

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 8-K**  
**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): May 3, 2006

**KADANT INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**1-11406**  
(Commission File Number)

**52-1762325**  
(IRS Employer  
Identification No.)

**One Acton Place**  
**Acton, Massachusetts**  
(Address of Principal Executive Offices)

**01720**  
(Zip Code)

**(978) 776-2000**  
Registrant's telephone number, including area code

**Not Applicable**  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01 Entry into a Material Definitive Agreement.**

On May 4, 2006, Kadant Inc., a Delaware corporation (“Kadant” and the “Borrower”), borrowed \$10 million from Citizens Bank of Massachusetts (the “Lender”) pursuant to a promissory note dated May 4, 2006 (the “Loan”) in favor of the Lender. The Loan is repayable in quarterly installments of \$125,000 over a ten-year period with the remaining principal balance of \$5 million due upon maturity. Interest on the Loan accrues and is payable quarterly in arrears at one of the following rates selected by Kadant (a) the prime rate or (b) the 3 month London Inter-Bank Offered Rate (“LIBOR”) plus a 1% margin.

The Loan is guaranteed by certain domestic subsidiaries of Kadant pursuant to the Limited Guaranty Agreements dated as of May 4, 2006 and secured by real estate and related personal property of Kadant and certain domestic subsidiaries of Kadant pursuant to the Mortgage and Security Agreements dated as of May 4, 2006 (“Mortgage and Security Agreements”). The properties subject to the mortgages are located in Theodore, Alabama; Auburn, Massachusetts; Three Rivers, Michigan; and Queensbury, New York. Kadant has the right to substitute other real property and/or collateral in the event of the sale of any of the properties subject to the mortgages. Kadant and the subsidiary owners of the real property have also provided certain indemnities to the Lender for hazardous materials and discharges on the property, as is customary in commercial real estate mortgages.

The obligations of Kadant under the Loan may be accelerated upon the occurrence of an event of default under the Loan and the Mortgage and Security Agreements, which includes customary events of default including without limitation payment defaults, defaults in the performance of covenants and obligations, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, liens on the properties or collateral and uninsured judgments. In addition, the occurrence of an event of default under our existing term loan and revolving credit facility, effective as of May 9, 2005, and as amended to date (the “Credit Facility”), among Kadant, as Borrower, the Foreign Subsidiary Borrowers from time to time parties thereto (as defined in the Credit Facility), the several banks and other financial institutions or entities from time to time parties thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, after any applicable notice or cure period, would be an event of default under the Loan.

To hedge the exposure to movements in the variable interest rate on the Loan, on May 3, 2006, Kadant entered into a swap agreement with the Lender, pursuant to a master agreement and confirmation (the “Swap Agreement”). The Swap Agreement, which was effective on May 5, 2006, converts the \$10 million Loan from a floating rate to a fixed rate of interest. The Swap Agreement has a ten-year term, the same quarterly payment dates as the Loan and reduces in line with the amortization of the Loan. The Swap Agreement automatically terminates in the event there are no outstanding borrowings under the Credit Facility (or successor credit facility), the Loan, or any other borrowing in which Citizens Bank of Massachusetts is a lender. Under the Swap Agreement, Kadant will receive a 3 month LIBOR rate and pay a fixed rate of interest of 5.63%. The net effect on interest expense for the Loan is that Kadant will pay a fixed interest rate of 6.63% (the sum of the 5.63% fixed rate under the Swap Agreement and the applicable margin of 1% on the Loan). The guarantee and default provisions of the Credit Facility (and any successor Credit Facility) and the Loan, including those contained in the Mortgage and Security Agreement, also apply to the Swap Agreement.

On May 5, 2006, Kadant used \$7,750,000 of the proceeds from the Loan to pay down a portion of its existing variable-rate debt under the Credit Facility.

The forgoing description of the Loan does not purport to be a complete statement of the terms and conditions of the Loan and is qualified in its entirety by reference to the full text of the Loan filed with this report as Exhibit 99.1. The forgoing description of the Limited Guaranty Agreements does not purport to be a complete statement of the terms and conditions of the Limited Guaranty Agreements and is qualified in its entirety by reference to the full text of the Limited Guaranty Agreements filed with this report as Exhibit 99.2, 99.3 and 99.4. The forgoing description of the Mortgage and Security Agreements does not purport to be a complete statement of the terms and conditions of the Mortgage and Security Agreements and is qualified in its entirety by reference to the full text of the Mortgage and Security Agreements filed with this report as Exhibit 99.5, 99.6, 99.7 and 99.8. The forgoing description of the Swap Agreement does not purport to be a complete statement of the terms and conditions of the Swap Agreement and is qualified in its entirety by reference to the full text of the Swap Agreement filed with this report as Exhibit 99.9 and 99.10.

**Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**

The information set forth in Item 1.01 above with respect to the Swap Agreement is incorporated herein in its entirety.

**Item 9.01 Financial Statements and Exhibits.**

## (d) Exhibits

No.	Description
99.1	Promissory Note in the principal amount of \$10,000,000 dated May 4, 2006, between Kadant and Citizens Bank of Massachusetts.
99.2	Limited Guaranty Agreement dated May 4, 2006 between Kadant Web Systems Inc., a Massachusetts corporation, and Citizens Bank of Massachusetts.
99.3	Limited Guaranty Agreement dated May 4, 2006 between Kadant Black Clawson Inc., a Delaware corporation, and Citizens Bank of Massachusetts.
99.4	Limited Guaranty Agreement dated May 4, 2006 between Kadant Johnson Inc., a Michigan corporation, and Citizens Bank of Massachusetts.
99.5	Mortgage and Security Agreement dated May 4, 2006 between Kadant and Citizens Bank of Massachusetts relating to the real property and related personal property located in Queensbury, New York. (1)
99.6	Mortgage and Security Agreement dated May 4, 2006 between Kadant Web Systems Inc., a Massachusetts corporation, and Citizens Bank of Massachusetts relating to the real property and related personal property located in Auburn, Massachusetts. (1)
99.7	Mortgage and Security Agreement dated May 4, 2006 between Kadant Black Clawson Inc., a Delaware corporation, and Citizens Bank of Massachusetts relating to the real property and related personal property located in Theodore, Alabama. (1)
99.8	Mortgage and Security Agreement dated May 4, 2006 between Kadant Johnson Inc., a Michigan corporation, and Citizens Bank of Massachusetts relating to the real property and related personal property located in Three Rivers, Michigan. (1)
99.9	International Swap Dealers Association, Inc. Master Agreement dated May 13, 2005 between Kadant and Citizens Bank of Massachusetts (filed as Exhibit 10.1 to Kadant's Quarterly Report on Form 10-Q for the quarter ended July 2, 2005 and incorporated in this document by reference).
99.10	Swap Confirmation dated May 9, 2006 between Kadant and Citizens Bank of Massachusetts. (1)

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

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**KADANT INC.**

**SIGNATURE**

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

KADANT INC.

Date: May 9, 2006

By: /s/ Thomas M. O'Brien

Thomas M. O'Brien

Executive Vice President and Chief Financial Officer

PROMISSORY NOTE

\$10,000,000.00

May 4, 2006  
Boston, Massachusetts

FOR VALUE RECEIVED, KADANT INC., a Delaware corporation, together with its successors and assigns, the "Borrower"), promises to pay to CITIZENS BANK OF MASSACHUSETTS (together with its successors and assigns, the "Bank"), or order, at the Bank's principal place of business located at 28 State Street, Boston, Massachusetts 02109, or at such other place as the Bank may designate to the Borrower from time to time, the principal sum of TEN MILLION DOLLARS (\$10,000,000.00), together with interest on the unpaid principal balance as set forth below.

1. Payments of Principal and Interest. Payments of principal and interest shall be made in lawful money of the United States as follows:

(a) Interest Provisions. Interest on the outstanding principal amount of the Loan when classified as a: (i) LIBOR Rate Loan shall accrue during each Interest Period at a rate equal to the sum of the LIBOR Lending Rate for such Interest Period plus the Applicable Margin and shall be payable on each Interest Payment Date, (ii) LIBOR-Reference Banks Loan shall accrue during each Interest Period at a rate equal to the sum of the LIBOR-Reference Banks Lending Rate for such Interest Period plus the Applicable Margin and be payable on each Interest Payment Date, and (iii) Prime Rate Loan shall accrue during each Interest Period at a rate equal to the Prime Rate and be payable on each Interest Payment Date.

(b) Principal Repayment. Commencing on the second Interest Payment Date and on each subsequent Interest Payment Date, principal shall be paid in an amount equal to the Principal Repayment Amount.

(c) Upon Maturity. All unpaid principal and accrued interest and any other amounts due hereunder shall be paid in full on the Maturity Date.

2. Definitions.

(a) Applicable Margin. The term "Applicable Margin" means one percent (1.00%) per annum.

(b) Business Day. The term "Business Day" means:

- (i) any day that is neither a Saturday or Sunday nor a legal holiday on which commercial banks are authorized or required to be closed in Boston, Massachusetts;
- (ii) when such term is used to describe a day on which a payment or prepayment is to be made in respect of a LIBOR Rate Loan, any day which is: (i) neither a Saturday or Sunday nor a legal holiday on which commercial banks are authorized or required to be closed in New York City; and (ii) a London Banking Day; and

(iii) when such term is used to describe a day on which an interest rate determination is to be made in respect of a LIBOR Rate Loan, any day which is a London Banking Day.

(c) Funding Date. The term "Funding Date" means May 5, 2006.

(d) Hedging Contracts. The term "Hedging Contracts" means interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, or any other agreements or arrangements entered into between the Borrower and the Bank in connection with the Loan and designed to protect the Borrower against fluctuations in interest rates or currency exchange rates.

(e) Hedging Obligations. The term "Hedging Obligations" means all liabilities of the Borrower to the Bank under any and all Hedging Contracts.

(f) Interest Payment Date. The term "Interest Payment Date" means the last Business Day of each Interest Period.

(g) Interest Period. The term "Interest Period" means:

- (1) initially, the period beginning on (and including) the Funding Date and ending on (but excluding) June 30, 2006 (the "Stub Period");
- (2) then, each period commencing on (and including) the last day of the next preceding Interest Period and ending on (but excluding) the day that numerically corresponds to the last day of the Stub Period three months thereafter (or, if such month has no numerically corresponding day, on the last Business Day of such month); and
- (3) thereafter, each period commencing on the last day of the next preceding Interest Period and ending three (3) months thereafter;

provided however, that:

- (a) if the Borrower has or may incur Hedging Obligations with the Bank in connection with the Loan, then the Interest Period shall be of the same duration as the relevant period set under the applicable Hedging Contract;
- (b) if any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next following Business Day unless such day falls in the next calendar month, in which case such Interest Period shall end on the immediately preceding Business Day; and

(c) no Interest Period may end after the Maturity Date.

(h) LIBOR Lending Rate. The term “LIBOR Lending Rate” means, relative to a LIBOR Rate Loan for any Interest Period, a rate per annum determined pursuant to the following formula:

$$\text{LIBOR Lending Rate} = \frac{\text{LIBOR Rate}}{(1.00 - \text{LIBOR Reserve Percentage})}$$

(i) LIBOR Rate. The term “LIBOR Rate” means relative to any Interest Period for a LIBOR Rate Loan, the offered rate for deposits of United States Dollars in an amount approximately equal to the amount of the LIBOR Rate Loan for a term coextensive with such Interest Period that the British Bankers’ Association fixes as its LIBOR rate as of 11:00 a.m. London time on the day that is two London Banking Days prior to the beginning of such Interest Period.

(j) LIBOR Rate Loan. The term “LIBOR Rate Loan” means the Loan for period(s) when the rate of interest applicable to the Loan is calculated by reference to the LIBOR Rate.

(k) LIBOR-Reference Banks Lending Rate. The term “LIBOR-Reference Banks Lending Rate” means, relative to a LIBOR-Reference Banks Rate Loan for any Interest Period, a rate per annum determined pursuant to the following formula:

$$\text{LIBOR-Reference Banks Lending Rate} = \frac{\text{LIBOR-Reference Banks Rate}}{(1.00 - \text{LIBOR Reserve Percentage})}$$

(l) LIBOR-Reference Banks Loan. The term “LIBOR-Reference Banks Loan” means the Loan for any period(s) when the rate of interest applicable to the Loan is calculated by reference to the LIBOR-Reference Banks Rate.

(m) LIBOR-Reference Banks Rate. The term “LIBOR-Reference Banks Rate” means relative to any Interest Period for LIBOR-Reference Banks Loans, the rate for which deposits in U.S. Dollars are offered by the Reference Banks to prime banks in the London interbank market in an amount approximately equal to the amount of the requested LIBOR-Reference Banks Loan at approximately 11:00 a.m. London time on the day that is two London Banking Days prior to the beginning of such Interest Period. The Bank will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, then the rate for such date will be arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for such date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the Bank, at approximately 11:00 a.m. New York City time for loans in U.S. Dollars to leading European banks for such Interest Period and in an amount approximately equal to the amount of the requested LIBOR-Reference Banks Loan.

(n) LIBOR Reserve Percentage. The term “LIBOR Reserve Percentage” means, relative to any day of any Interest Period for a LIBOR-Rate Loan, the maximum aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements (including all

basic, emergency, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements) under any regulations of the Board of Governors of the Federal Reserve System (the "Board") or other governmental authority having jurisdiction with respect thereto as issued from time to time and then applicable to assets or liabilities consisting of "Eurocurrency Liabilities", as currently defined in Regulation D of the Board, having a term approximately equal or comparable to such Interest Period.

(o) Loan. The term "Loan" means all amounts outstanding under this Note.

(p) London Banking Day. The term "London Banking Day" means a day on which dealings in United States Dollar deposits are transacted in the London interbank market.

(q) Maturity Date. The term "Maturity Date" means the date that is ten (10) years after the Funding Date.

(r) Prime Rate. The term "Prime Rate" means the per annum rate of interest announced by the Bank in Boston, Massachusetts from time to time as its "Prime Rate." The Borrower acknowledges that the Bank may make loans to its customers above, at or below the Prime Rate. Interest accruing by reference to the Prime Rate shall be calculated on the basis of actual days elapsed and a three hundred sixty (360) day year.

(s) Prime Rate Loan. The term "Prime Rate Loan" means the Loan for period(s) when the rate of interest applicable to the Loan is calculated by reference to the Prime Rate.

(t) Principal Repayment Amount. The term "Principal Repayment Amount" means the amount of One Hundred Twenty-Five Thousand Dollars (\$125,000.00).

(u) Reference Banks. The term "Reference Banks" means four major banks in the London interbank market, selected by the Bank.

### 3. Borrowing Procedures; Repayment.

(a) Funding of the Loan. On the Funding Date and on terms and subject to the conditions of this Note, the Loan shall be made available to the Borrower no later than 11:00 a.m. New York time by a deposit to an account of the Borrower at the Bank (or as otherwise instructed by the Borrower in writing) in the full principal amount of the Loan. Unless otherwise prohibited by this Note, the Loan shall initially be classified as a LIBOR Rate Loan and interest shall accrue by reference to the LIBOR Rate.

(b) Repayment of Loan; Automatic Rollover of LIBOR Rate Loan. During the period(s) when the Loan is classified as a LIBOR Rate Loan, it shall mature and become payable in full on the last day of each Interest Period. Upon such maturity the Loan shall automatically be continued as a LIBOR Rate Loan with an equal Interest Period in an amount equal to the expiring LIBOR Rate Loan less the applicable Principal Payment Amount, provided however, that no portion of the outstanding principal amount of a LIBOR Rate Loan may be continued as a LIBOR Rate Loan when any default or Event of Default hereunder has occurred and is continuing. If any default or Event of Default has occurred and is continuing (if the Bank does not otherwise elect to



exercise any right to accelerate the Loan it is granted hereunder), then the maturing LIBOR Rate Loan shall automatically be continued as a Prime Rate Loan. During the period(s) that the Loan is classified as a Prime Rate Loan, the Borrower shall make regular payments of principal in amounts equal to the applicable Principal Repayment Amounts on the last day of each Interest Period. Notwithstanding the foregoing, the Loan shall mature and become payable in full upon the Maturity Date.

4. LIBOR Provisions.

(a) LIBOR Rate Lending Unlawful. If the Bank shall determine (which determination shall, upon notice thereof to the Borrower be conclusive and binding on the Borrower) that the introduction of or any change in or in the interpretation of any law, rule, regulation or guideline (whether or not having the force of law), makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for the Bank to make, continue or maintain the Loan as, or to convert the Loan into, a LIBOR Rate Loan, and if the Loan is then presently a LIBOR Rate Loan, then it shall automatically convert into a LIBOR-Reference Banks Loan at the end of the then current Interest Period or sooner, if required by such law or assertion. For purposes of this Note, in the event of such a conversion, all LIBOR-Reference Banks Loans shall be treated (except as to interest rate) as equivalent to a LIBOR Rate Loan of similar amount and Interest Period. For greater certainty, all provisions of this Note relating to LIBOR Rate Loans shall apply equally to LIBOR-Reference Banks Loans, including, but not limited to the manner in which LIBOR-Reference Banks Loans are requested, continued, converted, the manner in which interest accrues, is payable, principal payments are made, whether voluntary or involuntary, as well as any penalties, increased costs or taxes associated with any of the foregoing.

