and the maturity dates of the forward currency-exchange contracts.

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.

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

	Fair Value as of September 26, 2020			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	$ 10,561	$ —	$ —	$ 10,561
Banker's acceptance drafts (a)	$ —	$ 4,423	$ —	$ 4,423
Forward currency-exchange contracts	$ —	$ 29	$ —	$ 29
Liabilities:				
2018 Swap Agreement	$ —	$ 1,202	$ —	$ 1,202
Forward currency-exchange contracts	$ —	$ 19	$ —	$ 19

	Fair Value as of December 28, 2019			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	$ 9,920	$ —	$ —	$ 9,920
Banker's acceptance drafts (a)	$ —	$ 5,230	$ —	$ 5,230
2015 Swap Agreement	$ —	$ 11	$ —	$ 11
Forward currency-exchange contracts	$ —	$ 3	$ —	$ 3
Liabilities:				
2018 Swap Agreement	$ —	$ 770	$ —	$ 770
Forward currency-exchange contracts	$ —	$ 118	$ —	$ 118

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

The Company uses the market approach technique to value its financial assets and liabilities, and there were no changes in valuation techniques during the first nine months of 2020. 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 forward currency-exchange contracts are based on quoted forward foreign exchange rates at the reporting date. The fair values of interest rate swap agreements are based on LIBOR yield curves at the reporting date. The forward currency-exchange contracts and interest rate swap agreements are 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 debt obligations, excluding lease obligations and other borrowings, are as follows:

	September 26, 2020		December 28, 2019	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt Obligations:				
Revolving credit facility	$ 245,010	$ 245,010	$ 265,419	$ 265,419
Commercial real estate loan	—	—	19,425	20,541
Senior promissory notes	10,000	10,916	10,000	10,803
	$ 255,010	$ 255,926	$ 294,844	$ 296,763

The carrying value of the Company's 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 commercial real estate loan, which was repaid in July 2020, and 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 Information

The Company previously reported its financial results by combining its operating entities into three reportable operating segments: Papermaking Systems, Wood Processing Systems, and Material Handling Systems, and a separate product line, Fiber-based Products. During the first quarter of 2020, the Company changed its reportable operating segments to better align with its strategic initiatives to grow both organically and through acquisitions. Such growth and diversification resulted in a change in the internal organization of the Company and how its chief operating decision maker makes operating decisions, assesses the performance of the business, and allocates resources. Accordingly, the Company's financial results are reported in three new reportable operating segments: Flow Control, Industrial Processing, and Material Handling. The Flow Control segment consists of the Company's fluid-handling and doctoring, cleaning, & filtration product lines; the Industrial Processing segment consists of the Company's wood processing and stock-preparation product lines (excluding baling products); and the Material Handling segment consists of the Company's conveying and screening, baling, and fiber-based product lines. Financial information for 2019 has been recast to conform to the new segment presentation. A description of each segment follows.

- *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 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, chippers, and logging machinery. 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)	Three Months Ended September 26, 2020	Three Months Ended September 28, 2019	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
Revenue				
Flow Control	$ 56,815	$ 62,375	$ 165,329	$ 188,792
Industrial Processing	62,086	74,229	192,468	222,899
Material Handling	35,709	36,900	108,800	110,294
	$ 154,610	$ 173,504	$ 466,597	$ 521,985
Income Before Provision for Income Taxes				
Flow Control (a)	$ 13,770	$ 15,103	$ 37,360	$ 43,220
Industrial Processing (b)	12,072	13,107	32,147	38,830
Material Handling (c)	2,614	3,525	10,341	5,515
Corporate (d)	(7,121)	(7,182)	(20,737)	(21,295)
Total operating income	21,335	24,553	59,111	66,270
Interest expense, net (e)	(1,618)	(3,023)	(5,920)	(9,985)
Other expense, net (e)	(32)	(98)	(95)	(296)
	$ 19,685	$ 21,432	$ 53,096	$ 55,989
Capital Expenditures				
Flow Control	$ 509	$ 636	$ 1,667	$ 1,814
Industrial Processing	785	1,053	2,460	3,223
Material Handling	486	397	1,167	1,145
Corporate	42	7	125	54
	$ 1,822	$ 2,093	$ 5,419	$ 6,236

(a) Includes restructuring costs of $265,000 in the three-month period ended September 26, 2020 and $721,000 in the nine-month period ended September 26, 2020.
(b) Includes restructuring costs of $205,000 in the three- and nine-month periods ended September 26, 2020. Includes acquisition-related expenses of $161,000 in the three-month period ended September 26, 2020 and $596,000 in the nine-month period ended September 26, 2020. Acquisition-related expenses include amortization expense associated with backlog and acquisition costs.
(c) Includes acquisition-related expenses of $248,000 in the three-month period ended September 26, 2020 and $256,000 in the nine-month period ended September 26, 2020. Includes acquisition-related expenses of $21,000 in the three-month period ended September 28, 2019 and $5,695,000 in the nine-month period ended September 28, 2019. Acquisition-related expenses include amortization expense associated with acquired profit in inventory and backlog, and acquisition costs.
(d) Corporate primarily includes general and administrative expenses.
(e) The Company does not allocate interest and other expense, net to its segments.

13. Commitments and Contingencies

Right of Recourse

In the ordinary course of business, the Company's subsidiaries in China may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are noninterest-bearing obligations of the issuing bank and mature within six months of the origination date. The Company's subsidiaries in China 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 $7,702,000 at September 26, 2020 and $7,003,000 at December 28, 2019 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.

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.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

When we use the terms “we,” “us,” “our,” and the “Company,” we mean Kadant Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

This Quarterly Report on Form 10-Q 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 *Risk Factors* included in Part II, Item 1A, within this report and the section captioned *Risk Factors,* in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, as filed with the Securities and Exchange Commission (SEC) and as may be further amended and/or restated in subsequent filings with the SEC.

Overview

Company Background

We are a global supplier of high-value, critical components and engineered systems used in process industries worldwide. Our products, technologies, and services play an integral role in enhancing process efficiency, optimizing energy utilization, and maximizing productivity in resource-intensive industries.

We previously reported our financial results by combining operating entities into three reportable operating segments: Papermaking Systems, Wood Processing Systems, and Material Handling Systems, and a separate product line, Fiber-based Products. During the first quarter of 2020, we changed our reportable operating segments to better align with our strategic initiatives to grow both organically and through acquisitions. See Note 12, Business Segment Information, in the accompanying condensed consolidated financial statements for further detail regarding our segments. Accordingly, our financial results are reported in three new 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 (excluding our baling products); and the Material Handling segment consists of our conveying and screening, baling, and fiber-based product lines. Financial information for 2019 has been recast to conform to the new segment presentation. A description of each segment is as follows:

- *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. Our products include rotary sealing devices, steam systems, expansion joints, doctor systems, roll and fabric cleaning devices, and filtration and fiber recovery systems.

Overview (continued)

- *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. Our products include stock-preparation systems and recycling equipment, chemical pulping equipment, debarkers, stranders, chippers, and logging machinery. In addition, we provide 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. Our products include conveying and vibratory equipment and balers. In addition, we manufacture and sell biodegradable, absorbent granules used as carriers in agricultural applications and for oil and grease absorption.

Business Outlook and COVID-19 Update

In March 2020, the World Health Organization designated the novel coronavirus as a global pandemic (COVID-19). In response to the ongoing COVID-19 pandemic, we continue to focus our efforts on:

- protecting the health and safety of our employees though precautionary measures, including working remotely when employees are not required to be physically present, social distancing, wearing face coverings, adding safety and hygiene protocols within our facilities, restricting travel and other safeguards;
- as a critical infrastructure company, serving the needs and expectations of our customers;
- working closely with our supply chain to minimize potential disruptions; and
- preserving our liquidity position.

The COVID-19 pandemic has resulted in significant worldwide economic disruption and adversely affected our bookings and results of operations primarily due to delayed or reduced spending by our customers, as well as customer-requested delays on certain capital projects and service work. While our businesses continue to be impacted by COVID-19, we experienced an 8% sequential increase in bookings in the third quarter of 2020 compared to the second quarter of 2020, mainly attributable to improved capital equipment bookings at our Industrial Processing segment's wood processing business. For the fourth quarter of 2020, we expect a sequential increase in capital equipment bookings, and our parts and consumables bookings to remain stable as our customers perform year-end maintenance on their equipment.

Consolidated bookings decreased 16% to $143.3 million in the third quarter of 2020 compared to $170.9 million in the third quarter of 2019, offset by a 1% increase from the favorable effect of foreign currency translation and an acquisition. Our business outlook by segment, including an update on the impact of COVID-19, is as follows:

- *Flow Control* – Bookings decreased 16% in the third quarter of 2020 compared with the third quarter of 2019. Bookings for capital equipment at our North American and European operations continue to be negatively impacted by delayed or reduced capital spending by our customers. Bookings for parts and consumables products at our North American and European operations declined slightly as a result of decreased demand from industrial customers due to production downtime, shutdowns and visitation restrictions at customer facilities related to COVID-19, while demand from our packaging, food processing, and tissue customers remained relatively stable.
- *Industrial Processing* – Bookings decreased 20% in the third quarter of 2020 compared with the third quarter of 2019. Bookings at our stock-preparation business declined primarily due to delays or reductions in capital equipment spending by our customers as a result of COVID-19 and uncertainty in the Asian market surrounding the response to China's recovered paper import restrictions. The decline at our stock-preparation business was partially offset by increased capital equipment bookings at our wood processing business due to a robust U.S. housing market and a rebound in lumber, oriented strand board and plywood prices, which has driven increased capital investment by our customers. Our wood processing business continues to experience steady bookings for parts and consumables products due to an improved U.S. housing market and higher demand for wood-based products, which have increased mill run rates resulting in higher parts consumption by our customers.
- *Material Handling* – Bookings decreased 9% in the third quarter of 2020 compared with the third quarter of 2019. Demand for our conveying and vibratory equipment continues to be negatively impacted by reduced customer spending primarily as a result of COVID-19 shutdowns and visitation restrictions. Despite a slight decline in bookings in the third quarter of 2020 compared to a strong third quarter of 2019, orders at our baler business improved significantly from the first two quarters of 2020 as a result of increased economic activity and eased COVID-19 restrictions in Europe in the third quarter, in addition to orders from new markets.