(b) Substitute Rate. If the Bank shall have determined in its sole but reasonable discretion that:

- (i) United States Dollar deposits in the relevant amount and for the relevant Interest Period are not available to the Bank in the London interbank market; or
- (ii) by reason of circumstances affecting the Bank in the London interbank market, adequate means do not exist for ascertaining the LIBOR Rate applicable hereunder to a LIBOR Rate Loan; or
- (iii) the LIBOR Rate no longer adequately reflects the Bank's cost of funding the Loan;

then, upon notice from the Bank to the Borrower, the LIBOR Rate Loan shall automatically convert to a LIBOR-Reference Banks Loan. During any such period, the Loan shall be classified as a LIBOR-Reference Banks Loan.

(c) Indemnities. In addition to the LIBOR Rate Loan Prepayment Fee (as such term is defined in subparagraph 6(b) below), the Borrower agrees to reimburse the Bank (without duplication) for any increase in the cost to the Bank, or reduction in the amount of any sum receivable by the Bank, in respect, or as a result of:

- (i) any conversion, repayment or prepayment of all or any portion of the principal amount of any LIBOR Rate Loan under this Note on a date other than the scheduled last day of the Interest Period applicable thereto; or
- (ii) any costs associated with marking to market of any Hedging Obligations that (in the reasonable determination of the Bank) are required to be terminated as a result of any conversion, repayment or prepayment of all or any portion of the principal amount of any LIBOR Rate Loan under this Note on a date other than the scheduled last day of the Interest Period applicable thereto.

The Bank shall promptly notify the Borrower in writing of any such event, such notice to state, in reasonable detail, the reasons therefor and the additional amount required fully to compensate the Bank for such increased cost or reduced amount. Such additional amount shall be payable by the Borrower to the Bank within five (5) days of its receipt of such notice, and such notice shall, in the absence of manifest error, be conclusive and binding on the Borrower. The Borrower understands, acknowledges and agrees to the following: (i) the Bank does not have any obligation to purchase, sell and/or match funds in connection with the use of the LIBOR Rate as a basis for calculating the rate of interest on any LIBOR Rate Loan, (ii) the LIBOR Rate may be used merely as a reference in determining such rate, and (iii) the Borrower has accepted the LIBOR Rate as a reasonable and fair basis for calculating such rate, the LIBOR Rate Loan Prepayment Fee and other funding losses, if any, incurred by the Bank. The Borrower further agrees to pay the LIBOR Rate Loan Prepayment Fee and other funding losses, if any, whether or not the Bank elects to purchase, sell and/or match funds.

(d) Increased Costs. If on or after the date hereof the adoption of any applicable law, rule or regulation or guideline (whether or not having the force of law), or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such governmental authority, central bank or comparable agency:

- (i) shall subject the Bank to any tax, duty or other charge with respect to any LIBOR Rate Loan or its obligation to make a LIBOR Rate Loan, or shall change the basis of taxation of payments to the Bank of the principal of or interest on a LIBOR Rate Loan or any other amounts due under this Note in respect of a LIBOR Rate Loan or its obligation to make a LIBOR Rate Loan (except for the introduction of, or change in the rate of, tax on the overall net income of the Bank or franchise taxes, imposed by the jurisdiction (or any political subdivision or taxing authority thereof) under the laws of which the Bank is organized or in which the Bank's principal executive office is located); or
- (ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any

such requirement imposed by the Board) against assets of, deposits with or for the account of, or credit extended by, the Bank or shall impose on the Bank or on the London interbank market any other condition affecting a LIBOR Rate or its obligation to make a LIBOR Rate Loan;

and the result of any of the foregoing is to increase the cost to the Bank of making, continuing or maintaining the Loan as a LIBOR Rate Loan, or to reduce the amount of any sum received or receivable by the Bank under this Note with respect thereto, by an amount deemed by the Bank to be material, then, within fifteen (15) days after demand by the Bank, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank for such increased cost or reduced amount.

(e) Taxes. All payments by the Borrower of principal of, and interest on, any LIBOR Rate Loan and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by the Bank's net income or receipts (such non-excluded items being called "Taxes"). In the event that any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Borrower will:

- (i) pay directly to the relevant authority the full amount required to be so withheld or deducted;
- (ii) promptly forward to the Bank an official receipt or other documentation satisfactory to the Bank evidencing such payment to such authority; and
- (iii) pay to the Bank such additional amount or amounts as is necessary to ensure that the net amount actually received by the Bank will equal the full amount the Bank would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Bank with respect to any payment received by the Bank hereunder, then the Bank may pay such Taxes and the Borrower will promptly pay such additional amount (including any penalties, interest or expenses) as is necessary in order that the net amount received by the Bank after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount the Bank would have received had such Taxes not been asserted. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Bank the required receipts or other required documentary evidence, then the Borrower shall indemnify the Bank for any incremental Taxes, interest or penalties that may become payable by the Bank as a result of any such failure.

5. Increased Capital Costs. If any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank,

regulator or other governmental authority affects or would affect the amount of capital required or expected to be maintained by the Bank, or any person controlling the Bank, and the Bank determines (in its sole and absolute discretion) that the rate of return on its or such controlling person's capital as a consequence of its commitments or the Loan made by the Bank is reduced to a level below that which the Bank or such controlling person could have achieved but for the occurrence of any such circumstance, then, in any such case upon notice from time to time by the Bank to the Borrower, the Borrower shall immediately pay directly to the Bank additional amounts sufficient to compensate the Bank or such controlling person for such reduction in the rate of return. A statement of the Bank as to any such additional amount or amounts (including calculations thereof in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on the Borrower. In determining such amount, the Bank may use any method of averaging and attribution that it (in its sole and absolute discretion) shall deem applicable.

6. Voluntary Prepayment of the LIBOR Rate Loan.

(a) When classified as a LIBOR Rate Loan, the Loan may be prepaid in whole or in part upon the terms and conditions set forth herein. The Borrower acknowledges that additional obligations may be associated with prepayment, in accordance with the terms and conditions of any applicable Hedging Contracts. The Borrower shall give the Bank, no later than 10:00 a.m., New York City time, at least four (4) Business Days notice of any proposed prepayment of a LIBOR Rate Loan, specifying the proposed date of payment and the principal amount to be paid. Each partial prepayment shall be accompanied by all accrued interest on the principal repaid to the date of prepayment. Each partial prepayment of the principal amount of a LIBOR Rate Loan shall be in an integral multiple of \$100,000 and be accompanied by the payment of all charges outstanding on such LIBOR Rate Loan and of all accrued interest on the principal repaid to the date of payment. The Borrower acknowledges that prepayment or acceleration of a LIBOR Rate Loan during an Interest Period shall result in the Bank incurring additional costs, expenses and/or liabilities and that it is extremely difficult and impractical to ascertain the extent of such costs, expenses and/or liabilities. Therefore, all full or partial prepayments of a LIBOR Rate Loan shall be accompanied by, and the Borrower hereby promises to pay, on each date a LIBOR Rate Loan is prepaid or the date all sums payable hereunder become due and payable, by acceleration or otherwise, in addition to all other sums then owing, an amount (the "LIBOR Rate Loan Prepayment Fee") determined by the Bank pursuant to the following formula:

- (i) the then current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the end of the Interest Period during which prepayment is made, subtracted from
- (ii) the LIBOR Lending Rate plus the Applicable Margin then applicable to the LIBOR Rate Loan.

If the result of this calculation is zero or a negative number, then there shall be no LIBOR Rate Loan Prepayment Fee. If the result of this calculation is a positive number, then the resulting percentage shall be multiplied by:

- (iii) the amount of the LIBOR Rate Loan being prepaid.

The resulting amount shall be divided by:

(iv) 360

and multiplied by:

(v) the number of days remaining in the Interest Period during which the prepayment is being made.

Said amount shall be reduced to present value calculated by using the referenced United States Treasury securities rate and number of days remaining in the Interest Period for the LIBOR Rate Loan.

(b) When classified as a Prime Rate Loan, the Loan may be prepaid in full or in part, without penalty, premium or fee, at any time or times, provided that the Borrower shall give the Bank at least four (4) Business Days notice of any proposed prepayment, specifying the proposed date of payment and the principal amount to be paid.

(c) Any partial prepayment shall first be applied to accrued interest then due and then to the unpaid principal in reverse order of maturity.

7. Financial Reports. The Borrower shall deliver to the Bank:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, on the Electronic Data Gathering, Analysis and Retrieval computer system for the receipt, acceptance, review and dissemination of documents submitted to the Securities and Exchange Commission in electronic format ("EDGAR") (or upon the request of the Bank, the Borrower shall provide a copy of such statement or report described above to the Bank) the audited consolidated balance sheet of the Borrower and its consolidated subsidiaries as at the end of such year and the related audited consolidated statements of income and of cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Ernst & Young LLP or other independent certified public accountants of nationally recognized standing; and

(b) as soon as available, but in any event not later than 45 days after the end of each of the first three quarterly periods of each fiscal year of the Borrower, on EDGAR (or upon the request of the Bank, the Borrower shall provide a copy of such statement or report described above to the Bank) the unaudited consolidated balance sheet of the Borrower and its consolidated subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and of cash flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by the Borrower's chief financial officer as being fairly stated in all material respects (subject to normal year-end audit adjustments).

All such financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with generally acceptable accounting principles in the United States as in effect from time to time applied (except as approved by such accountants or officer, as the case may be, and disclosed in reasonable detail therein and subject to the absence of footnotes with respect to quarterly statements) consistently throughout the periods reflected therein and with prior periods.

8. Default Rate. Without intending to limit any of the other rights and remedies of the Bank, any payment of principal hereunder due at the Maturity Date or upon any acceleration of the Maturity Date which is not paid when due shall bear interest at a rate equal to the Prime Rate plus three percent (3%) per annum (the "Default Rate").

9. Abatement of Interest. If, at any time, the interest due or payable in accordance with any term or provision of this Note shall exceed the amount permitted by law, notwithstanding anything in this Note to the contrary, the interest payable under such term or provision shall be the highest amount permitted by law.

10. Acceleration. At the option of the Bank, all amounts payable under this Note shall become immediately due and payable without any further demand or notice of any kind upon the occurrence of any Event of Default, as defined in the Mortgages (as defined in Section 18 below).

11. Miscellaneous. The Borrower and all indorsers and guarantors hereof hereby waive presentment, demand, notice, protest and, except as specifically set forth herein or in any instrument given as security for this Note, all other forms of demand and notice concerning this Note and consent to each and every extension or postponement of the time of payment or other indulgence with respect to this Note, and to each and every substitution, addition, exchange or release of collateral and to the addition, substitution or release of any person primarily or secondarily liable hereunder. No delay or omission by the Bank or other holder hereof in exercising any right or power hereunder shall operate as a waiver of such right or power, and a waiver on one occasion shall not be construed as a waiver or a bar to the exercise of a right on any other occasion. Any provision of this Note which is prohibited by law shall be ineffective to the extent of such prohibition without invalidating any other provision hereof. The rights and remedies of the Bank as provided in this Note shall be cumulative and concurrent, and may be pursued singly, successively, or together against the Borrower and any guarantor hereof, at the sole discretion of the Bank. The Bank's failure to exercise any such right or remedy shall in no event be construed as a waiver or release of such right or remedy or of the right to exercise any such right or remedy at any later time.

12. Payment of Bank's Expenses. The Borrower and all indorsers and guarantors of this Note shall pay on demand to the Bank all reasonable costs and expenses of the Bank in connection with protection or enforcement of its rights under this Note, including, without limitation, the Bank's reasonable attorneys' fees and expenses incurred by the Bank in protecting or enforcing its rights under this Note, including any proceedings and appeals thereof, and any action to realize upon any judgment against the Borrower or any indorser or guarantor of this Note obtained by the Bank.

13. Notices. Each notice, demand, election or request provided for or permitted to be given pursuant to this Note shall be given in accordance with the notice provisions of the Mortgages (as defined below).

14. Governing Law. This Note shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

15. Waiver of Rights. In any litigation brought in connection with this Note, the Borrower and each endorser and guarantor hereby waive the right to interpose any set-off or counterclaim of any nature or description except for set-offs or counterclaims relating to the loan transaction to which this Note relates.

16. Liability. The liability of the Borrower and all indorsers and guarantors (except to the extent provided or limited by separate written guaranty agreements between the Bank and such guarantors) of this Note are joint and several. No person obligated on account of this Note may seek contribution from any other person also obligated unless and until all liabilities to the Bank under the Loan Documents of the person from whom contribution is sought have been satisfied in full.

17. Captions. The captions used herein are for convenience of reference only and shall have no force or effect in the interpretation of any provision of this Note.

18. Security. This Note is secured by the following limited guaranties (the "Guaranties"): (i) a certain Limited Guaranty of even date herewith made by Kadant Web Systems Inc. ("KWSI") to the Bank (together, with all amendments, modifications, replacements, renewals and extensions thereof, the "KWSI Guaranty"), (ii) a certain Limited Guaranty of even date herewith made by Kadant Johnson Inc. ("Johnson") to the Bank (together, with all amendments, modifications, replacements, renewals and extensions thereof, the "Johnson Guaranty") and (iii) a certain limited guaranty of even date herewith made by Kadant Black Clawson Inc. ("KBCI") to the Bank (together, with all amendments, modifications, replacements, renewals and extensions thereof, the "KBCI Guaranty"). This Note is also secured by a certain Mortgage and Security Agreement of even date herewith made by the Borrower in favor of the Bank which covers certain improved real property located at 436 Quaker Road, Queensbury, New York. The Johnson Guaranty is secured by a certain Mortgage and Security Agreement of even date herewith made by Johnson in favor of the Bank which covers certain improved real property located at 805 Wood Street, Three Rivers, Michigan. The KBCI Guaranty is secured by a certain Mortgage and Security Agreement of even date herewith made by KBCI in favor of the Bank which covers certain improved real property located at 5890 I-10 Industrial Parkway, Theodore, Alabama. The KWSI Guaranty is secured by a certain Mortgage and Security Agreement of even date herewith made by KWSI in favor of the Bank which covers certain improved real property located at 35 Sword Street, Auburn, Massachusetts. (The above-referenced mortgages and security agreements, together with all amendments, modifications, replacements, renewals and extensions thereof, are collectively the "Mortgages".)

19. CONSENT TO JURISDICTION; WAIVERS

THE BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY (A) SUBMITS TO PERSONAL JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OF THE OTHER LOAN DOCUMENTS, AND (B) WAIVES ANY AND ALL PERSONAL RIGHTS UNDER THE LAWS OF ANY STATE (I)

TO TRIAL BY JURY, (II) TO OBJECT TO JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS OR VENUE IN ANY PARTICULAR FORUM WITHIN THE COMMONWEALTH OF MASSACHUSETTS, AND (III) TO CLAIM OR RECOVER ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN ACTUAL DAMAGES.

THE BORROWER AGREES THAT, IN ADDITION TO ANY METHODS OF SERVICE OF PROCESS PROVIDED FOR UNDER APPLICABLE LAW, ALL SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED DIRECTED TO THE BORROWER AT THE ADDRESS SET FORTH IN SECTION 13 ABOVE, AND SERVICE SO MADE SHALL BE COMPLETE FIVE (5) DAYS AFTER THE SAME SHALL BE SO MAILED. NOTHING CONTAINED HEREIN, HOWEVER, SHALL PREVENT THE LENDER FROM BRINGING ANY SUIT, ACTION OR PROCEEDING OR EXERCISING ANY RIGHTS AGAINST ANY COLLATERAL AND AGAINST THE BORROWER, AND AGAINST ANY PROPERTY OF THE BORROWER, IN ANY OTHER STATE. INITIATING SUCH SUIT, ACTION OR PROCEEDING OR TAKING SUCH ACTION IN ANY STATE SHALL IN NO EVENT CONSTITUTE A WAIVER OF THE AGREEMENT CONTAINED HEREIN THAT THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS SHALL GOVERN THE RIGHTS AND OBLIGATIONS OF THE BORROWER AND THE LENDER HEREUNDER OR THE SUBMISSION HEREIN BY THE BORROWER TO PERSONAL JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS.

By acceptance of this Note, the Bank waives any and all rights under the laws of any state to trial by jury.

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Witness:

KADANT INC.

/s/ Sandra L. Lambert

By: /s/ Thomas M. O'Brien

Thomas M. O'Brien  
Executive Vice President  
and Chief Financial Officer

LIMITED GUARANTY

This GUARANTY (this "Guaranty") is made as of the 4<sup>th</sup> day of May, 2006 by the undersigned KADANT WEB SYSTEMS INC., a Massachusetts corporation (the "Guarantor").

Reference is hereby made to that certain Note of even date herewith in the original principal amount of Ten Million Dollars (\$10,000,000.00) (together with all amendments, modifications, extensions, renewals and replacements thereof, the "Note") executed and delivered by Kadant Inc. (the "Borrower") to Citizens Bank of Massachusetts (the "Bank").

Reference is also made to a certain Mortgage and Security Agreement dated as of the date hereof and executed by the Borrower in favor of the Bank (the "Mortgage"). Capitalized terms used herein without definition shall have the meaning assigned to them in the Mortgage.

IN CONSIDERATION OF the Lender making the loan to the Borrower that is evidenced by the Note (the "Loan") and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby severally unconditionally guaranties to the Bank the timely performance of the following obligations of the Borrower (the "Guarantied Obligations"):

(a) payment, performance and fulfillment to the Bank of all liabilities, obligations and undertakings of the Borrower under the Note;

(b) all costs of collection of all amounts due under the Note; and

(c) all amounts due from the Borrower to the Bank under any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, and any other agreements or arrangements entered into by the Borrower with respect to the Note designed to protect the Borrower against fluctuations in interest rates or currency exchange rates;

provided, however, that the liability of the Guarantor hereunder shall be limited to Four Million Five Hundred Thousand Dollars (\$4,500,000.00).

This Guaranty shall remain in full force and effect without regard to, and the obligations of the Guarantor hereunder shall not be affected or impaired by any of the following: (a) any amendment or modification of or addition or supplement to any of the Guarantied Obligations or any agreement executed in connection therewith; (b) any extension, indulgence or other action in respect thereto or therefor; (c) any default by the Borrower under, or any invalidity or unenforceability in any respect of, or any irregularity or other defect in any of the Guarantied Obligations or in any instrument securing the Guarantied Obligations; (d) any exercise or nonexercise of any right, remedy, power or privilege in respect of this Guaranty, or any of the Guarantied Obligations; (e) any transfer of the assets of the Borrower to, or any consolidation or merger of the Borrower with or into, any other person or corporation; (f) any bankruptcy, insolvency, reorganization or similar proceeding involving or affecting the Borrower; (g) any substitution or release of any security for the Guarantied Obligations or of any other person

primarily or secondarily liable with respect to any of the Guaranteed Obligations or (h) any other circumstance; whether or not the Guarantor shall have had notice or knowledge of any of the foregoing. The obligations of the Guarantor hereunder are independent of the obligations of the Borrower under the Loan Documents, including without limitation, the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against the Guarantor whether or not such action is brought against the Borrower and whether or not the Borrower is joined in any such action or actions.

The Guarantor unconditionally waives (i) notice of any of the matters referred to in the preceding paragraph hereof, (ii) all notices which may be required by statute, rule of law or otherwise to preserve the rights of the Bank under any of the Guaranteed Obligations against the Guarantor, including, without limitation, notice to the Borrower or the Guarantor of default, or of demand of payment from the Borrower, to the extent such notices can be waived under law, (iii) any right to require the exercise by the Bank of any right, remedy, power or privilege under any of the Guaranteed Obligations, and (iv) notice of acceptance of this Guaranty.

The Guarantor shall pay on demand to the Bank all costs and expenses of the Bank in connection with the Bank's perfection or enforcement of its rights under this Guaranty, including, without limitation, reasonable attorneys' fees and expenses incurred by the Bank in enforcing this Guaranty, including any proceedings and appeals thereof, and any action to realize upon any judgment against the Guarantor obtained by the Bank in connection herewith.

The Guarantor shall indemnify and hold the Bank, and all agents, employees, officers, and representatives of the Bank, harmless from and against any claim brought or threatened against the Bank, or any such person so indemnified, by the Borrower, the Guarantor, any other guarantor or indorser of the Guaranteed Obligations or any other person other than co-lenders and loan participants (as well as from reasonable attorneys' fees and expenses in connection therewith) relating to the Loan (each of which may be defended, compromised, settled, or pursued by the Bank with counsel of the Bank's selection, but at the expense of the Guarantor), except that this indemnification shall not apply to those claims in which final judgment is entered against the Bank or such other person seeking indemnification, with all appeals having been exhausted or waived.

Except for the payment of intercompany obligations arising in the ordinary course of business, the payment of any amounts due with respect to any indebtedness of the Borrower to the Guarantor is hereby subordinated to the prior payment in full to the Bank of the obligations of the Borrower under the Loan Documents, including without limitation, the Guaranteed Obligations. Except for the payment of intercompany obligations arising in the ordinary course of business, the Guarantor shall not demand, sue for, or otherwise attempt to collect any such indebtedness, and any amounts which are collected, enforced and received by the Guarantor shall be held by the Guarantor as trustee for the Bank and shall be paid over to the Bank on account any amounts which may be owing hereunder, including without limitation the Guaranteed Obligations, without affecting in any manner the liability of the Guarantor under the other provisions of this Guaranty.

The Guarantor hereby irrevocably waives any present or future right of the Guarantor, the Borrower or any guarantor or indorser of the Borrower, or any other similar person, to a trial by jury of any case or controversy in which the Bank is or becomes a party (whether such case or controversy is initiated by or against the Bank or in which the Bank is joined as a party litigant), which case or controversy arises out of, or is in respect of, any relationship between the Guarantor, the Borrower, any such person, and the Bank.

This Guaranty shall inure to the benefit of the Bank, its successors and assigns, shall be binding upon the heirs, successors, representatives, and assigns of the Guarantor, and shall apply to all Guaranteed Obligations of the Borrower and any successor to the Borrower, including any successor by operation of law.

THE GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY (A) SUBMITS TO PERSONAL JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND (B) WAIVES ANY AND ALL PERSONAL RIGHTS UNDER THE LAWS OF ANY STATE (I) TO TRIAL BY JURY, (II) TO OBJECT TO JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS OR VENUE IN ANY PARTICULAR FORUM WITHIN THE COMMONWEALTH OF MASSACHUSETTS, AND (III) TO CLAIM OR RECOVER ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN ACTUAL DAMAGES.

THE GUARANTOR AGREES THAT, IN ADDITION TO ANY METHODS OF SERVICE OF PROCESS PROVIDED FOR UNDER APPLICABLE LAW, ALL SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED DIRECTED TO THE GUARANTOR AT THE ADDRESS SET FORTH IN THE MORTGAGE, AND SERVICE SO MADE SHALL BE COMPLETE FIVE (5) DAYS AFTER THE SAME SHALL BE SO MAILED. NOTHING CONTAINED HEREIN, HOWEVER, SHALL PREVENT THE BANK FROM BRINGING ANY SUIT, ACTION OR PROCEEDING OR EXERCISING ANY RIGHTS AGAINST ANY COLLATERAL AND AGAINST THE GUARANTOR, AND AGAINST ANY PROPERTY OF THE GUARANTOR, IN ANY OTHER STATE. INITIATING SUCH SUIT, ACTION OR PROCEEDING OR TAKING SUCH ACTION IN ANY STATE SHALL IN NO EVENT CONSTITUTE A WAIVER OF THE AGREEMENT CONTAINED HEREIN THAT THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS SHALL GOVERN THE RIGHTS AND OBLIGATIONS OF THE GUARANTOR AND THE BANK HEREUNDER OR THE SUBMISSION HEREIN BY THE GUARANTOR TO PERSONAL JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS.

By the acceptance of this Guaranty, the Bank waives any and all rights under the laws of any state to trial by jury.

This Guaranty is secured by the Mortgage.

If, pursuant to Section 1.12(c) of the Mortgage, the Bank accepts substitute collateral and a substitute guarantor, this Guaranty shall terminate as of the date such substitute guarantor signs and delivers to the Bank the Substitute Security Documents (as defined in the Mortgage).

This Guaranty shall be governed by the laws of the Commonwealth of Massachusetts.

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Executed under seal as of the date first written above.

WITNESS:

KADANT WEB SYSTEMS INC.

/s/ Sandra L. Lambert

By: /s/ Daniel J. Walsh

Daniel J. Walsh, Treasurer

LIMITED GUARANTY

This GUARANTY (this "Guaranty") is made as of the 4<sup>th</sup> day of May, 2006 by the undersigned KADANT BLACK CLAWSON INC., a Delaware corporation (the "Guarantor").

Reference is hereby made to that certain Note of even date herewith in the original principal amount of Ten Million Dollars (\$10,000,000.00) (together with all amendments, modifications, extensions, renewals and replacements thereof, the "Note") executed and delivered by Kadant Inc. (the "Borrower") to Citizens Bank of Massachusetts (the "Bank").

Reference is also made to a certain Mortgage and Security Agreement dated as of the date hereof and executed by the Guarantor in favor of the Bank (the "Mortgage"). Capitalized terms used herein without definition shall have the meaning assigned to them in the Mortgage.

IN CONSIDERATION OF the Lender making the loan to the Borrower that is evidenced by the Note (the "Loan") and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby severally unconditionally guaranties to the Bank the timely performance of the following obligations of the Borrower (the "Guarantied Obligations"):

(a) payment, performance and fulfillment to the Bank of all liabilities, obligations and undertakings of the Borrower under the Note;

(b) all costs of collection of all amounts due under the Note; and

(c) all amounts due from the Borrower to the Bank under any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, and any other agreements or arrangements entered into by the Borrower with respect to the Note designed to protect the Borrower against fluctuations in interest rates or currency exchange rates;

provided, however, that the liability of the Guarantor hereunder shall be limited to Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000.00).

This Guaranty shall remain in full force and effect without regard to, and the obligations of the Guarantor hereunder shall not be affected or impaired by any of the following: (a) any amendment or modification of or addition or supplement to any of the Guarantied Obligations or any agreement executed in connection therewith; (b) any extension, indulgence or other action in respect thereto or therefor; (c) any default by the Borrower under, or any invalidity or unenforceability in any respect of, or any irregularity or other defect in any of the Guarantied Obligations or in any instrument securing the Guarantied Obligations; (d) any exercise or nonexercise of any right, remedy, power or privilege in respect of this Guaranty, or any of the Guarantied Obligations; (e) any transfer of the assets of the Borrower to, or any consolidation or merger of the Borrower with or into, any other person or corporation; (f) any bankruptcy, insolvency, reorganization or similar proceeding involving or affecting the Borrower; (g) any substitution or release of any security for the Guarantied Obligations or of any other person

primarily or secondarily liable with respect to any of the Guaranteed Obligations or (h) any other circumstance; whether or not the Guarantor shall have had notice or knowledge of any of the foregoing. The obligations of the Guarantor hereunder are independent of the obligations of the Borrower under the Loan Documents, including without limitation, the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against the Guarantor whether or not such action is brought against the Borrower and whether or not the Borrower is joined in any such action or actions.

The Guarantor unconditionally waives (i) notice of any of the matters referred to in the preceding paragraph hereof, (ii) all notices which may be required by statute, rule of law or otherwise to preserve the rights of the Bank under any of the Guaranteed Obligations against the Guarantor, including, without limitation, notice to the Borrower or the Guarantor of default, or of demand of payment from the Borrower, to the extent such notices can be waived under law, (iii) any right to require the exercise by the Bank of any right, remedy, power or privilege under any of the Guaranteed Obligations, and (iv) notice of acceptance of this Guaranty.

The Guarantor shall pay on demand to the Bank all costs and expenses of the Bank in connection with the Bank's perfection or enforcement of its rights under this Guaranty, including, without limitation, reasonable attorneys' fees and expenses incurred by the Bank in enforcing this Guaranty, including any proceedings and appeals thereof, and any action to realize upon any judgment against the Guarantor obtained by the Bank in connection herewith.

The Guarantor shall indemnify and hold the Bank, and all agents, employees, officers, and representatives of the Bank, harmless from and against any claim brought or threatened against the Bank, or any such person so indemnified, by the Borrower, the Guarantor, any other guarantor or indorser of the Guaranteed Obligations or any other person other than co-lenders and loan participants (as well as from reasonable attorneys' fees and expenses in connection therewith) relating to the Loan (each of which may be defended, compromised, settled, or pursued by the Bank with counsel of the Bank's selection, but at the expense of the Guarantor), except that this indemnification shall not apply to those claims in which final judgment is entered against the Bank or such other person seeking indemnification, with all appeals having been exhausted or waived.

Except for the payment of intercompany obligations arising in the ordinary course of business, the payment of any amounts due with respect to any indebtedness of the Borrower to the Guarantor is hereby subordinated to the prior payment in full to the Bank of the obligations of the Borrower under the Loan Documents, including without limitation, the Guaranteed Obligations. Except for the payment of intercompany obligations arising in the ordinary course of business, the Guarantor shall not demand, sue for, or otherwise attempt to collect any such indebtedness, and any amounts which are collected, enforced and received by the Guarantor shall be held by the Guarantor as trustee for the Bank and shall be paid over to the Bank on account any amounts which may be owing hereunder, including without limitation the Guaranteed Obligations, without affecting in any manner the liability of the Guarantor under the other provisions of this Guaranty.



The Guarantor hereby irrevocably waives any present or future right of the Guarantor, the Borrower or any guarantor or indorser of the Borrower, or any other similar person, to a trial by jury of any case or controversy in which the Bank is or becomes a party (whether such case or controversy is initiated by or against the Bank or in which the Bank is joined as a party litigant), which case or controversy arises out of, or is in respect of, any relationship between the Guarantor, the Borrower, any such person, and the Bank.

This Guaranty shall inure to the benefit of the Bank, its successors and assigns, shall be binding upon the heirs, successors, representatives, and assigns of the Guarantor, and shall apply to all Guaranteed Obligations of the Borrower and any successor to the Borrower, including any successor by operation of law.

THE GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY (A) SUBMITS TO PERSONAL JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND (B) WAIVES ANY AND ALL PERSONAL RIGHTS UNDER THE LAWS OF ANY STATE (I) TO TRIAL BY JURY, (II) TO OBJECT TO JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS OR VENUE IN ANY PARTICULAR FORUM WITHIN THE COMMONWEALTH OF MASSACHUSETTS, AND (III) TO CLAIM OR RECOVER ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN ACTUAL DAMAGES.

THE GUARANTOR AGREES THAT, IN ADDITION TO ANY METHODS OF SERVICE OF PROCESS PROVIDED FOR UNDER APPLICABLE LAW, ALL SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED DIRECTED TO THE GUARANTOR AT THE ADDRESS SET FORTH IN THE MORTGAGE, AND SERVICE SO MADE SHALL BE COMPLETE FIVE (5) DAYS AFTER THE SAME SHALL BE SO MAILED. NOTHING CONTAINED HEREIN, HOWEVER, SHALL PREVENT THE BANK FROM BRINGING ANY SUIT, ACTION OR PROCEEDING OR EXERCISING ANY RIGHTS AGAINST ANY COLLATERAL AND AGAINST THE GUARANTOR, AND AGAINST ANY PROPERTY OF THE GUARANTOR, IN ANY OTHER STATE. INITIATING SUCH SUIT, ACTION OR PROCEEDING OR TAKING SUCH ACTION IN ANY STATE SHALL IN NO EVENT CONSTITUTE A WAIVER OF THE AGREEMENT CONTAINED HEREIN THAT THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS SHALL GOVERN THE RIGHTS AND OBLIGATIONS OF THE GUARANTOR AND THE BANK HEREUNDER OR THE SUBMISSION HEREIN BY THE GUARANTOR TO PERSONAL JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS.

By the acceptance of this Guaranty, the Bank waives any and all rights under the laws of any state to trial by jury.

This Guaranty is secured by the Mortgage.

If, pursuant to Section 1.12(c) of the Mortgage, the Bank accepts substitute collateral and a substitute guarantor, this Guaranty shall terminate as of the date such substitute guarantor signs and delivers to the Bank the Substitute Security Documents (as defined in the Mortgage).

This Guaranty shall be governed by the laws of the Commonwealth of Massachusetts.

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Executed under seal as of the date first written above.

WITNESS:

KADANT BLACK CLAWSON INC.

/s/ Sandra L. Lambert

By: /s/ Daniel J. Walsh

Daniel J. Walsh, Treasurer

LIMITED GUARANTY

This GUARANTY (this "Guaranty") is made as of the 4<sup>th</sup> day of May, 2006 by the undersigned KADANT JOHNSON INC., a Michigan corporation (the "Guarantor").

Reference is hereby made to that certain Note of even date herewith in the original principal amount of Ten Million Dollars (\$10,000,000.00) (together with all amendments, modifications, extensions, renewals and replacements thereof, the "Note") executed and delivered by Kadant Inc. (the "Borrower") to Citizens Bank of Massachusetts (the "Bank").

Reference is also made to a certain Mortgage and Security Agreement dated as of the date hereof and executed by the Guarantor in favor of the Bank (the "Mortgage"). Capitalized terms used herein without definition shall have the meaning assigned to them in the Mortgage.

IN CONSIDERATION OF the Lender making the loan to the Borrower that is evidenced by the Note (the "Loan") and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby severally unconditionally guaranties to the Bank the timely performance of the following obligations of the Borrower (the "Guarantied Obligations"):

(a) payment, performance and fulfillment to the Bank of all liabilities, obligations and undertakings of the Borrower under the Note;

(b) all costs of collection of all amounts due under the Note; and

(c) all amounts due from the Borrower to the Bank under any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, and any other agreements or arrangements entered into by the Borrower with respect to the Note designed to protect the Borrower against fluctuations in interest rates or currency exchange rates;

provided, however, that the liability of the Guarantor hereunder shall be limited to Four Million One Hundred Thousand Dollars (\$4,100,000.00).