Overview (continued)

To mitigate the adverse effects of the pandemic on our business, we continue to manage discretionary spending in such areas as capital expenditures and travel-related costs, utilize government employee retention assistance programs, and execute restructuring actions to reduce payroll-related costs at certain of our operations. During the third quarter of 2020, we received benefits from government employee retention assistance programs of $2.8 million. We expect the benefits received from these programs to decrease in the fourth quarter of 2020.

Our liquidity position as of September 26, 2020 consisted of over $53 million of cash and cash equivalents, $155 million of available borrowing capacity, and $265 million of uncommitted borrowing capacity. We do not have any mandatory principal payments on our long-term debt obligations until 2023.

We continue to evaluate the impact of COVID-19 on our business and will take actions that are in the best interests of our employees, customers, and stakeholders or as mandated by governmental authorities. While our global presence and the diversity of our products have provided some stability during the COVID-19 pandemic, there is continued uncertainty surrounding the trajectory of the pandemic which has been impacted by a recent resurgence of infections in many regions of the world, the timing of recovery in the markets in which we operate, and the resulting impact on our results of operations, financial condition and cash flows. Accordingly, we cannot predict the extent of the impact that COVID-19 may have on our business for the remainder of fiscal 2020.

For more information on risks related to health epidemics to our business, including COVID-19, please see Part I, Item 1A. *Risk Factors*, included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, as further amended in subsequent filings with the SEC.

Global Trade

In 2018, the United States began imposing 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 how our customers and competitors will react to certain actions we take. For more information on risks associated with our global operations, including tariffs, please see Part I, Item 1A. *Risk Factors*, included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, as further amended in subsequent filings with the SEC.

International Sales and Foreign Currency

Slightly 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 currency rate 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.

Acquisitions

We expect that a significant driver of our growth over the next several years 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 pursue acquisition opportunities. In 2020, we made an acquisition in our Industrial Processing segment for approximately $6.9 million, net of cash acquired. See Note 2, Acquisitions, for further details. Our significant acquisition in 2019 is described below.

On January 2, 2019, we acquired Syntron Material Handling Group, LLC and certain of its affiliates (SMH) for $176.9 million, net of cash acquired. SMH, which is included in our Material Handling segment, is a leading provider of conveying and vibratory equipment and systems to various process industries, including mining, aggregates, food processing, packaging, and pulp and paper.

Application of Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these consolidated financial statements requires us to make estimates and

Overview (continued)

assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent liabilities. Our critical accounting policies are defined as those that entail significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. Management evaluates its estimates on an ongoing basis based on historical experience, current economic and market conditions, and other assumptions management believes are reasonable. Our actual results may differ from these estimates under different assumptions or conditions. We believe that our most critical accounting policies which are significant to our consolidated financial statements, and which involve the most complex or subjective decisions or assessments, are those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section captioned "Application of Critical Accounting Policies and Estimates" in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019. There have been no material changes to these critical accounting policies since the end of fiscal 2019 that warrant disclosure, except that management no longer considers our policy with respect to accounting for pension benefits to be a critical accounting policy due to the settlement of our U.S. pension plan in December 2019.

Results of Operations

Third Quarter 2020 Compared With Third Quarter 2019

Revenue

The following table presents the change in revenue by segment between the third quarters of 2020 and 2019, and those changes excluding the effect of foreign currency translation and an acquisition which we refer to as change in organic revenue. 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, 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 the third quarters of 2020 and 2019 was as follows:

	Three Months Ended						(Non-GAAP) Change in Organic Revenue	
(In thousands, except percentages)	September 26, 2020	September 28, 2019	Total Decrease	% Change	Currency Translation	Acquisition	Decrease	% Change
Flow Control	$ 56,815	$ 62,375	$ (5,560)	(9)%	$ (260)	$ —	$ (5,300)	(8)%
Industrial Processing	62,086	74,229	(12,143)	(16)%	411	752	(13,306)	(18)%
Material Handling	35,709	36,900	(1,191)	(3)%	498	—	(1,689)	(5)%
Consolidated Revenue	$ 154,610	$ 173,504	$ (18,894)	(11)%	$ 649	$ 752	$ (20,295)	(12)%

Consolidated revenue in the third quarter of 2020 decreased 11%, while consolidated organic revenue declined 12%, principally due to lower capital equipment revenue at our Industrial Processing and Flow Control segments as described below.

Revenue at our Flow Control segment decreased 9% in the third quarter of 2020, while organic revenue declined 8%. Organic revenue declined primarily due to decreased demand for capital equipment at our North American operations, which was negatively impacted by reduced customer spending and customer-requested delays as a result of COVID-19.

Revenue at our Industrial Processing segment decreased 16% in the third quarter of 2020, while organic revenue declined 18%. Organic revenue at our stock-preparation business was adversely affected by decreased demand for capital equipment at our Chinese and European operations due to reduced or delayed customer spending as a result of COVID-19, and at our Chinese operations due to uncertainty in the Asian market surrounding the response to China's recovered paper import restrictions. Additionally, organic revenue for parts and consumables products declined at our European operations as a result of unusually high demand in the 2019 period and at our North American operations due to reduced customer spending as a result of COVID-19. Organic revenue at our wood processing business also decreased due to lower capital equipment revenue at our North American operations related to changes in certain end markets and, to a lesser extent, reduced spending as a result of COVID-19. These decreases were offset in part by higher parts and consumables revenue at our North American operations driven by increased mill run rates resulting in higher parts consumption by our customers.

Results of Operations (continued)

Revenue at our Material Handling segment decreased 3% in the third quarter of 2020, while organic revenue declined 5%. Organic revenue declined due to a decrease in demand for our parts and consumables products primarily at our conveying and vibratory equipment business related to a reduction in customer spending as a result of shutdowns and visitation restrictions related to COVID-19. A decrease in organic revenue from capital equipment at our baler business due to a weak European economy, compounded by the effect of COVID-19, was more than offset by an increase in organic revenue from capital equipment at our conveying and vibratory equipment business primarily due to revenue from a large order received in late 2019.

Gross Profit Margin

Gross profit margin by segment in the third quarters of 2020 and 2019 was as follows:

	Three Months Ended	
	September 26, 2020	September 28, 2019
Flow Control	52.9 %	52.9 %
Industrial Processing	43.7 %	38.7 %
Material Handling	31.1 %	34.0 %
Consolidated Gross Profit Margin	44.2 %	42.8 %

Consolidated gross profit margin increased in the third quarter of 2020 primarily due to benefits received from government employee retention assistance programs of $1.6 million, which increased consolidated gross profit margin in the third quarter of 2020 by 1.1 percentage points.

Gross profit margin at our Flow Control segment was unchanged in the third quarter of 2020 compared to the third quarter of 2019. An improved margin due to an increased proportion of higher-margin parts and consumables revenue was offset by a lower margin on capital equipment revenue.

Gross profit margin at our Industrial Processing segment increased in the third quarter of 2020 due to benefits received from government employee retention assistance programs of $1.4 million, which improved gross profit margin by 2.3 percentage points. Gross profit margin also improved in the third quarter of 2020 due to an increased proportion of higher-margin parts and consumables revenue at our wood processing business and a favorable change in product mix for capital equipment revenue at our stock-preparation business.

Gross profit margin at our Material Handling segment decreased in the third quarter of 2020 primarily due to lower margins on our capital equipment revenue and decreased manufacturing efficiency related to lower production volumes at our baler business, as well as an increased proportion of lower-margin capital equipment revenue at our conveying and vibratory equipment business.

Selling, General, and Administrative Expenses

Selling, general, and administrative (SG&A) expenses by segment in the third quarters of 2020 and 2019 were as follows:

	Three Months Ended					
(In thousands, except percentages)	September 26, 2020	% of Revenue	September 28, 2019	% of Revenue	Decrease	% Change
Flow Control	$ 15,136	27 %	$ 16,942	27 %	$ (1,806)	(11)%
Industrial Processing	13,759	22 %	14,538	20 %	(779)	(5)%
Material Handling	7,955	22 %	8,564	23 %	(609)	(7)%
Corporate	7,003	N/A	7,053	N/A	(50)	(1)%
Consolidated SG&A Expenses	$ 43,853	28 %	$ 47,097	27 %	$ (3,244)	(7)%

Consolidated SG&A expenses as a percentage of revenue increased to 28% in the third quarter of 2020 compared with 27% in the third quarter of 2019 due to lower revenues in the 2020 period. Consolidated SG&A expenses decreased $3.2 million in the third quarter of 2020 compared with the third quarter of 2019 primarily due to reduced travel-related costs of $2.0 million and benefits received from government employee retention assistance programs of $1.0 million.

Results of Operations (continued)

SG&A expenses as a percentage of revenue at our Flow Control segment was 27% in both the third quarters of 2020 and 2019. SG&A expenses decreased in the third quarter of 2020 compared with the third quarter of 2019 principally due to reduced travel-related costs of $0.6 million, as well as lower payroll-related costs as a result of restructuring actions taken in the first half of 2020 and benefits received from government employee retention assistance programs.

SG&A expenses as a percentage of revenue at our Industrial Processing segment increased to 22% in the third quarter of 2020 compared with 20% in the third quarter of 2019 due to lower revenues in the 2020 period. SG&A expenses decreased in the third quarter of 2020 compared with the third quarter of 2019 principally due to reduced travel-related costs of $0.7 million and benefits received from government employee retention assistance programs.