This Guaranty shall remain in full force and effect without regard to, and the obligations of the Guarantor hereunder shall not be affected or impaired by any of the following: (a) any amendment or modification of or addition or supplement to any of the Guarantied Obligations or any agreement executed in connection therewith; (b) any extension, indulgence or other action in respect thereto or therefor; (c) any default by the Borrower under, or any invalidity or unenforceability in any respect of, or any irregularity or other defect in any of the Guarantied Obligations or in any instrument securing the Guarantied Obligations; (d) any exercise or nonexercise of any right, remedy, power or privilege in respect of this Guaranty, or any of the Guarantied Obligations; (e) any transfer of the assets of the Borrower to, or any consolidation or merger of the Borrower with or into, any other person or corporation; (f) any bankruptcy, insolvency, reorganization or similar proceeding involving or affecting the Borrower; (g) any substitution or release of any security for the Guarantied Obligations or of any other person

primarily or secondarily liable with respect to any of the Guaranteed Obligations or (h) any other circumstance; whether or not the Guarantor shall have had notice or knowledge of any of the foregoing. The obligations of the Guarantor hereunder are independent of the obligations of the Borrower under the Loan Documents, including without limitation, the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against the Guarantor whether or not such action is brought against the Borrower and whether or not the Borrower is joined in any such action or actions.

The Guarantor unconditionally waives (i) notice of any of the matters referred to in the preceding paragraph hereof, (ii) all notices which may be required by statute, rule of law or otherwise to preserve the rights of the Bank under any of the Guaranteed Obligations against the Guarantor, including, without limitation, notice to the Borrower or the Guarantor of default, or of demand of payment from the Borrower, to the extent such notices can be waived under law, (iii) any right to require the exercise by the Bank of any right, remedy, power or privilege under any of the Guaranteed Obligations, and (iv) notice of acceptance of this Guaranty.

The Guarantor shall pay on demand to the Bank all costs and expenses of the Bank in connection with the Bank's perfection or enforcement of its rights under this Guaranty, including, without limitation, reasonable attorneys' fees and expenses incurred by the Bank in enforcing this Guaranty, including any proceedings and appeals thereof, and any action to realize upon any judgment against the Guarantor obtained by the Bank in connection herewith.

The Guarantor shall indemnify and hold the Bank, and all agents, employees, officers, and representatives of the Bank, harmless from and against any claim brought or threatened against the Bank, or any such person so indemnified, by the Borrower, the Guarantor, any other guarantor or indorser of the Guaranteed Obligations or any other person other than co-lenders and loan participants (as well as from reasonable attorneys' fees and expenses in connection therewith) relating to the Loan (each of which may be defended, compromised, settled, or pursued by the Bank with counsel of the Bank's selection, but at the expense of the Guarantor), except that this indemnification shall not apply to those claims in which final judgment is entered against the Bank or such other person seeking indemnification, with all appeals having been exhausted or waived.

Except for the payment of intercompany obligations arising in the ordinary course of business, the payment of any amounts due with respect to any indebtedness of the Borrower to the Guarantor is hereby subordinated to the prior payment in full to the Bank of the obligations of the Borrower under the Loan Documents, including without limitation, the Guaranteed Obligations. Except for the payment of intercompany obligations arising in the ordinary course of business, the Guarantor shall not demand, sue for, or otherwise attempt to collect any such indebtedness, and any amounts which are collected, enforced and received by the Guarantor shall be held by the Guarantor as trustee for the Bank and shall be paid over to the Bank on account any amounts which may be owing hereunder, including without limitation the Guaranteed Obligations, without affecting in any manner the liability of the Guarantor under the other provisions of this Guaranty.

The Guarantor hereby irrevocably waives any present or future right of the Guarantor, the Borrower or any guarantor or indorser of the Borrower, or any other similar person, to a trial by jury of any case or controversy in which the Bank is or becomes a party (whether such case or controversy is initiated by or against the Bank or in which the Bank is joined as a party litigant), which case or controversy arises out of, or is in respect of, any relationship between the Guarantor, the Borrower, any such person, and the Bank.

This Guaranty shall inure to the benefit of the Bank, its successors and assigns, shall be binding upon the heirs, successors, representatives, and assigns of the Guarantor, and shall apply to all Guaranteed Obligations of the Borrower and any successor to the Borrower, including any successor by operation of law.

THE GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY (A) SUBMITS TO PERSONAL JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND (B) WAIVES ANY AND ALL PERSONAL RIGHTS UNDER THE LAWS OF ANY STATE (I) TO TRIAL BY JURY, (II) TO OBJECT TO JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS OR VENUE IN ANY PARTICULAR FORUM WITHIN THE COMMONWEALTH OF MASSACHUSETTS, AND (III) TO CLAIM OR RECOVER ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN ACTUAL DAMAGES.

THE GUARANTOR AGREES THAT, IN ADDITION TO ANY METHODS OF SERVICE OF PROCESS PROVIDED FOR UNDER APPLICABLE LAW, ALL SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED DIRECTED TO THE GUARANTOR AT THE ADDRESS SET FORTH IN THE MORTGAGE, AND SERVICE SO MADE SHALL BE COMPLETE FIVE (5) DAYS AFTER THE SAME SHALL BE SO MAILED. NOTHING CONTAINED HEREIN, HOWEVER, SHALL PREVENT THE BANK FROM BRINGING ANY SUIT, ACTION OR PROCEEDING OR EXERCISING ANY RIGHTS AGAINST ANY COLLATERAL AND AGAINST THE GUARANTOR, AND AGAINST ANY PROPERTY OF THE GUARANTOR, IN ANY OTHER STATE. INITIATING SUCH SUIT, ACTION OR PROCEEDING OR TAKING SUCH ACTION IN ANY STATE SHALL IN NO EVENT CONSTITUTE A WAIVER OF THE AGREEMENT CONTAINED HEREIN THAT THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS SHALL GOVERN THE RIGHTS AND OBLIGATIONS OF THE GUARANTOR AND THE BANK HEREUNDER OR THE SUBMISSION HEREIN BY THE GUARANTOR TO PERSONAL JURISDICTION WITHIN THE COMMONWEALTH OF MASSACHUSETTS.

By the acceptance of this Guaranty, the Bank waives any and all rights under the laws of any state to trial by jury.

This Guaranty is secured by the Mortgage.

If, pursuant to Section 1.12(c) of the Mortgage, the Bank accepts substitute collateral and a substitute guarantor, this Guaranty shall terminate as of the date such substitute guarantor signs and delivers to the Bank the Substitute Security Documents (as defined in the Mortgage).

This Guaranty shall be governed by the laws of the Commonwealth of Massachusetts.

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Executed under seal as of the date first written above.

WITNESS:

KADANT JOHNSON INC.

/s/ Sandra L. Lambert

By: /s/ Daniel J. Walsh  
Daniel J. Walsh, Treasurer



MORTGAGE AND SECURITY AGREEMENT

THIS MORTGAGE AND SECURITY AGREEMENT (this "Mortgage"), dated as of the 4th day of May, 2006 is made by Kadant Inc., a Delaware corporation (the "Mortgagor"), having a place of business at One Acton Place, Suite 202, Acton, Massachusetts 01720, in favor of CITIZENS BANK OF MASSACHUSETTS, a Massachusetts bank (the "Mortgagee"), having its principal place of business at 28 State Street, Boston, Massachusetts 02109.

RECITALS

The Mortgagor has executed and delivered to the Mortgagee that certain Promissory Note of even date herewith from Kadant Inc., a Delaware corporation (the "Borrower") to the Mortgagee (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Note").

This Mortgage, the Note, and the other Mortgages (as defined in the Note) together with all other documents or instruments previously, now or hereafter executed by any of the Borrower or the Guarantors (as defined in the Note) in favor of the Mortgagee in connection with the Loan (as defined below) or entered into by any of the Borrower or the other Guarantors and the Mortgagee in connection with the Loan, including without limitation, interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and all other agreements or arrangements designed to protect the Borrower against fluctuations in interest rates or currency exchange rates, including any and all extensions, renewals, amendments, modifications and supplements thereof, are collectively referred to herein as the "Loan Documents".

GRANTING CLAUSE

NOW, THEREFORE, in consideration of the Mortgagee's making the loan that is evidenced by the Note (the "Loan"), and in order to secure the payment of all amounts due and payable under the Note, in an amount not to exceed One Million Nine Hundred Thousand Dollars (\$1,900,000.00), (the "Obligations"), the Mortgagor does hereby give, grant, bargain, sell and confirm to the Mortgagee, with MORTGAGE COVENANTS, the following property, rights and interests, TO HAVE AND TO HOLD unto the Mortgagee, its successors and assigns forever:

(1) the land in Queensbury, Warren County, New York, described in Exhibit A attached hereto (the "Land"), together with all buildings and improvements now or hereafter situated thereon owned by the Mortgagor (collectively "Improvements"); all easements, rights, privileges and appurtenances thereto; and all leases, rents, issues and profits therefrom (collectively, the "Mortgaged Property");

(2) all fixtures, fittings, appliances, apparatus, equipment, machinery, and all building materials, supplies and equipment owned by the Mortgagor now or hereafter delivered to the Mortgaged Property and replacements thereof owned by the Mortgagor now or at any time hereafter affixed to, attached to, placed upon, or used in any way in connection with the complete and comfortable use, enjoyment, occupancy or operation of the improvements on the Mortgaged Property as a commercial building, but excluding all trade fixtures, furniture, supplies, inventory, and equipment used by the Mortgagor in connection with its business (collectively, the "Personal Property");

(3) all contracts, agreements and warranties, including rights to return of deposits, prepaid premiums or other payments, relating to the construction, renovation, development, redevelopment, maintenance, repair, management, operation, use or occupancy of the Mortgaged Property, but not relating to the Mortgagor's business;

(4) all of the Mortgagor's right, title and interest in and to all proceeds of the conversion, voluntary or involuntary, of any of the Mortgaged Property or Personal Property into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards;

(5) all of the Mortgagor's right, title and interest in and to all licenses, and permits for the development, construction, use or occupancy of the Mortgaged Property as a commercial building, but excluding all such licenses or permits for the operation of the Mortgagor's business; and

(6) all building books and records of the Mortgagor wheresoever situated, directly or indirectly related to the Mortgaged Property whether or not kept in the normal course of Mortgagor's business, but excluding any such books and records related to the Mortgagor's business.

The Personal Property and the items described in clauses (3) through (6) above are hereinafter collectively referred to as the "Collateral."

This Mortgage shall constitute a "security agreement" within the meaning of the Uniform Commercial Code with respect to the Collateral covered hereby. The Mortgagor hereby grants the Mortgagee a security interest in all of the Collateral, and a security interest shall attach thereto and shall be vested directly in the Mortgagee to secure the Obligations.

ARTICLE I  
MORTGAGOR'S COVENANTS

The Mortgagor covenants and agrees as follows:

1.1. Title. The Mortgagor warrants (a) that it has good and marketable title in fee simple to the Mortgaged Property subject to no lien, charge or encumbrance except as listed on Exhibit B attached hereto; (b) that it owns the Personal Property free and clear of all liens and claims; (c) that this Mortgage is and will remain a valid and enforceable first lien on the Mortgaged Property and the Collateral subject only to the exceptions referred to above and such other exceptions as may be approved in writing by the Mortgagee; (d) that it has full power and lawful authority to mortgage the Mortgaged Property and grant a security interest in the Collateral in the manner and form herein done or intended hereafter to be done; and (e) that it will preserve such title, will forever warrant and defend the same to the Mortgagee and will forever warrant and, subject to the matters listed in Exhibit B, defend the validity and priority of the lien hereof against the claims of all persons and parties whomsoever.

1.2. Further Assurances. The Mortgagor will, at the sole cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers and assurances as the Mortgagee shall from time to time require, for the better assuring, conveying, assigning, transferring and confirming unto the Mortgagee the property and rights hereby conveyed or assigned or intended now or hereafter so to be, or which the Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intention or facilitating the performance of the terms of this Mortgage, or for filing, registering or recording this Mortgage and, on demand, will execute and deliver, and hereby authorizes the Mortgagee to execute in the name of the Mortgagor to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments, to evidence more effectively the lien hereof upon the Mortgaged Property or the Collateral.

1.3. Compliance with Laws. The Mortgagor, or any successor to the Mortgagee permitted under Section 1.12(c) below, will, so long as it is owner of the Mortgaged Property or the Collateral do all things necessary to preserve and keep in full force and effect its existence, franchises, rights and privileges as a corporation under the laws of the state of such entity's incorporation and will comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court applicable to the Mortgagor or to the Mortgaged Property or the Collateral or any part thereof.

1.4. Additions to Mortgaged Property. The Mortgagor shall not construct or erect any additional improvements, buildings or structures nor make any substantial additions to or alterations of the improvements, buildings, and structures now or hereafter located on the Mortgaged Property, nor shall the Mortgagor permit any such actions by any other person or entity without the prior written consent of the Mortgagee, which consent shall not be unreasonably withheld or delayed. All right, title and interest of the Mortgagor in and to all extensions, improvements, betterments, renewals, substitutions for and replacements of, and all additions and appurtenances to, the Mortgaged Property or the Collateral, hereafter acquired by, or released to, the Mortgagor or constructed, assembled or placed by the Mortgagor on the Mortgaged Property, and all conversions

of the security constituted thereby, immediately upon such acquisition, release, construction, assembling, placement or conversion, as the case may be, and in each such case, without any further mortgage, conveyance, assignment or other act by the Mortgagor, shall become subject to the lien of this Mortgage as fully and completely, and with the same effect, as though now owned by the Mortgagor and specifically described in the granting clause hereof, and at any and all times the Mortgagor will execute and deliver to the Mortgagee any and all such further assurances, mortgages, conveyances or assignments thereof as the Mortgagee may reasonably require for the purpose of expressly and specifically subjecting the same to the lien of this Mortgage.

1.5. Payment of Taxes and Liens.

(a) The Mortgagor, from time to time when the same shall become due, will pay and discharge, or cause to be paid and discharged, all taxes of every kind and nature (including, without limitation, real and personal property taxes and income, franchise, withholding, profits and gross receipts taxes), all general and special assessments, levies, permits, inspection and license fees, all water and sewer rents and charges, and all other public charges whether of a like or different nature, imposed upon or assessed against it or the Mortgaged Property or the Collateral or any part thereof or upon the revenues, rents, issues, income or profits of the Mortgaged Property or the Collateral or arising in respect of the occupancy, use or possession thereof. Upon demand by the Mortgagee, the Mortgagor shall deliver to the Mortgagee receipts evidencing the payment of all such taxes, assessments, levies, fees, rents and other public charges imposed upon or assessed against it or the Mortgaged Property or the Collateral or the revenues, rents, issues, income or profits thereof.

(b) The Mortgagor will pay, or cause to be paid, from time to time when the same shall become due, all lawful claims and demands of mechanics, materialmen, laborers, and others which, if unpaid, might result in, or permit the creation of, a lien on the Mortgaged Property or the Collateral or any part thereof, or on the revenues, rents, issues, income or profits arising therefrom and in general will do or cause to be done everything necessary so that the lien hereof shall be fully preserved, at the sole cost of the Mortgagor, without expense to the Mortgagee.

(c) Nothing in this Section 1.5 shall require the payment or discharge of any obligation imposed upon the Mortgagor by this Section so long as the Mortgagor shall in good faith and at its own expense contest the same or the validity thereof by appropriate legal proceedings which shall operate to prevent the collection thereof or other realization thereon and the sale or forfeiture of the Mortgaged Property or the Collateral or any part thereof to satisfy the same; provided that during such contest the Mortgagor shall, at the option of the Mortgagee, provide security satisfactory to the Mortgagee, assuring the discharge of the Mortgagor's obligation hereunder and of any additional charge, penalty or expense arising from or incurred as a result of such contest; and provided further, that if at any time payment of any obligation imposed upon the Mortgagor by subsection (a) hereof shall become necessary to prevent the delivery of a tax deed conveying the Mortgaged Property or the Collateral or any portion thereof because of non-payment, then Mortgagor shall pay the same in sufficient time to prevent the delivery of such tax deed.

1.6. Payment of Mortgagee's Taxes. The Mortgagor will pay all taxes (except income taxes) imposed on the Mortgagee by reason of its ownership of this Mortgage.