SG&A expenses as a percentage of revenue at our Material Handling segment decreased slightly to 22% in the third quarter of 2020 compared with 23% in the third quarter of 2019. SG&A expenses decreased in the third quarter of 2020 compared with the third quarter of 2019 principally due to reduced travel-related costs.

SG&A expenses at Corporate were relatively unchanged in the third quarter of 2020 compared with the third quarter of 2019.

Restructuring Costs

Restructuring costs of $0.5 million, consisting of $0.3 million in our Flow Control segment and $0.2 million in our Industrial Processing segment, in the third quarter of 2020 represent severance costs for an additional 24 employees. See *Restructuring Costs* in Results of Operations, "First Nine Months 2020 Compared With First Nine Months 2019" for further discussion related to this restructuring plan.

Interest Expense

Interest expense decreased to $1.7 million in the third quarter of 2020 from $3.1 million in the third quarter of 2019 due to a lower weighted-average interest rate and lower outstanding debt. At the end of the third quarter of 2020, our leverage ratio on our credit facility decreased to 1.88, which will have the effect of reducing the applicable margin on the outstanding debt under our revolving credit facility by 25 basis points in future quarters.

Provision for Income Taxes

Our provision for income taxes decreased to $4.7 million in the third quarter of 2020 from $5.2 million in the third quarter of 2019 and represented 24% of pre-tax income in both periods. The effective tax rate of 24% in the third quarter of 2020 was higher than our statutory rate of 21% primarily due to nondeductible expenses and the distribution of our worldwide earnings. This incremental tax expense was offset in part by a tax benefit related to final Global Intangible Low-Taxed Income (GILTI) regulations issued by the U.S. Treasury Department during the third quarter of 2020 on an election to provide a high-tax exception to the GILTI tax retroactive to 2018. The effective tax rate of 24% in the third quarter of 2019 was higher than our statutory rate of 21% primarily due to the distribution of our worldwide earnings, tax expense associated with GILTI, nondeductible expenses, state taxes, and the cost of repatriating the earnings of certain foreign subsidiaries. This incremental tax expense was offset in part by a decrease in tax related to the reversal of tax reserves associated with uncertain tax positions and the net excess income tax benefits from stock-based compensation arrangements.

Net Income

Net income decreased $1.2 million to $15.0 million in the third quarter of 2020 from $16.2 million in the third quarter of 2019 due to a $3.2 million decrease in operating income, offset by a decrease in interest expense of $1.4 million and a decrease in provision for income taxes of $0.5 million (see discussions above for further details).

Results of Operations (continued)

First Nine Months 2020 Compared With First Nine Months 2019

Revenue

The following table presents changes in revenue by segment between the first nine months of 2020 and 2019, and those changes excluding the effect of foreign currency translation and an acquisition which we refer to as change in organic revenue. 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, 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 the first nine months of 2020 and 2019 was as follows:

	Nine Months Ended						(Non-GAAP) Change in Organic Revenue	
(In thousands, except percentages)	September 26, 2020	September 28, 2019	Total Decrease	% Change	Currency Translation	Acquisition	Decrease	% Change
Flow Control	$ 165,329	$ 188,792	$ (23,463)	(12)%	$ (3,694)	$ —	$ (19,769)	(10)%
Industrial Processing	192,468	222,899	(30,431)	(14)%	(2,013)	957	(29,375)	(13)%
Material Handling	108,800	110,294	(1,494)	(1)%	(178)	—	(1,316)	(1)%
Consolidated Revenue	$ 466,597	$ 521,985	$ (55,388)	(11)%	$ (5,885)	$ 957	$ (50,460)	(10)%

Consolidated revenue in the first nine months of 2020 decreased by 11%, while consolidated organic revenue declined 10% due to lower capital equipment revenue at our Industrial Processing and Flow Control segments and lower parts and consumables revenue at all our segments as described below.

Revenue from our Flow Control segment decreased 12% in the first nine months of 2020, while organic revenue declined 10%. Organic revenue declined due to decreased demand for capital equipment at our North American and, to a lesser extent, our European operations due to reduced customer spending and customer-requested delays as a result of COVID-19. Additionally, the 2019 period included relatively high demand for capital equipment at our North American operations. Organic revenue was also impacted by a decline in demand for parts and consumables at our North American operations and, to a lesser extent, our European operations due to downtimes and shutdowns, as well as visitation restrictions at many customer facilities related to COVID-19.

Revenue from our Industrial Processing segment decreased 14% in the first nine months of 2020, while organic revenue declined by 13%. Organic revenue at our stock-preparation business was negatively impacted by decreased demand for capital equipment at our Chinese operations due to reduced or delayed customer spending as a result of COVID-19 and uncertainty in the Asian market surrounding the response to China's recovered paper import restrictions. Additionally, organic revenue from parts and consumables at our North American operations and capital equipment at our European operations decreased due to reduced customer spending as a result of COVID-19. Organic revenue from capital equipment at our North American wood processing operations decreased due to changes in certain end markets and, to a lesser extent, reduced spending as a result of COVID-19.