1.7. Insurance.

(a) The Mortgagor will cause the Mortgaged Property and the Personal Property now and hereafter located on the Mortgaged Property to be kept insured, in such amounts, with such companies, for such periods and on such other terms as the Mortgagee may reasonably require and with such coverages, endorsements, deductibles, and expiration dates as are acceptable to the Mortgagee, providing the following types of insurance covering the Mortgaged Property and Personal Property:

(1) "All Risk" property insurance (including broad form flood, broad form earthquake and comprehensive boiler and machinery coverages) on the Mortgaged Property and the Personal Property in an amount not less than one hundred percent (100%) of the full replacement cost of any Improvements and Personal Property, with deductibles not to exceed \$100,000 for any one occurrence, with a replacement cost coverage endorsement, an agreed amount endorsement, and, if requested by the Mortgagee, a contingent liability from operation of building laws endorsement, a demolition cost endorsement and an increased cost of construction endorsement in such amounts as the Mortgagee may require. Full replacement cost as used herein means the cost of replacing the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) and the Personal Property without deduction for physical depreciation thereof;

(2) During the course of any construction or repair of any Improvements, the insurance required by clause (1) above shall be written on a builder's risk, completed value, non-reporting form, meeting all of the terms required by clause (1) above, covering the total value of work performed, material, equipment, machinery and supplies furnished, existing structures, and temporary structures being erected on or near the Mortgaged Property, including coverage against collapse and damage during transit or while being stored off-site, and containing a soft costs (including loss of rents) coverage endorsement and permission to occupy endorsement;

(3) Flood insurance if at any time the Improvements are located in any federally designated "special hazard area" (including any area having special flood, mudslide and/or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map published by the Federal Emergency Management Agency as Zone A, AO, A1-30, AE, A99, AH, VO, V1-30, VE, V M or E) and the broad form flood coverage required by clause (1) above is not available, in an amount equal to the full replacement cost or the maximum amount then available under the National Flood Insurance Program;

(4) Commercial general liability insurance against claims for personal injury (to include, without limitation, bodily injury and personal and advertising injury) and property damage liability, all on an occurrence basis, if available, with such coverages as the Mortgagee may request (including, without limitation, contractual liability coverage, completed operations coverage for a period of two (2) years following completion of construction of any Improvements on the Mortgaged Property, and coverages equivalent to an ISO broad form endorsement), with a general aggregate limit of not less than \$5,000,000.00, and a combined single "per occurrence" limit of not less than \$1,000,000.00 for bodily injury, property damage and medical payments;

(5) Employer's liability insurance;

(6) Workmen's compensation insurance for all employees of the Mortgagor engaged on or with respect to the Mortgaged Property; and

(7) Such additional types and amounts of coverage in such form and in such amounts as may from time to time be requested by the Mortgagee which at the time are customarily (i) maintained by developers or owners of like properties, or (ii) required by sophisticated institutional lenders in like transactions.

(b) The insurance provided for in clause (4) above shall name the Mortgagee as an additional insured and shall contain a cross liability/severability endorsement. The insurance provided for in clauses (1), (2), and (3) above shall name the Mortgagee as mortgagee and loss payee. The Mortgagor shall deliver certificates of insurance and, if requested by the Mortgagee, duplicate originals or certified copies of all such policies to the Mortgagee together with receipts evidencing payment of all premiums for such policies, and the Mortgagor shall promptly furnish to the Mortgagee all renewal notices. All insurance policies shall provide that such insurance shall not be cancelled without at least thirty (30) days' prior written notice to the Mortgagee.

(c) The Mortgagor shall not permit any condition to exist which would wholly or partially invalidate such insurance policies and will make all payments of insurance premiums for which provision has not been made herein, and in default thereof, the Mortgagee may pay the same and the Mortgagor shall reimburse the Mortgagee therefor on demand. The Mortgagee shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any such insurance, incur any liability for the form or legal sufficiency of insurance policies, solvency of insurers, payment of losses or otherwise in connection with such insurance; and the Mortgagor hereby expressly assumes full responsibility therefor and liability, if any, thereunder.

(d) The Mortgagor shall not obtain separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 1.7, unless the Mortgagee is included thereon as a named insured with loss payable to the Mortgagee under a standard mortgagee endorsement. The Mortgagor shall immediately notify the Mortgagee whenever any such separate insurance is obtained, specifying the insurer thereunder and providing copies of the insurance policies evidencing the same.

(e) Notwithstanding the foregoing, upon thirty days prior notice to the Lender, the Mortgagor may self-insure.

#### 1.8. Casualty.

(a) In the event of any damage or destruction, with a repair or replacement cost of more than \$250,000 in the aggregate, to the Mortgaged Property or the other Collateral by reason of fire or other hazard or casualty (collectively, a "Casualty"), the Mortgagor shall give immediate written notice thereof to the Mortgagee and proceed with reasonable diligence, in full compliance with all applicable laws and regulations ("Legal Requirements"), to repair, restore, rebuild or replace the affected property (collectively, the "Repair Work"). If pursuant to paragraph (c) below, the Mortgagee applies insurance proceeds to the Obligations and does not release the same to the Mortgagor, the obligation of the Mortgagor to complete the Repair Work shall be limited to taking

all actions reasonably required to make the Mortgaged Property safe and in compliance with all Legal Requirements and to restore the undamaged portion of the Mortgaged Property to an economically functional unit to the extent that it is reasonably possible to do so.

(b) All insurance claims shall be adjusted by the Mortgagor at the Mortgagor's sole cost and expense, except that the adjustment of all insurance claims of more than \$250,000 shall be subject to the Mortgagee's prior written approval, which shall not be unreasonably withheld; provided that if any Event of Default (as defined below) exists, the Mortgagee shall have the right to adjust and compromise such claims without the approval of the Mortgagor.

(c) All proceeds of insurance shall be paid to the Mortgagor and the Mortgagee and, at the Mortgagee's option, be applied to the Obligations or released, in whole or in part, to pay for the actual cost of repair, restoration, rebuilding or replacement (collectively, the "Repair Costs"). Notwithstanding the foregoing, if the Repair Costs do not exceed \$250,000, the Mortgagee shall release so much of the insurance proceeds as may be required to pay for the Repair Costs in accordance with the provisions of paragraph (d) below.

(d) If the Mortgagee elects, or is required to, release insurance proceeds, then the Mortgagee may impose reasonable conditions on such release which shall include, but not be limited to, the following:

- (i) prior written approval by the Mortgagee, which approval shall not be unreasonably withheld or delayed, of plans, specifications, cost estimates, contracts and bonds for the restoration or repair of the loss or damage;
- (ii) waivers of lien, architect's certificates, contractor's sworn statements and other evidence of costs, payments and completion as the Mortgagee may in good faith require;
- (iii) if the Repair Costs do not exceed \$250,000, the funds to pay therefor shall be released to the Mortgagor; otherwise, funds shall be released upon final completion of the Repair Work, unless the Mortgagor requests earlier funding, in which event partial monthly disbursements equal to 90% of the value of the work completed (or, if the applicable contract is on a cost plus basis, then 90% of the costs of the work completed if such cost is less than the value thereof) shall be made prior to final completion of the repair, restoration or replacement and the balance of the disbursements shall be made upon full completion and the receipt by the Mortgagee of satisfactory evidence of payment and release of all liens;
- (iv) determination in good faith by the Mortgagee that the undisbursed balance of such proceeds on deposit with the Mortgagee, together with additional funds deposited for the purpose, shall be sufficient to pay for the remaining Repair Costs, free and clear of all liens and claims for lien;
- (v) all work shall comply with Legal Requirements and shall be of a quality that is consistent with or better than the original construction of the Mortgaged Property or the construction of the Mortgaged Property pursuant to the Construction Loan Agreement, as the case may be; and

(vi) the absence of any Event of Default.

1.9. Taking. If there is any taking for public use of the Mortgaged Property or of any tangible Collateral, then any awards in excess of \$250,000 on account thereof (a) shall be paid to the Mortgagee and shall be applied to the Obligations, and the excess, if any, shall be released to the Mortgagor, or (b) at the Mortgagee's discretion, shall be released to the Mortgagor. If the award is \$250,000 or less, such amount shall be paid to the Mortgagor. If, in the case of a partial taking or a temporary taking, in the good faith judgment of the Mortgagee the effect of such taking is such that there has not been a material and adverse impairment of the viability of the Mortgaged Property or the value of the Collateral, so long as no Event of Default exists, the Mortgagee shall release awards on account of such taking to the Mortgagor if such awards are sufficient (or amounts sufficient are otherwise made available) to repair or restore the Mortgaged Property to a condition reasonably satisfactory to the Mortgagee and such partial or temporary taking shall not be deemed to violate the provisions of Section 1.12.

1.10. Mortgagee's Right to Satisfy Mortgagor's Obligations. If the Mortgagor shall fail to perform any of the covenants contained herein the Mortgagee may perform the same on its behalf, and any sums advanced by the Mortgagee in performing any of the Mortgagor's covenants shall be secured by this Mortgage. The Mortgagor will repay on demand all sums so advanced on its behalf with interest at the Prime Rate as defined under the Note (the "Default Rate"). The exercise of any right by the Mortgagee under this Section 1.10 shall not prevent any default by the Mortgagor in the observance of any covenant contained in this Mortgage from constituting an Event of Default.

1.11. Maintenance. The Mortgagor will not abandon or leave unprotected the whole or any part of the Mortgaged Property or the Collateral and, except as provided in the Loan Documents, will not commit any waste on the Mortgaged Property or make any change in the use of the Mortgaged Property which will in any way create any unreasonable risk of fire or other hazard. The Mortgagor will, at all times, maintain the Mortgaged Property and the Personal Property in good operating order and condition, and will promptly make from time to time all repairs, renewals, replacements, additions and improvements reasonably necessary to maintain the Mortgaged Property and the Personal Property in such order and condition. Except as otherwise provided in the Loan Documents, the Mortgagor shall not demolish or substantially alter the Mortgaged Property, nor remove any of the Personal Property without the prior written consent of the Mortgagee, except where such Personal Property is replaced by appropriate substitutes, free of superior title, liens and claims, and of value at least equal to the value of the Personal Property removed. The Mortgagee or its authorized representative shall have the right to enter upon the Mortgaged Property from time to time at reasonable times to ascertain the Mortgagor's compliance with the terms of this Section 1.11 upon twenty-four (24) hours' prior notice to the Mortgagor, except in the case of an emergency.

1.12. Alienation.

(a) The Mortgagor agrees that if, except for the Permitted Transfers (as defined in subsection (c) below), the Mortgaged Property or the Collateral or any part thereof or interest therein is sold, assigned, transferred, conveyed or otherwise alienated by the Mortgagor (including,



without limitation, any leasing of the Mortgaged Property), whether voluntarily or involuntarily or by operation of law, in either or in any case without the prior written consent of the Mortgagee, which may be granted or withheld by the Mortgagee in its sole discretion, the Mortgagee, at its option, may declare the Obligations to be forthwith due and payable. Any change in the legal or equitable title to the Mortgaged Property or the Collateral or any part thereof or interest therein or in the beneficial ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein whether or not of record and whether or not for consideration, or any sale or sales or other disposition of any membership interest in the Mortgagor, shall be deemed to be the transfer of an interest in the Mortgaged Property and the Collateral.

(b) Except in the case of a Permitted Transfer, if ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein becomes vested in a person or persons other than the Mortgagor, whether with or without the prior written approval of the Mortgagee, then the Mortgagee may, without notice to the Mortgagor, waive a default if such occurs thereby and deal with such successor or successors in interest with reference to this Mortgage and the other Loan Documents in the same manner as with the Mortgagor, without in any way releasing, discharging or otherwise affecting the liability of the Mortgagor hereunder, or the Obligations. No sale of the Mortgaged Property or the Collateral or any part thereof or interest therein, no forbearance on the part of the Mortgagee, no extension of the time for the payment and performance of the Obligations, and no change in the terms thereof consented to by the Mortgagee shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of the Mortgagor herein, either in whole or in part, nor shall the full force and effect of this lien be altered thereby.

(c) "Permitted Transfers" shall mean the transfer of the Mortgaged Property, or the Collateral, or any part thereof or interest therein, or of any interests in the Mortgagor, (i) to the Borrower, or any entity owned or controlled by the Borrower or under common control with the Borrower, provided that if the whole or any part of the Mortgaged Property or Collateral is so transferred, such transferee shall execute a limited guaranty and mortgage and security agreement (or similar document) acceptable to the Mortgagee, or (ii) to any other entity, provided the Borrower provides (x) cash collateral for the Obligations or (y) other substitute collateral for the Obligations approved by the Mortgagee (which approval shall not be unreasonably withheld if the value of such substitute collateral together with the other collateral for the Loan, is (1) sufficient to satisfy an eighty percent (80%) loan-to-value ratio for the then outstanding balance of the Loan and (2) satisfies the Mortgagee's environmental and title requirements) and the owner of such substitute collateral executes a limited guaranty and a mortgage (in the case of real estate collateral) and security agreement (or other applicable security document) acceptable to the Mortgagee prior to any such transfer (together, the "Substitute Security Documents"), provided that if such substitute collateral is real estate, if the mortgage and security agreement is substantially the same as the Mortgage, except to such extent that revisions are necessary to comply with the requirements of the laws of the state in which such real estate is located, it will be acceptable to the Mortgagee.

1.13. Encumbrances. The Mortgagor will not create or suffer to be created any liens, mortgages, security interests or other encumbrances of any kind whatsoever against the Mortgaged Property or the Collateral, except for this Mortgage, and the liens and encumbrances listed in Exhibit B, without the prior written consent of the Mortgagee, which consent may be given or withheld in the sole discretion of the Mortgagee.

1.14. Mortgagor's Notice. The Mortgagor shall provide to the Mortgagee immediate notice of each and every Event of Default and each and every default which after notice or lapse of time or both would constitute an Event of Default, which has occurred and is continuing, as soon as the Mortgagor becomes aware of such Event of Default or default, and in such notice shall specify the nature and period of existence thereof and what action the Mortgagor has taken or proposes to take with respect thereto.

1.15 Certain Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee as follows:

(a) There are no actions, suits, proceedings or investigations of any kind pending or threatened against the Mortgagor before any court, tribunal or administrative agency or board that, if adversely determined, could reasonably be expected to, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of such entity or person or materially impair the right of such entity or person to carry on business substantially as now conducted by it, or result in any material liability not adequately covered by insurance, or for which adequate reserves are not maintained on the balance sheet of such entity or person, or which question the validity of any of the Loan Documents, any action taken or to be taken pursuant hereto or thereto, or any lien or security interest created or intended to be created pursuant hereto or thereto, or which will adversely affect the ability of the Mortgagor to pay and perform the Obligations in the manner contemplated by the Loan Documents.

(b) No event which after notice or lapse of time or both would constitute an Event of Default, has occurred and is continuing.

(c) The Mortgaged Property is not now damaged or injured as a result of any Casualty. Except as set forth in Exhibit B, the Mortgaged Property is not currently the subject of any taking for public use, and to the knowledge of the Mortgagor, no such taking is pending or contemplated.

1.16 Records and Accounts. The Mortgagor will (a) keep true and accurate records and books of account with respect to the Mortgaged Property in which full, true and correct entries will be made in accordance with generally accepted accounting principles and (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation and amortization, contingencies, and other reserves with respect to the Mortgaged Property. The Mortgagor shall permit the Mortgagee at the Mortgagor's expense to examine such books of account of the Mortgagor (and to make copies thereof and extracts therefrom) and to discuss the affairs, finances and accounts of the Mortgagor with, and to be advised as to the same by, its officers, all at such reasonable times and intervals as the Mortgagee may reasonably request; provided that the Mortgagor shall only be obligated to pay the expenses associated with one such investigation during any twelve (12) month period.

ARTICLE II  
EVENTS OF DEFAULT

2.1. Events of Default. The occurrence of any one or more of the following shall be deemed an “Event of Default” under this Mortgage:

(a) any failure by the Borrower to pay any principal due under the Note at maturity or upon acceleration; or

(b) any failure by the Mortgagor, the Borrower, or any of the other Guarantors to pay any other sum to be paid to the Mortgagee under this Mortgage or any other Loan Document and such failure continues for five (5) days after written notice from the Mortgagee to the Mortgagor that such amount was due in accordance with the terms of this Mortgage or any other Loan Document; or

(c) any breach by the Mortgagor, the Borrower or any of the other Guarantors, or failure of the Mortgagor, the Borrower or any of the other Guarantors to observe, any other covenant, term or condition contained in this Mortgage or in any other Loan Document, or in any certificate or side letter executed and delivered in connection with the Loan Documents, and such breach or failure continues for thirty (30) days after written notice thereof from the Mortgagee to the Mortgagor or if such breach or failure cannot through the exercise of reasonable diligence be cured within said 30-day period, such additional period of time as may reasonably be required to cure such matter, not to exceed one hundred eighty (180) days, provided the Mortgagor, the Borrower, or other Guarantor shall commence to cure such breach or failure with thirty (30) days and use diligent efforts to completed such cure (except for any breach or failure to observe any term or condition contained in Section 1.5, 1.7, 1.8 or 1.12 or any application of insurance proceeds by the Mortgagor in violation of the provisions of Section 1.8, each of which shall constitute an Event of Default without notice or any opportunity to cure); or

(d) the occurrence of any Event of Default, which phrase shall mean a default after any applicable notice and beyond any applicable cure period, under that certain \$85,000,000 Credit Agreement among Kadant Inc. and JP Morgan Chase Bank as Administrative Agent, et al., dated as of May 9, 2005, and all amendments, modifications, extensions, substitutions, or replacements thereof, including, without limitation, new loan documents entered into in connection with any re-financings of the loan described therein; or

(e) title to the Mortgaged Property or the Collateral is or becomes unsatisfactory to the Mortgagee in its reasonable sole discretion by reason of any lien, charge, encumbrance, title condition or exception not listed in Exhibit B (including without limitation, any mechanic’s, materialman’s or similar statutory or common law lien or notice thereof), and such matter causing title to be or become unsatisfactory is not cured or removed (including by bonding) within twenty (20) days after notice thereof from the Mortgagee to the Mortgagor; or

(f) any material representation or warranty made or deemed to be made by or on behalf of the Borrower or any of the other Guarantors in any Loan Document, or in any report, certificate, financial statement, document or other instrument delivered by or on behalf of

such party pursuant to or in connection with any Loan Document, shall prove to have been false or incorrect in any material respect upon the date when made or deemed to be made or repeated; or

(g) any dissolution, termination, partial or complete liquidation, merger or consolidation of the Borrower, the Mortgagor, or any other Guarantor, or any sale, transfer or other disposition of all or substantially all of the assets of the Borrower, the Mortgagor, or any other Guarantor, other than as permitted under the terms of this Mortgage; or

(h) any suit or proceeding shall be filed against the Borrower or any Guarantor, the Mortgaged Property or the Personal Property which, if adversely determined, would have a materially adverse affect on the ability of the Borrower or any Guarantor to perform their obligations under and by virtue of the Loan Documents and such suit or proceeding is not dismissed within thirty (30) days after notice thereof; or

(i) any of the Borrower or the other Guarantors shall file a voluntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code, or an order for relief shall be issued against any of the Borrower or the other Guarantors in any involuntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code and such order is not dismissed within ninety (90) days after the issuance thereof, or any of the Borrower or the Guarantors shall file any petition or answer seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief of debtors, or any of the Borrower or the Guarantors shall seek or consent to or acquiesce in the appointment of any custodian, trustee, receiver, conservator or liquidator of any of the Borrower or the Guarantors, or of all or any substantial part of the property of any of the Borrower or the Guarantors, or any of the Borrower or the Guarantors shall make an assignment for the benefit of creditors, or any of the Borrower or the Guarantors shall give notice to any governmental authority or body of insolvency or pending insolvency or suspension of operation; or

(j) a court of competent jurisdiction shall enter any order, judgment or decree approving a petition filed against any of the Borrower or any Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief for debtors, or appointing any custodian, trustee, receiver, conservator or liquidator of all or any substantial part of its property; or

(k) any uninsured final judgment in excess of \$250,000.00 shall be rendered against any of the Borrower or any Guarantor and shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty (60) days, whether or not consecutive, unless any of the Borrower or the Guarantors posts a bond for any such amount in excess of \$250,000.00; or

(l) any of the Loan Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior approval of the Mortgagee, or any action at law, suit in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of any of the

Borrower or the Guarantors or any of the stockholders of any of the Borrower or the Guarantors or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof.