Revenue and organic revenue at our Material Handling segment decreased 1% in the first nine months of 2020. Organic revenue from our parts and consumables products at our conveying and vibratory equipment business decreased due to a reduction in customer spending primarily as a result of shutdowns and visitation restrictions related to COVID-19. A decrease in organic revenue from capital equipment at our baler business due to a weak European economy, compounded by the effect of COVID-19, was more than offset by an increase in organic revenue from capital equipment at our conveying and vibratory equipment business primarily due to revenue from a large order received in late 2019.

Results of Operations (continued)

Gross Profit Margin

Gross profit margin by segment in the first nine months of 2020 and 2019 was as follows:

	Nine Months Ended	
	September 26, 2020	September 28, 2019
Flow Control	53.1 %	51.7 %
Industrial Processing	41.0 %	39.0 %
Material Handling	33.5 %	31.4 %
Consolidated Gross Profit Margin	43.5 %	42.0 %

Consolidated gross profit margin increased in the first nine months of 2020 largely due to the amortization of acquired profit in inventory of $3.5 million related to the SMH acquisition that lowered consolidated gross profit margin in the first nine months of 2019 by 0.7 percentage points, and benefits received in the second and third quarters of 2020 from government employee retention assistance programs of $2.9 million, which increased consolidated gross profit margin in the first nine months of 2020 by 0.6 percentage points.

Gross profit margin at our Flow Control segment increased in the first nine months of 2020 due to an increased proportion of higher-margin parts and consumables revenue and an improved margin on capital equipment revenue.

Gross profit margin at our Industrial Processing segment increased in the first nine months of 2020 primarily due to benefits received from government employee retention assistance programs of $2.4 million, which improved the gross profit margin by 1.2 percentage points, as well as an increased proportion of higher-margin parts and consumables revenue at our wood processing business.

Gross profit margin at our Material Handling Systems segment in the first nine months of 2019 was negatively affected by the amortization of acquired profit in inventory of $3.5 million, which lowered the gross profit margin in 2019 by 3.2 percentage points. The remaining 1.1 percentage point difference was due to lower gross margins on our capital equipment as a result of an unfavorable change in product mix.

Selling, General, and Administrative Expenses

SG&A expenses in the first nine months of 2020 and 2019 were as follows:

	Nine Months Ended					
(In thousands, except percentages)	September 26, 2020	% of Revenue	September 28, 2019	% of Revenue	Decrease	% Change
Flow Control	$ 46,876	28 %	$ 51,324	27 %	$ (4,448)	(9)%
Industrial Processing	42,499	22 %	44,794	20 %	(2,295)	(5)%
Material Handling	24,730	23 %	27,783	25 %	(3,053)	(11)%
Corporate	20,413	N/A	20,982	N/A	(569)	(3)%
Consolidated SG&A Expenses	$ 134,518	29 %	$ 144,883	28 %	$ (10,365)	(7)%

Consolidated SG&A expenses as a percentage of revenue increased to 29% in the first nine months of 2020 compared with 28% in the first nine months of 2019 due to lower revenues in the 2020 period. Consolidated SG&A expenses decreased $10.4 million in the first nine months of 2020 compared with the first nine months of 2019 due to reduced travel-related costs of $5.7 million, benefits received from government employee retention assistance programs of $1.8 million, a favorable effect of foreign currency translation of $1.5 million, and lower acquisition-related costs of $1.3 million.

SG&A expenses as a percentage of revenue at our Flow Control segment increased to 28% in the first nine months of 2020 compared with 27% in the first nine months of 2019 due to lower revenues in the 2020 period. SG&A expenses decreased in the first nine months of 2020 compared with the first nine months of 2019 due to reduced travel-related costs of $2.1 million and lower payroll-related costs as a result of restructuring actions taken in the first half of 2020 and benefits received from government employee retention assistance programs.

Results of Operations (continued)

SG&A expenses as a percentage of revenue at our Industrial Processing segment increased to 22% in the first nine months of 2020 compared with 20% in the first nine months of 2019 due to lower revenues in the 2020 period. SG&A expenses decreased in the first nine months of 2020 compared with the first nine months of 2019 principally due to reduced travel-related costs of $2.2 million and benefits received from government employee retention assistance programs of $1.2 million. These decreases were partially offset by higher professional service fees and acquisition-related costs of $0.6 million in the 2020 period.

SG&A expenses as a percentage of revenue at our Material Handling segment decreased to 23% in the first nine months of 2020 compared with 25% in the first nine months of 2019. The 2020 period includes amortization of acquired backlog associated with the acquisition of SMH of $0.3 million, while the 2019 period includes amortization of acquired backlog of $1.3 million and other acquisition-related costs of $0.8 million for the acquisition of SMH. Excluding these acquisition-related costs, SG&A expenses as a percentage of revenue decreased to 22% in the first nine months of 2020 compared to 23% in the first nine months of 2019 due to reduced travel-related costs.