ARTICLE III  
REMEDIES

3.1. Remedies. Upon the occurrence of an Event of Default, the Mortgagee may, at its option, and without notice to or demand upon the Mortgagor, take any one or more of the following actions:

(a) declare any or all Obligations to be due and payable immediately;

(b) enter onto the Mortgaged Property, in person or by agent or by court-appointed receiver, and take any and all steps that may be desirable in the Mortgagee's judgment to complete any unfinished construction or to manage and operate the Mortgaged Property, and the Mortgagee may apply any rents, royalties, income or profits collected against the indebtedness secured by this Mortgage without in any way curing or waiving any default of the Mortgagor;

(c) foreclose this Mortgage by any process permitted by applicable law, or bring a court action to enforce its provisions or payment of any of the indebtedness or obligations secured by this Mortgage;

(d) cause any or all of the Mortgaged Property to be sold under the power of sale granted by this Mortgage in any manner permitted by applicable law; or

(e) exercise any other right or remedy available under law or in equity.

3.2. Foreclosure Sales. For any sale under the power of sale granted by this Mortgage, the Mortgagee shall give all notices required by law, and upon the expiration of such time as is required by law, the Mortgagee may sell the Mortgaged Property upon any terms and conditions permitted by applicable law. The Mortgagee may postpone any sale by public announcement at the time and place noticed for the sale. If the Mortgaged Property consists of several lots or parcels, the Mortgagee in its discretion may sell such lots or parcels separately in any order of sale or may elect to sell all of them as an entirety, and the Mortgagor hereby waives its rights, if any, to require that said lots or parcels be sold separately. Any person, including the Mortgagee and the Mortgagor, may purchase at any such sale.

3.3. Proceeds of Sales. The proceeds of any sale under this Mortgage shall be applied in the following manner:

(a) First, to payment of the costs and expenses of the sale, including but not limited to the Mortgagee's reasonable fees, legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of the Mortgagee, together with interest at the Default Rate on all advances made by the Mortgagee;

(b) Second, to payment of all sums expended by the Mortgagee under the terms of this Mortgage and not yet repaid, together with interest on such sums at the Default Rate;

(c) Third, to payment of the Obligations, including interest on the unpaid principal and interest due under the Note from the due date thereof, in any order that the Mortgagee chooses; and

(d) Fourth, the remainder, if any, to the person or persons legally entitled thereto as directed by a court of competent jurisdiction.

3.4. Method of Sales. The Mortgagor waives all rights to direct the order in which any of the Mortgaged Property or the Collateral will be sold in the event of any sale under this Mortgage, and also any right to have any of the Mortgaged Property or the Collateral marshalled upon any sale.

3.5. Receiver. Following an Event of Default, the Mortgagee may require the appointment of a receiver for the Mortgaged Property or for the collection of rents therefrom, either pending a foreclosure sale or otherwise, irrespective of whether or not the Mortgaged Property is adequate security for the Obligations secured hereby, and the Mortgagor hereby consents to such appointment.

3.6. Cumulative Remedies. All remedies contained in this Mortgage are cumulative, and the Mortgagee shall have all other remedies provided by law or in any other agreement securing the Note. No delay or failure by the Mortgagee to exercise any right or remedy under this Mortgage will be construed to be a waiver of that right or remedy or of any default by the Mortgagor. The Mortgagee may exercise any one or more of its rights and remedies at its option without regard to the adequacy of its security.

3.7. Release of Parties or Collateral. Without affecting the liability of the Mortgagor or any other person (except any person expressly released in writing) for payment or performance of the Obligations, and without affecting the rights of the Mortgagee with respect to any security not expressly released in writing, the Mortgagee may, at any time and from time to time, either before or after the maturity of the Note, and without notice or consent:

(a) release any person liable for payment of all or any part of the Obligations;

(b) make any agreement extending the time or otherwise altering the terms of payment of all or any part of the Obligations, or modifying or waiving any Obligation hereunder, or subordinating, modifying or otherwise dealing with the lien or charge hereof;

(c) exercise or refrain from exercising or waive any right that the Mortgagee may have;

(d) accept additional security of any kind; or

(e) release or otherwise deal with any property, real or personal, securing any indebtedness, including all or any part of the Mortgaged Property or the Collateral.

3.8. Payment of Expenses. The Mortgagor shall pay all costs and expenses, including reasonable attorneys' and paralegals' fees, incurred by the Mortgagee in enforcing its rights or any appeal of its rights under the Note, under this Mortgage, or under any other instrument securing the Note, in defending or upholding the lien of this Mortgage or the rights of the Mortgagee hereunder, whether in an action, suit or otherwise, including but not limited to proceedings in bankruptcy court. Any such sums not paid by the Mortgagor to the Mortgagee upon demand shall bear interest at the Default Rate, and any such sums and the interest thereon shall be a lien on the Mortgaged Property and the Collateral prior to any right or title to, interest in or claim upon the Mortgaged Property and the Collateral attaching or accruing subsequent to the lien of this Mortgage and shall be secured by this Mortgage.

3.9. Uniform Commercial Code. With respect to the Collateral, upon and after any default or Event of Default, the Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as then in effect in the Commonwealth of Massachusetts, to the extent applicable.

ARTICLE IV  
MISCELLANEOUS

4.1 Severability. In the event any one or more of the provisions contained in this Mortgage or in the Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall, at the option of the Mortgagee, not affect any other provision of this Mortgage, but this Mortgage shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

4.2 Notices. Each notice, demand, election or request provided for or permitted to be given pursuant to this Agreement (hereinafter in this Section 4.2 referred to as "Notice") must be in writing and shall be deemed to have been properly given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, and addressed as follows:

If to the Mortgagee:

Citizens Bank of Massachusetts  
28 State Street  
Boston, Massachusetts 02109  
Attn: William E. Lingard, Senior Vice President  
Phone: (617) 994-7114  
Fax: (617) 723-9371

with a copy to:

Thomas L. Guidi, Esq.  
Hemenway & Barnes  
60 State Street  
Boston, Massachusetts 02109  
Phone: (617) 227-7940  
Fax: (617) 227-0781

If to the Mortgagor to:

Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Attn: Dan Walsh, Treasurer  
Phone: (978) 776-2020  
Fax: (978) 635-1593

and to:

Sandra L. Lambert  
Vice President, General Counsel and Secretary  
Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Phone: (978) 776-2013  
Fax: (978) 635-1593

Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid. The time period in which a response to such Notice must be given or any action taken with respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier, or if so deposited in the United States Mail, the earlier of three (3) Business Days following such deposit or the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no Notice was given shall be deemed to be receipt of the Notice sent. By giving at least ten (10) days prior Notice thereof, the Mortgagor or the Mortgagee shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

4.3 Waiver of Notice. Whenever in this Mortgage the giving of notice is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice.

4.4 Successors. All of the grants, covenants, terms, provisions and conditions contained herein shall run with the land and shall apply to, bind and inure to the benefit of, the successors and assigns of the Mortgagor and the successors and assigns of the Mortgagee.

4.5 Statutory Provisions. All covenants and conditions contained herein shall be construed as affording to the Mortgagee rights additional to, and separate from, the rights conferred by the Mortgagor's covenants made hereby. This Mortgage is upon the STATUTORY CONDITION, and for any breach of said STATUTORY CONDITION or of any other covenants or conditions contained herein, the holder shall have all of the rights and remedies, provided herein and



by law, including without limitation the STATUTORY POWER OF SALE. The Mortgagor represents that it is not a trustee and that the Mortgaged Property is not used by the Mortgagor exclusively for residential purposes.

4.6 Governing Law. This Mortgage shall be governed by the laws of the State of New York.

4.7 New York State Lien Law. The Mortgagor will comply with Section 13 of the New York State Lien law.

[Remainder of page left intentionally blank.]

Executed as a sealed instrument as of the date first above written.

KADANT INC.

By: /s/ Daniel J. Walsh  
Daniel J. Walsh  
Treasurer

COMMONWEALTH OF MASSACHUSETTS  
COUNTY OF MIDDLESEX

Before me, the undersigned notary public, on this 4th day of May, 2006, personally appeared Daniel J. Walsh, who is personally known to me or was provided to me through a current document issued by a federal or state government agency bearing a photographic image of the signatory's face and signature to be the person whose name is signed to the foregoing instrument and acknowledged to me that he signed it as his free act and deed and the free act and deed of Kadant Inc. as Treasurer of Kadant Inc., for its stated purpose.

/s/ Sandra L. Lambert

[notary seal]

MORTGAGE AND SECURITY AGREEMENT

THIS MORTGAGE AND SECURITY AGREEMENT (this "Mortgage"), dated as of the 4th day of May, 2006 is made by Kadant Web Systems Inc., a Massachusetts corporation (the "Mortgagor"), having a place of business at 35 Sword Street, Auburn, Massachusetts 01501, in favor of CITIZENS BANK OF MASSACHUSETTS, a Massachusetts bank (the "Mortgagee"), having its principal place of business at 28 State Street, Boston, Massachusetts 02109.

RECITALS

The Mortgagor has executed and delivered to the Mortgagee that certain Limited Guaranty of even date herewith (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Guaranty") which guaranties the payment of all amounts due, up to Four Million Five Hundred Thousand Dollars (\$4,500,000.00), under that certain Promissory Note of even date herewith from Kadant Inc., a Delaware corporation (the "Borrower") to the Mortgagee (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Note").

This Mortgage, the Guaranty, the Note, and the other Mortgages (as defined in the Note) together with all other documents or instruments previously, now or hereafter executed by any of the Borrower or the other Guarantors (as defined in the Note) in favor of the Mortgagee in connection with the Loan (as defined below) or entered into by any of the Borrower or the other Guarantors and the Mortgagee in connection with the Loan, including without limitation, interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and all other agreements or arrangements designed to protect the Borrower against fluctuations in interest rates or currency exchange rates, including any and all extensions, renewals, amendments, modifications and supplements thereof, are collectively referred to herein as the "Loan Documents".

GRANTING CLAUSE

NOW, THEREFORE, in consideration of the Mortgagee's making the loan that is evidenced by the Note (the "Loan"), and in order to secure the payment of all amounts due and payable under the Guaranty, (the "Obligations"), the Mortgagor does hereby give, grant, bargain, sell and confirm to the Mortgagee, with MORTGAGE COVENANTS, the following property, rights and interests, TO HAVE AND TO HOLD unto the Mortgagee, its successors and assigns forever:

(1) the land in Auburn, Worcester County, Massachusetts, described in Exhibit A attached hereto (the "Land"), together with all buildings and improvements now or hereafter situated thereon owned by the Mortgagor (collectively "Improvements"); all easements, rights, privileges and appurtenances thereto; and all leases, rents, issues and profits therefrom (collectively, the "Mortgaged Property");

(2) all fixtures, fittings, appliances, apparatus, equipment, machinery, and all building materials, supplies and equipment owned by the Mortgagor now or hereafter delivered to the Mortgaged Property and replacements thereof owned by the Mortgagor now or at any time hereafter affixed to, attached to, placed upon, or used in any way in connection with the complete and comfortable use, enjoyment, occupancy or operation of the improvements on the Mortgaged Property as a commercial building, but excluding all trade fixtures, furniture, supplies, inventory, and equipment used by the Mortgagor in connection with its business (collectively, the "Personal Property");

(3) all contracts, agreements and warranties, including rights to return of deposits, prepaid premiums or other payments, relating to the construction, renovation, development, redevelopment, maintenance, repair, management, operation, use or occupancy of the Mortgaged Property, but not relating to the Mortgagor's business;

(4) all of the Mortgagor's right, title and interest in and to all proceeds of the conversion, voluntary or involuntary, of any of the Mortgaged Property or Personal Property into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards;

(5) all of the Mortgagor's right, title and interest in and to all licenses, and permits for the development, construction, use or occupancy of the Mortgaged Property as a commercial building, but excluding all such licenses or permits for the operation of the Mortgagor's business; and

(6) all building books and records of the Mortgagor wheresoever situated, directly or indirectly related to the Mortgaged Property whether or not kept in the normal course of Mortgagor's business, but excluding any such books and records related to the Mortgagor's business.

The Personal Property and the items described in clauses (3) through (6) above are hereinafter collectively referred to as the "Collateral."

This Mortgage shall constitute a "security agreement" within the meaning of the Uniform Commercial Code with respect to the Collateral covered hereby. The Mortgagor hereby grants the Mortgagee a security interest in all of the Collateral, and a security interest shall attach thereto and shall be vested directly in the Mortgagee to secure the Obligations.

ARTICLE I  
MORTGAGOR'S COVENANTS

The Mortgagor covenants and agrees as follows:

1.1. Title. The Mortgagor warrants (a) that it has good and marketable title in fee simple to the Mortgaged Property subject to no lien, charge or encumbrance except as listed on Exhibit B attached hereto; (b) that it owns the Personal Property free and clear of all liens and claims; (c) that this Mortgage is and will remain a valid and enforceable first lien on the Mortgaged Property and the Collateral subject only to the exceptions referred to above and such other exceptions as may be approved in writing by the Mortgagee; (d) that it has full power and lawful authority to mortgage the Mortgaged Property and grant a security interest in the Collateral in the manner and form herein done or intended hereafter to be done; and (e) that it will preserve such title, will forever warrant and defend the same to the Mortgagee and will forever warrant and, subject to the matters listed in Exhibit B, defend the validity and priority of the lien hereof against the claims of all persons and parties whomsoever.

1.2. Further Assurances. The Mortgagor will, at the sole cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers and assurances as the Mortgagee shall from time to time require, for the better assuring, conveying, assigning, transferring and confirming unto the Mortgagee the property and rights hereby conveyed or assigned or intended now or hereafter so to be, or which the Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intention or facilitating the performance of the terms of this Mortgage, or for filing, registering or recording this Mortgage and, on demand, will execute and deliver, and hereby authorizes the Mortgagee to execute in the name of the Mortgagor to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments, to evidence more effectively the lien hereof upon the Mortgaged Property or the Collateral.

1.3. Compliance with Laws. The Mortgagor, or any successor to the Mortgagee permitted under Section 1.12(c) below, will, so long as it is owner of the Mortgaged Property or the Collateral do all things necessary to preserve and keep in full force and effect its existence, franchises, rights and privileges as a corporation under the laws of the state of such entity's incorporation and will comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court applicable to the Mortgagor or to the Mortgaged Property or the Collateral or any part thereof.

1.4. Additions to Mortgaged Property. The Mortgagor shall not construct or erect any additional improvements, buildings or structures nor make any substantial additions to or alterations of the improvements, buildings, and structures now or hereafter located on the Mortgaged Property, nor shall the Mortgagor permit any such actions by any other person or entity without the prior written consent of the Mortgagee, which consent shall not be unreasonably withheld or delayed. All right, title and interest of the Mortgagor in and to all extensions, improvements, betterments, renewals, substitutions for and replacements of, and all additions and appurtenances to, the Mortgaged Property or the Collateral, hereafter acquired by, or released to, the Mortgagor or constructed, assembled or placed by the Mortgagor on the Mortgaged Property, and all conversions

of the security constituted thereby, immediately upon such acquisition, release, construction, assembling, placement or conversion, as the case may be, and in each such case, without any further mortgage, conveyance, assignment or other act by the Mortgagor, shall become subject to the lien of this Mortgage as fully and completely, and with the same effect, as though now owned by the Mortgagor and specifically described in the granting clause hereof, and at any and all times the Mortgagor will execute and deliver to the Mortgagee any and all such further assurances, mortgages, conveyances or assignments thereof as the Mortgagee may reasonably require for the purpose of expressly and specifically subjecting the same to the lien of this Mortgage.

1.5. Payment of Taxes and Liens.

(a) The Mortgagor, from time to time when the same shall become due, will pay and discharge, or cause to be paid and discharged, all taxes of every kind and nature (including, without limitation, real and personal property taxes and income, franchise, withholding, profits and gross receipts taxes), all general and special assessments, levies, permits, inspection and license fees, all water and sewer rents and charges, and all other public charges whether of a like or different nature, imposed upon or assessed against it or the Mortgaged Property or the Collateral or any part thereof or upon the revenues, rents, issues, income or profits of the Mortgaged Property or the Collateral or arising in respect of the occupancy, use or possession thereof. Upon demand by the Mortgagee, the Mortgagor shall deliver to the Mortgagee receipts evidencing the payment of all such taxes, assessments, levies, fees, rents and other public charges imposed upon or assessed against it or the Mortgaged Property or the Collateral or the revenues, rents, issues, income or profits thereof.

(b) The Mortgagor will pay, or cause to be paid, from time to time when the same shall become due, all lawful claims and demands of mechanics, materialmen, laborers, and others which, if unpaid, might result in, or permit the creation of, a lien on the Mortgaged Property or the Collateral or any part thereof, or on the revenues, rents, issues, income or profits arising therefrom and in general will do or cause to be done everything necessary so that the lien hereof shall be fully preserved, at the sole cost of the Mortgagor, without expense to the Mortgagee.

(c) Nothing in this Section 1.5 shall require the payment or discharge of any obligation imposed upon the Mortgagor by this Section so long as the Mortgagor shall in good faith and at its own expense contest the same or the validity thereof by appropriate legal proceedings which shall operate to prevent the collection thereof or other realization thereon and the sale or forfeiture of the Mortgaged Property or the Collateral or any part thereof to satisfy the same; provided that during such contest the Mortgagor shall, at the option of the Mortgagee, provide security satisfactory to the Mortgagee, assuring the discharge of the Mortgagor's obligation hereunder and of any additional charge, penalty or expense arising from or incurred as a result of such contest; and provided further, that if at any time payment of any obligation imposed upon the Mortgagor by subsection (a) hereof shall become necessary to prevent the delivery of a tax deed conveying the Mortgaged Property or the Collateral or any portion thereof because of non-payment, then Mortgagor shall pay the same in sufficient time to prevent the delivery of such tax deed.

1.6. Payment of Mortgagee's Taxes. The Mortgagor will pay all taxes (except income taxes) imposed on the Mortgagee by reason of its ownership of this Mortgage.

1.7. Insurance.

(a) The Mortgagor will cause the Mortgaged Property and the Personal Property now and hereafter located on the Mortgaged Property to be kept insured, in such amounts, with such companies, for such periods and on such other terms as the Mortgagee may reasonably require and with such coverages, endorsements, deductibles, and expiration dates as are acceptable to the Mortgagee, providing the following types of insurance covering the Mortgaged Property and Personal Property:

(1) "All Risk" property insurance (including broad form flood, broad form earthquake and comprehensive boiler and machinery coverages) on the Mortgaged Property and the Personal Property in an amount not less than one hundred percent (100%) of the full replacement cost of any Improvements and Personal Property, with deductibles not to exceed \$100,000 for any one occurrence, with a replacement cost coverage endorsement, an agreed amount endorsement, and, if requested by the Mortgagee, a contingent liability from operation of building laws endorsement, a demolition cost endorsement and an increased cost of construction endorsement in such amounts as the Mortgagee may require. Full replacement cost as used herein means the cost of replacing the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) and the Personal Property without deduction for physical depreciation thereof;

(2) During the course of any construction or repair of any Improvements, the insurance required by clause (1) above shall be written on a builder's risk, completed value, non-reporting form, meeting all of the terms required by clause (1) above, covering the total value of work performed, material, equipment, machinery and supplies furnished, existing structures, and temporary structures being erected on or near the Mortgaged Property, including coverage against collapse and damage during transit or while being stored off-site, and containing a soft costs (including loss of rents) coverage endorsement and permission to occupy endorsement;

(3) Flood insurance if at any time the Improvements are located in any federally designated "special hazard area" (including any area having special flood, mudslide and/or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map published by the Federal Emergency Management Agency as Zone A, AO, A1-30, AE, A99, AH, VO, V1-30, VE, V M or E) and the broad form flood coverage required by clause (1) above is not available, in an amount equal to the full replacement cost or the maximum amount then available under the National Flood Insurance Program;

(4) Commercial general liability insurance against claims for personal injury (to include, without limitation, bodily injury and personal and advertising injury) and property damage liability, all on an occurrence basis, if available, with such coverages as the Mortgagee may request (including, without limitation, contractual liability coverage, completed operations coverage for a period of two (2) years following completion of construction of any Improvements on the Mortgaged Property, and coverages equivalent to an ISO broad form endorsement), with a general aggregate limit of not less than \$5,000,000.00, and a combined single "per occurrence" limit of not less than \$1,000,000.00 for bodily injury, property damage and medical payments;

(5) Employer's liability insurance;

(6) Workmen's compensation insurance for all employees of the Mortgagor engaged on or with respect to the Mortgaged Property; and

(7) Such additional types and amounts of coverage in such form and in such amounts as may from time to time be requested by the Mortgagee which at the time are customarily (i) maintained by developers or owners of like properties, or (ii) required by sophisticated institutional lenders in like transactions.

(b) The insurance provided for in clause (4) above shall name the Mortgagee as an additional insured and shall contain a cross liability/severability endorsement. The insurance provided for in clauses (1), (2), and (3) above shall name the Mortgagee as mortgagee and loss payee. The Mortgagor shall deliver certificates of insurance and, if requested by the Mortgagee, duplicate originals or certified copies of all such policies to the Mortgagee together with receipts evidencing payment of all premiums for such policies, and the Mortgagor shall promptly furnish to the Mortgagee all renewal notices. All insurance policies shall provide that such insurance shall not be cancelled without at least thirty (30) days' prior written notice to the Mortgagee.

(c) The Mortgagor shall not permit any condition to exist which would wholly or partially invalidate such insurance policies and will make all payments of insurance premiums for which provision has not been made herein, and in default thereof, the Mortgagee may pay the same and the Mortgagor shall reimburse the Mortgagee therefor on demand. The Mortgagee shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any such insurance, incur any liability for the form or legal sufficiency of insurance policies, solvency of insurers, payment of losses or otherwise in connection with such insurance; and the Mortgagor hereby expressly assumes full responsibility therefor and liability, if any, thereunder.

(d) The Mortgagor shall not obtain separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 1.7, unless the Mortgagee is included thereon as a named insured with loss payable to the Mortgagee under a standard mortgagee endorsement. The Mortgagor shall immediately notify the Mortgagee whenever any such separate insurance is obtained, specifying the insurer thereunder and providing copies of the insurance policies evidencing the same.

(e) Notwithstanding the foregoing, upon thirty days prior notice to the Lender, the Mortgagor may self-insure.

#### 1.8. Casualty.

(a) In the event of any damage or destruction, with a repair or replacement cost of more than \$250,000 in the aggregate, to the Mortgaged Property or the other Collateral by reason of fire or other hazard or casualty (collectively, a "Casualty"), the Mortgagor shall give immediate written notice thereof to the Mortgagee and proceed with reasonable diligence, in full compliance with all applicable laws and regulations ("Legal Requirements"), to repair, restore, rebuild or replace the affected property (collectively, the "Repair Work"). If pursuant to paragraph (c) below, the Mortgagee applies insurance proceeds to the Obligations and does not release the same to the Mortgagor, the obligation of the Mortgagor to complete the Repair Work shall be limited to taking



all actions reasonably required to make the Mortgaged Property safe and in compliance with all Legal Requirements and to restore the undamaged portion of the Mortgaged Property to an economically functional unit to the extent that it is reasonably possible to do so.

(b) All insurance claims shall be adjusted by the Mortgagor at the Mortgagor's sole cost and expense, except that the adjustment of all insurance claims of more than \$250,000 shall be subject to the Mortgagee's prior written approval, which shall not be unreasonably withheld; provided that if any Event of Default (as defined below) exists, the Mortgagee shall have the right to adjust and compromise such claims without the approval of the Mortgagor.

(c) All proceeds of insurance shall be paid to the Mortgagor and the Mortgagee and, at the Mortgagee's option, be applied to the Obligations or released, in whole or in part, to pay for the actual cost of repair, restoration, rebuilding or replacement (collectively, the "Repair Costs"). Notwithstanding the foregoing, if the Repair Costs do not exceed \$250,000, the Mortgagee shall release so much of the insurance proceeds as may be required to pay for the Repair Costs in accordance with the provisions of paragraph (d) below.

(d) If the Mortgagee elects, or is required to, release insurance proceeds, then the Mortgagee may impose reasonable conditions on such release which shall include, but not be limited to, the following:

- (i) prior written approval by the Mortgagee, which approval shall not be unreasonably withheld or delayed, of plans, specifications, cost estimates, contracts and bonds for the restoration or repair of the loss or damage;
- (ii) waivers of lien, architect's certificates, contractor's sworn statements and other evidence of costs, payments and completion as the Mortgagee may in good faith require;
- (iii) if the Repair Costs do not exceed \$250,000, the funds to pay therefor shall be released to the Mortgagor; otherwise, funds shall be released upon final completion of the Repair Work, unless the Mortgagor requests earlier funding, in which event partial monthly disbursements equal to 90% of the value of the work completed (or, if the applicable contract is on a cost plus basis, then 90% of the costs of the work completed if such cost is less than the value thereof) shall be made prior to final completion of the repair, restoration or replacement and the balance of the disbursements shall be made upon full completion and the receipt by the Mortgagee of satisfactory evidence of payment and release of all liens;
- (iv) determination in good faith by the Mortgagee that the undisbursed balance of such proceeds on deposit with the Mortgagee, together with additional funds deposited for the purpose, shall be sufficient to pay for the remaining Repair Costs, free and clear of all liens and claims for lien;
- (v) all work shall comply with Legal Requirements and shall be of a quality that is consistent with or better than the original construction of the Mortgaged Property or the construction of the Mortgaged Property pursuant to the Construction Loan Agreement, as the case may be; and

(vi) the absence of any Event of Default.

1.9. Taking. If there is any taking for public use of the Mortgaged Property or of any tangible Collateral, then any awards in excess of \$250,000 on account thereof (a) shall be paid to the Mortgagee and shall be applied to the Obligations, and the excess, if any, shall be released to the Mortgagor, or (b) at the Mortgagee's discretion, shall be released to the Mortgagor. If the award is \$250,000 or less, such amount shall be paid to the Mortgagor. If, in the case of a partial taking or a temporary taking, in the good faith judgment of the Mortgagee the effect of such taking is such that there has not been a material and adverse impairment of the viability of the Mortgaged Property or the value of the Collateral, so long as no Event of Default exists, the Mortgagee shall release awards on account of such taking to the Mortgagor if such awards are sufficient (or amounts sufficient are otherwise made available) to repair or restore the Mortgaged Property to a condition reasonably satisfactory to the Mortgagee and such partial or temporary taking shall not be deemed to violate the provisions of Section 1.12.

1.10. Mortgagee's Right to Satisfy Mortgagor's Obligations. If the Mortgagor shall fail to perform any of the covenants contained herein the Mortgagee may perform the same on its behalf, and any sums advanced by the Mortgagee in performing any of the Mortgagor's covenants shall be secured by this Mortgage. The Mortgagor will repay on demand all sums so advanced on its behalf with interest at the Prime Rate as defined under the Note (the "Default Rate"). The exercise of any right by the Mortgagee under this Section 1.10 shall not prevent any default by the Mortgagor in the observance of any covenant contained in this Mortgage from constituting an Event of Default.

1.11. Maintenance. The Mortgagor will not abandon or leave unprotected the whole or any part of the Mortgaged Property or the Collateral and, except as provided in the Loan Documents, will not commit any waste on the Mortgaged Property or make any change in the use of the Mortgaged Property which will in any way create any unreasonable risk of fire or other hazard. The Mortgagor will, at all times, maintain the Mortgaged Property and the Personal Property in good operating order and condition, and will promptly make from time to time all repairs, renewals, replacements, additions and improvements reasonably necessary to maintain the Mortgaged Property and the Personal Property in such order and condition. Except as otherwise provided in the Loan Documents, the Mortgagor shall not demolish or substantially alter the Mortgaged Property, nor remove any of the Personal Property without the prior written consent of the Mortgagee, except where such Personal Property is replaced by appropriate substitutes, free of superior title, liens and claims, and of value at least equal to the value of the Personal Property removed. The Mortgagee or its authorized representative shall have the right to enter upon the Mortgaged Property from time to time at reasonable times to ascertain the Mortgagor's compliance with the terms of this Section 1.11 upon twenty-four (24) hours' prior notice to the Mortgagor, except in the case of an emergency.

1.12. Alienation.

(a) The Mortgagor agrees that if, except for the Permitted Transfers (as defined in subsection (c) below), the Mortgaged Property or the Collateral or any part thereof or interest therein is sold, assigned, transferred, conveyed or otherwise alienated by the Mortgagor (including,

without limitation, any leasing of the Mortgaged Property), whether voluntarily or involuntarily or by operation of law, in either or in any case without the prior written consent of the Mortgagee, which may be granted or withheld by the Mortgagee in its sole discretion, the Mortgagee, at its option, may declare the Obligations to be forthwith due and payable. Any change in the legal or equitable title to the Mortgaged Property or the Collateral or any part thereof or interest therein or in the beneficial ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein whether or not of record and whether or not for consideration, or any sale or sales or other disposition of any membership interest in the Mortgagor, shall be deemed to be the transfer of an interest in the Mortgaged Property and the Collateral.

(b) Except in the case of a Permitted Transfer, if ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein becomes vested in a person or persons other than the Mortgagor, whether with or without the prior written approval of the Mortgagee, then the Mortgagee may, without notice to the Mortgagor, waive a default if such occurs thereby and deal with such successor or successors in interest with reference to this Mortgage and the other Loan Documents in the same manner as with the Mortgagor, without in any way releasing, discharging or otherwise affecting the liability of the Mortgagor hereunder, or the Obligations. No sale of the Mortgaged Property or the Collateral or any part thereof or interest therein, no forbearance on the part of the Mortgagee, no extension of the time for the payment and performance of the Obligations, and no change in the terms thereof consented to by the Mortgagee shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of the Mortgagor herein, either in whole or in part, nor shall the full force and effect of this lien be altered thereby.

(c) "Permitted Transfers" shall mean the transfer of the Mortgaged Property, or the Collateral, or any part thereof or interest therein, or of any interests in the Mortgagor, (i) to the Borrower, or any entity owned or controlled by the Borrower or under common control with the Borrower, provided that if the whole or any part of the Mortgaged Property or Collateral is so transferred, such transferee shall execute a limited guaranty and mortgage and security agreement (or similar document) acceptable to the Mortgagee, or (ii) to any other entity, provided the Borrower provides (x) cash collateral for the Obligations or (y) other substitute collateral for the Obligations approved by the Mortgagee (which approval shall not be unreasonably withheld if the value of such substitute collateral together with the other collateral for the Loan, is (1) sufficient to satisfy an eighty percent (80%) loan-to-value ratio for the then outstanding balance of the Loan and (2) satisfies the Mortgagee's environmental and title requirements) and the owner of such substitute collateral executes a limited guaranty and a mortgage (in the case of real estate collateral) and security agreement (or other applicable security document) acceptable to the Mortgagee prior to any such transfer (together, the "Substitute Security Documents"), provided that if such substitute collateral is real estate, if the mortgage and security agreement is substantially the same as the Mortgage, except to such extent that revisions are necessary to comply with the requirements of the laws of the state in which such real estate is located, it will be acceptable to the Mortgagee.

1.13. Encumbrances. The Mortgagor will not create or suffer to be created any liens, mortgages, security interests or other encumbrances of any kind whatsoever against the Mortgaged Property or the Collateral, except for this Mortgage, and the liens and encumbrances listed in Exhibit B, without the prior written consent of the Mortgagee, which consent may be given or withheld in the sole discretion of the Mortgagee.

1.14. Mortgagor's Notice. The Mortgagor shall provide to the Mortgagee immediate notice of each and every Event of Default and each and every default which after notice or lapse of time or both would constitute an Event of Default, which has occurred and is continuing, as soon as the Mortgagor becomes aware of such Event of Default or default, and in such notice shall specify the nature and period of existence thereof and what action the Mortgagor has taken or proposes to take with respect thereto.