SG&A expenses at Corporate decreased in the first nine months of 2020 compared with the first nine months of 2019 primarily due to lower professional service fees.

Restructuring Costs

Restructuring costs of $0.9 million, consisting of $0.7 million in our Flow Control segment and $0.2 million in our Industrial Processing segment, in the first nine months of 2020 represent severance costs for 54 employees to reduce future payroll-related overhead and operating costs in response to the slowdown in the global economy, largely driven by COVID-19. In the first nine months of 2020, we also reduced our workforce by 21 employees within our Industrial Processing segment with no associated severance costs. We expect annualized payroll-related savings as a result of these actions of approximately $4.1 million, including $2.7 million at our Flow Control segment and $1.4 million at our Industrial Processing segment, which consist of approximately $2.0 million related to cost of sales and $2.1 million related to operating expenses. We may incur additional restructuring costs as we continue to evaluate the impact of COVID-19 and the resulting global economic downturn on our business.

Interest Expense

Interest expense decreased to $6.1 million in the first nine months of 2020 from $10.1 million in the first nine months of 2019 due to a lower weighted-average interest rate and lower outstanding debt.

Provision for Income Taxes

Our provision for income taxes increased to $13.7 million in the first nine months of 2020 from $12.3 million in the first nine months of 2019. The effective tax rate of 26% in the first nine months of 2020 was higher than our statutory rate of 21% primarily due to nondeductible expenses, the distribution of our worldwide earnings, and state taxes. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate of 22% in the first nine months of 2019 was higher than our statutory rate of 21% primarily due to the distribution of our worldwide earnings, nondeductible expenses, tax expense associated with GILTI, state taxes, and the cost of repatriating the earnings of certain foreign subsidiaries. This incremental tax expense was offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements, a net tax benefit associated with foreign exchange losses and tax costs recognized upon our repatriation of certain previously taxed foreign earnings, and the reversal of tax reserves associated with uncertain tax positions.

Net Income

Net income decreased $4.3 million to $39.4 million in the first nine months of 2020 from $43.7 million in the first nine months of 2019 primarily due to a $7.2 million decrease in operating income and a $1.4 million increase in provision for income taxes, offset in part by a decrease in interest expense of $4.1 million (see discussions above for further details).

Recent Accounting Pronouncements

See Note 1, Nature of Operations and Summary of Significant Accounting Policies, under the headings Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements Not Yet Adopted, in the accompanying condensed consolidated financial statements for further details.

Liquidity and Capital Resources

Consolidated working capital was $155.7 million at September 26, 2020, compared with $151.4 million at December 28, 2019. Included in working capital were cash and cash equivalents of $53.6 million at September 26, 2020, compared with $66.8 million at December 28, 2019. Cash and cash equivalents held by our foreign subsidiaries was $52.6 million at September 26, 2020 and $58.9 million at December 28, 2019.

Cash Flows

Cash flow information in the first nine months of 2020 and 2019 was as follows:

	Nine Months Ended	
(In thousands)	September 26, 2020	September 28, 2019
Net Cash Provided by Operating Activities	$ 52,601	$ 58,166
Net Cash Used in Investing Activities	(12,459)	(182,767)
Net Cash (Used in) Provided by Financing Activities	(52,871)	130,498
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	660	(2,043)
(Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	$ (12,069)	$ 3,854

Operating Activities

Cash provided by operating activities decreased to $52.6 million in the first nine months of 2020 from $58.2 million in the first nine months of 2019. Our operating cash flows are primarily 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. The decrease in cash provided by operating activities in the first nine months of 2020 compared with the first nine months of 2019 was primarily due to lower net income, offset in part by slightly less cash used for working capital. Cash used for working capital was $15.4 million in the first nine months of 2020 and $15.9 million in the first nine months of 2019. We used cash of $6.2 million for inventory in the first nine months of 2020 primarily relating to the buildup of inventory for capital equipment and spare parts that will be shipped in late fiscal 2020 and early fiscal 2021 compared to cash used of $10.3 million in the prior period due to increased inventory at our wood processing business. We used cash of $13.2 million for accounts payable in the first nine months of 2020 primarily due to lower payables resulting from reduced spending levels during 2020 compared with cash received of $2.8 million in the 2019 period. We received cash of $2.8 million from other current assets in the first nine months of 2020 compared with cash used of $4.1 million in the 2019 period primarily related to changes in refundable income taxes in both periods.

Investing Activities

Our investing activities used cash of $12.5 million in the first nine months of 2020 compared with $182.8 million in the first nine months of 2019. The 2020 period included a use of cash of $7.1 million for acquisitions and the 2019 period included a use of cash of $176.9 million for the acquisition of SMH.

Financing Activities

Our financing activities used cash of $52.9 million in the first nine months of 2020 compared with cash provided of $130.5 million in the first nine months of 2019. Repayment of long-term obligations was $69.0 million in the first nine months of 2020 and $108.3 million in the first nine months of 2019. Repayment in the 2020 period included an $18.9 million prepayment of the outstanding principal balance on our Real Estate Loan using U.S. borrowings available under our revolving credit facility. Repayment in the 2019 period included $71.1 million of cash repatriated from Europe that was used to repay U.S. borrowings under our revolving credit facility. Borrowings under our revolving credit facility were $26.0 million in the 2020 period, including amounts used to prepay our Real Estate Loan, and $247.1 million in the 2019 period, including $179.3 million of U.S.-denominated borrowings for the acquisition of SMH and $56.1 million of euro-denominated borrowings.

Liquidity and Capital Resources (continued)

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 $2.0 million reduction in cash, cash equivalents, and restricted cash in the first nine months of 2019 related to the strengthening of the U.S. dollar, particularly against the euro, Chinese renminbi, and Swedish krona.

Debt Obligations

Under our revolving credit facility, we have a borrowing capacity of $400 million, of which $154.8 million was available to borrow as of September 26, 2020, along with an additional uncommitted, unsecured incremental borrowing facility of $150 million. In addition, under our uncommitted Multi-Currency Note Purchase and Private Shelf Agreement (Note Purchase Agreement), we may issue up to an additional $115 million of senior promissory notes. Under these agreements, our leverage ratio, as defined, must be less than 3.75. As of September 26, 2020, our leverage ratio was 1.88 and we were in compliance with our debt covenants. We do not have any mandatory principal payments on our long-term debt obligations until 2023. See Note 6, Long-Term Obligations, in the accompanying condensed consolidated financial statements for additional information regarding our debt obligations.

Additional Liquidity and Capital Resources

On May 13, 2020, our board of directors approved the repurchase of up to $20 million of our equity securities during the period from May 13, 2020 to May 13, 2021. We have not repurchased any shares of our common stock under this authorization or under the previous authorization, which expired on May 15, 2020.

We paid cash dividends of $8.1 million in the first nine months of 2020. On September 17, 2020, we declared a quarterly cash dividend of $0.24 per share totaling $2.8 million that will be paid on November 12, 2020. 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 subject to our compliance with the covenant in our revolving credit facility related to our consolidated leverage ratio.

We plan to make expenditures of approximately $3 million during the remainder of 2020 for property, plant, and equipment.

As of September 26, 2020, we had approximately $274.0 million of total unremitted foreign earnings. It is our intent to indefinitely reinvest $252.6 million of these earnings to support the current and future capital needs of our foreign operations, including debt repayments, if any. For the first nine months of 2020, 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 $5.5 million.

In the future, our liquidity position will be affected by the level of cash flows from operations, cash paid to service our debt obligations, acquisitions, capital projects, dividends, and stock repurchases. We believe that our existing resources, together with the borrowings available under our revolving credit facility and available through our Note Purchase Agreement, and the cash we expect to generate from operations, will be sufficient to meet the capital requirements of our operations for the foreseeable future.

Contractual Obligations and Other Commercial Commitments

There have been no significant changes to our contractual obligations and other commercial commitments during the nine months ended September 26, 2020 compared with those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, except for the prepayment of the Real Estate Loan as disclosed in Note 6, Long-Term Obligations, in the accompanying condensed consolidated financial statements.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk from changes in interest rates and foreign currency exchange rates has not changed materially from our exposure as disclosed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

Item 4 – 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 as of September 26, 2020. 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 as of September 26, 2020, our Chief Executive Officer and Chief Financial Officer concluded that as of September 26, 2020, our disclosure controls and procedures were effective at the reasonable assurance level.

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 September 26, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1A – Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 (Form 10-K), as further amended by the section entitled, *Risk Factors,* in our Quarterly Report on Form 10-Q for the period ended March 28, 2020, which section is incorporated by reference herein, and the section entitled, *Risk Factors*, in our Quarterly Report on Form 10-Q for the period ended June 27, 2020, which section is incorporated by reference herein. The COVID-19 pandemic has led to general uncertainty and adverse changes in global economic conditions and heightened, and in some cases manifested, certain of the risks we normally face in operating our business, including those disclosed in the Form 10-K, as further amended in subsequent filings with the SEC. Such risk factor disclosure is qualified by the information relating to the COVID-19 pandemic that is described in this Quarterly Report on Form 10-Q.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of the Principal 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.
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).

* Furnished herewith.

SIGNATURE

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

	KADANT INC.
Date: November 4, 2020	/s/ Michael J. McKenney
	Michael J. McKenney Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Jeffrey L. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 26, 2020 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: November 4, 2020

/s/ Jeffrey L. Powell
Jeffrey L. Powell
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Michael J. McKenney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 26, 2020 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: November 4, 2020

/s/ Michael J. McKenney
Michael J. McKenney
Executive Vice President and Chief Financial Officer

Exhibit 32

**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 Quarterly Report on Form 10-Q for the period ended September 26, 2020 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2020	/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 Quarterly Report on Form 10-Q 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.