1.15 Certain Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee as follows:

(a) There are no actions, suits, proceedings or investigations of any kind pending or threatened against the Mortgagor before any court, tribunal or administrative agency or board that, if adversely determined, could reasonably be expected to, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of such entity or person or materially impair the right of such entity or person to carry on business substantially as now conducted by it, or result in any material liability not adequately covered by insurance, or for which adequate reserves are not maintained on the balance sheet of such entity or person, or which question the validity of any of the Loan Documents, any action taken or to be taken pursuant hereto or thereto, or any lien or security interest created or intended to be created pursuant hereto or thereto, or which will adversely affect the ability of the Mortgagor to pay and perform the Obligations in the manner contemplated by the Loan Documents.

(b) No event which after notice or lapse of time or both would constitute an Event of Default, has occurred and is continuing.

(c) The Mortgaged Property is not now damaged or injured as a result of any Casualty. Except as set forth in Exhibit B, the Mortgaged Property is not currently the subject of any taking for public use, and to the knowledge of the Mortgagor, no such taking is pending or contemplated.

1.16 Records and Accounts. The Mortgagor will (a) keep true and accurate records and books of account with respect to the Mortgaged Property in which full, true and correct entries will be made in accordance with generally accepted accounting principles and (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation and amortization, contingencies, and other reserves with respect to the Mortgaged Property. The Mortgagor shall permit the Mortgagee at the Mortgagor's expense to examine such books of account of the Mortgagor (and to make copies thereof and extracts therefrom) and to discuss the affairs, finances and accounts of the Mortgagor with, and to be advised as to the same by, its officers, all at such reasonable times and intervals as the Mortgagee may reasonably request; provided that the Mortgagor shall only be obligated to pay the expenses associated with one such investigation during any twelve (12) month period.

ARTICLE II  
EVENTS OF DEFAULT

2.1. Events of Default. The occurrence of any one or more of the following shall be deemed an "Event of Default" under this Mortgage:

(a) any failure by the Borrower to pay any principal due under the Note at maturity or upon acceleration; or

(b) any failure by the Mortgagor, the Borrower, or any of the other Guarantors to pay any other sum to be paid to the Mortgagee under this Mortgage or any other Loan Document and such failure continues for five (5) days after written notice from the Mortgagee to the Mortgagor that such amount was due in accordance with the terms of this Mortgage or any other Loan Document; or

(c) any breach by the Mortgagor, the Borrower or any of the other Guarantors, or failure of the Mortgagor, the Borrower or any of the other Guarantors to observe, any other covenant, term or condition contained in this Mortgage or in any other Loan Document, or in any certificate or side letter executed and delivered in connection with the Loan Documents, and such breach or failure continues for thirty (30) days after written notice thereof from the Mortgagee to the Mortgagor or if such breach or failure cannot through the exercise of reasonable diligence be cured within said 30-day period, such additional period of time as may reasonably be required to cure such matter, not to exceed one hundred eighty (180) days, provided the Mortgagor, the Borrower, or other Guarantor shall commence to cure such breach or failure with thirty (30) days and use diligent efforts to completed such cure (except for any breach or failure to observe any term or condition contained in Section 1.5, 1.7, 1.8 or 1.12 or any application of insurance proceeds by the Mortgagor in violation of the provisions of Section 1.8, each of which shall constitute an Event of Default without notice or any opportunity to cure); or

(d) the occurrence of any Event of Default, which phrase shall mean a default after any applicable notice and beyond any applicable cure period, under that certain \$85,000,000 Credit Agreement among Kadant Inc. and JP Morgan Chase Bank as Administrative Agent, et al., dated as of May 9, 2005, and all amendments, modifications, extensions, substitutions, or replacements thereof, including, without limitation, new loan documents entered into in connection with any re-financings of the loan described therein; or

(e) title to the Mortgaged Property or the Collateral is or becomes unsatisfactory to the Mortgagee in its reasonable sole discretion by reason of any lien, charge, encumbrance, title condition or exception not listed in Exhibit B (including without limitation, any mechanic's, materialman's or similar statutory or common law lien or notice thereof), and such matter causing title to be or become unsatisfactory is not cured or removed (including by bonding) within twenty (20) days after notice thereof from the Mortgagee to the Mortgagor; or

(f) any material representation or warranty made or deemed to be made by or on behalf of the Borrower or any of the other Guarantors in any Loan Document, or in any report, certificate, financial statement, document or other instrument delivered by or on behalf of

such party pursuant to or in connection with any Loan Document, shall prove to have been false or incorrect in any material respect upon the date when made or deemed to be made or repeated; or

(g) any dissolution, termination, partial or complete liquidation, merger or consolidation of the Borrower, the Mortgagor, or any other Guarantor, or any sale, transfer or other disposition of all or substantially all of the assets of the Borrower, the Mortgagor, or any other Guarantor, other than as permitted under the terms of this Mortgage; or

(h) any suit or proceeding shall be filed against the Borrower or any Guarantor, the Mortgaged Property or the Personal Property which, if adversely determined, would have a materially adverse affect on the ability of the Borrower or any Guarantor to perform their obligations under and by virtue of the Loan Documents and such suit or proceeding is not dismissed within thirty (30) days after notice thereof; or

(i) any of the Borrower or the other Guarantors shall file a voluntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code, or an order for relief shall be issued against any of the Borrower or the other Guarantors in any involuntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code and such order is not dismissed within ninety (90) days after the issuance thereof, or any of the Borrower or the Guarantors shall file any petition or answer seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief of debtors, or any of the Borrower or the Guarantors shall seek or consent to or acquiesce in the appointment of any custodian, trustee, receiver, conservator or liquidator of any of the Borrower or the Guarantors, or of all or any substantial part of the property of any of the Borrower or the Guarantors, or any of the Borrower or the Guarantors shall make an assignment for the benefit of creditors, or any of the Borrower or the Guarantors shall give notice to any governmental authority or body of insolvency or pending insolvency or suspension of operation; or

(j) a court of competent jurisdiction shall enter any order, judgment or decree approving a petition filed against any of the Borrower or any Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief for debtors, or appointing any custodian, trustee, receiver, conservator or liquidator of all or any substantial part of its property; or

(k) any uninsured final judgment in excess of \$250,000.00 shall be rendered against any of the Borrower or any Guarantor and shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty (60) days, whether or not consecutive, unless any of the Borrower or the Guarantors posts a bond for any such amount in excess of \$250,000.00; or

(l) any of the Loan Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior approval of the Mortgagee, or any action at law, suit in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of any of the

Borrower or the Guarantors or any of the stockholders of any of the Borrower or the Guarantors or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof.

ARTICLE III  
REMEDIES

3.1. Remedies. Upon the occurrence of an Event of Default, the Mortgagee may, at its option, and without notice to or demand upon the Mortgagor, take any one or more of the following actions:

(a) declare any or all Obligations to be due and payable immediately;

(b) enter onto the Mortgaged Property, in person or by agent or by court-appointed receiver, and take any and all steps that may be desirable in the Mortgagee's judgment to complete any unfinished construction or to manage and operate the Mortgaged Property, and the Mortgagee may apply any rents, royalties, income or profits collected against the indebtedness secured by this Mortgage without in any way curing or waiving any default of the Mortgagor;

(c) foreclose this Mortgage by any process permitted by applicable law, or bring a court action to enforce its provisions or payment of any of the indebtedness or obligations secured by this Mortgage;

(d) cause any or all of the Mortgaged Property to be sold under the power of sale granted by this Mortgage in any manner permitted by applicable law; or

(e) exercise any other right or remedy available under law or in equity.

3.2. Foreclosure Sales. For any sale under the power of sale granted by this Mortgage, the Mortgagee shall give all notices required by law, and upon the expiration of such time as is required by law, the Mortgagee may sell the Mortgaged Property upon any terms and conditions permitted by applicable law. The Mortgagee may postpone any sale by public announcement at the time and place noticed for the sale. If the Mortgaged Property consists of several lots or parcels, the Mortgagee in its discretion may sell such lots or parcels separately in any order of sale or may elect to sell all of them as an entirety, and the Mortgagor hereby waives its rights, if any, to require that said lots or parcels be sold separately. Any person, including the Mortgagee and the Mortgagor, may purchase at any such sale.

3.3. Proceeds of Sales. The proceeds of any sale under this Mortgage shall be applied in the following manner:

(a) First, to payment of the costs and expenses of the sale, including but not limited to the Mortgagee's reasonable fees, legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of the Mortgagee, together with interest at the Default Rate on all advances made by the Mortgagee;

(b) Second, to payment of all sums expended by the Mortgagee under the terms of this Mortgage and not yet repaid, together with interest on such sums at the Default Rate;

(c) Third, to payment of the Obligations, including interest on the unpaid principal and interest due under the Note from the due date thereof, in any order that the Mortgagee chooses; and

(d) Fourth, the remainder, if any, to the person or persons legally entitled thereto as directed by a court of competent jurisdiction.

3.4. Method of Sales. The Mortgagor waives all rights to direct the order in which any of the Mortgaged Property or the Collateral will be sold in the event of any sale under this Mortgage, and also any right to have any of the Mortgaged Property or the Collateral marshalled upon any sale.

3.5. Receiver. Following an Event of Default, the Mortgagee may require the appointment of a receiver for the Mortgaged Property or for the collection of rents therefrom, either pending a foreclosure sale or otherwise, irrespective of whether or not the Mortgaged Property is adequate security for the Obligations secured hereby, and the Mortgagor hereby consents to such appointment.

3.6. Cumulative Remedies. All remedies contained in this Mortgage are cumulative, and the Mortgagee shall have all other remedies provided by law or in any other agreement securing the Note. No delay or failure by the Mortgagee to exercise any right or remedy under this Mortgage will be construed to be a waiver of that right or remedy or of any default by the Mortgagor. The Mortgagee may exercise any one or more of its rights and remedies at its option without regard to the adequacy of its security.

3.7. Release of Parties or Collateral. Without affecting the liability of the Mortgagor or any other person (except any person expressly released in writing) for payment or performance of the Obligations, and without affecting the rights of the Mortgagee with respect to any security not expressly released in writing, the Mortgagee may, at any time and from time to time, either before or after the maturity of the Note, and without notice or consent:

(a) release any person liable for payment of all or any part of the Obligations;

(b) make any agreement extending the time or otherwise altering the terms of payment of all or any part of the Obligations, or modifying or waiving any Obligation hereunder, or subordinating, modifying or otherwise dealing with the lien or charge hereof;

(c) exercise or refrain from exercising or waive any right that the Mortgagee may have;

(d) accept additional security of any kind; or

(e) release or otherwise deal with any property, real or personal, securing any indebtedness, including all or any part of the Mortgaged Property or the Collateral.



3.8. Payment of Expenses. The Mortgagor shall pay all costs and expenses, including reasonable attorneys' and paralegals' fees, incurred by the Mortgagee in enforcing its rights or any appeal of its rights under the Note, under this Mortgage, or under any other instrument securing the Note, in defending or upholding the lien of this Mortgage or the rights of the Mortgagee hereunder, whether in an action, suit or otherwise, including but not limited to proceedings in bankruptcy court. Any such sums not paid by the Mortgagor to the Mortgagee upon demand shall bear interest at the Default Rate, and any such sums and the interest thereon shall be a lien on the Mortgaged Property and the Collateral prior to any right or title to, interest in or claim upon the Mortgaged Property and the Collateral attaching or accruing subsequent to the lien of this Mortgage and shall be secured by this Mortgage.

3.9. Uniform Commercial Code. With respect to the Collateral, upon and after any default or Event of Default, the Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as then in effect in the Commonwealth of Massachusetts, to the extent applicable.

ARTICLE IV  
MISCELLANEOUS

4.1 Severability. In the event any one or more of the provisions contained in this Mortgage or in the Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall, at the option of the Mortgagee, not affect any other provision of this Mortgage, but this Mortgage shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

4.2 Notices. Each notice, demand, election or request provided for or permitted to be given pursuant to this Agreement (hereinafter in this Section 4.2 referred to as "Notice") must be in writing and shall be deemed to have been properly given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, and addressed as follows:

If to the Mortgagee:

Citizens Bank of Massachusetts  
28 State Street  
Boston, Massachusetts 02109  
Attn: William E. Lingard, Senior Vice President  
Phone: (617) 994-7114  
Fax: (617) 723-9371

with a copy to:

Thomas L. Guidi, Esq.  
Hemenway & Barnes  
60 State Street  
Boston, Massachusetts 02109  
Phone: (617) 227-7940  
Fax: (617) 227-0781

If to the Mortgagor to:

Kadant Web Systems Inc.  
35 Sword Street  
Auburn, Massachusetts 01501  
Attn: President

With a copy to:

Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Attn: Dan Walsh, Treasurer  
Phone: (978) 776-2020  
Fax: (978) 635-1593

and to:

Sandra L. Lambert  
Vice President, General Counsel and Secretary  
Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Phone: (978) 776-2013  
Fax: (978) 635-1593

Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid. The time period in which a response to such Notice must be given or any action taken with respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier, or if so deposited in the United States Mail, the earlier of three (3) Business Days following such deposit or the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no Notice was given shall be deemed to be receipt of the Notice sent. By giving at least ten (10) days prior Notice thereof, the Mortgagor or the Mortgagee shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

4.3 Waiver of Notice. Whenever in this Mortgage the giving of notice is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice.

4.4 Successors. All of the grants, covenants, terms, provisions and conditions contained herein shall run with the land and shall apply to, bind and inure to the benefit of, the successors and assigns of the Mortgagor and the successors and assigns of the Mortgagee.

4.5 Statutory Provisions. All covenants and conditions contained herein shall be construed as affording to the Mortgagee rights additional to, and separate from, the rights conferred by the Mortgagor's covenants made hereby. This Mortgage is upon the STATUTORY CONDITION, and for any breach of said STATUTORY CONDITION or of any other covenants or conditions contained herein, the holder shall have all of the rights and remedies, provided herein and by law, including without limitation the STATUTORY POWER OF SALE. The Mortgagor represents that it is not a trustee and that the Mortgaged Property is not used by the Mortgagor exclusively for residential purposes.

4.6 Governing Law. This Mortgage shall be governed by the laws of the Commonwealth of Massachusetts.

[Remainder of page left intentionally blank.]

Executed as a sealed instrument as of the date first above written.

KADANT WEB SYSTEMS INC.

By: /s/ Daniel J. Walsh  
Daniel J. Walsh  
Treasurer

COMMONWEALTH OF MASSACHUSETTS  
COUNTY OF MIDDLESEX

Before me, the undersigned notary public, on this 4th day of May, 2006, personally appeared Daniel J. Walsh, who is personally known to me or was provided to me through a current document issued by a federal or state government agency bearing a photographic image of the signatory's face and signature to be the person whose name is signed to the foregoing instrument and acknowledged to me that he signed it as his free act and deed and the free act and deed of Kadant Web Systems Inc. as Treasurer of Kadant Web Systems Inc., for its stated purpose.

/s/ Sandra L. Lambert

[notary seal]

MORTGAGE AND SECURITY AGREEMENT

THIS MORTGAGE AND SECURITY AGREEMENT (this "Mortgage"), dated as of the 4th day of May, 2006 is made by Kadant Black Clawson Inc., a Delaware corporation (the "Mortgagor"), having a place of business at 7312 Central Parke Boulevard, Mason, Ohio 04540, in favor of CITIZENS BANK OF MASSACHUSETTS, a Massachusetts bank (the "Mortgagee"), having its principal place of business at 28 State Street, Boston, Massachusetts 02109.

RECITALS

The Mortgagor has executed and delivered to the Mortgagee that certain Limited Guaranty of even date herewith (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Guaranty") which guaranties the payment of all amounts due, up to Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000.00), under that certain Promissory Note of even date herewith from Kadant Inc., a Delaware corporation (the "Borrower") to the Mortgagee (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Note").

This Mortgage, the Guaranty, the Note, and the other Mortgages (as defined in the Note) together with all other documents or instruments previously, now or hereafter executed by any of the Borrower or the other Guarantors (as defined in the Note) in favor of the Mortgagee in connection with the Loan (as defined below) or entered into by any of the Borrower or the other Guarantors and the Mortgagee in connection with the Loan, including without limitation, interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and all other agreements or arrangements designed to protect the Borrower against fluctuations in interest rates or currency exchange rates, including any and all extensions, renewals, amendments, modifications and supplements thereof, are collectively referred to herein as the "Loan Documents".

GRANTING CLAUSE

NOW, THEREFORE, in consideration of the Mortgagee's making the loan that is evidenced by the Note (the "Loan"), and in order to secure the payment of all amounts due and payable under the Guaranty, (the "Obligations"), the Mortgagor does hereby give, grant, bargain, sell and confirm to the Mortgagee, with MORTGAGE COVENANTS, the following property, rights and interests, TO HAVE AND TO HOLD unto the Mortgagee, its successors and assigns forever:

(1) the land in Theodore, Mobile County, Alabama, described in Exhibit A attached hereto (the "Land"), together with all buildings and improvements now or hereafter situated thereon owned by the Mortgagor (collectively "Improvements"); all easements, rights, privileges and appurtenances thereto; and all leases, rents, issues and profits therefrom (collectively, the "Mortgaged Property");

(2) all fixtures, fittings, appliances, apparatus, equipment, machinery, and all building materials, supplies and equipment owned by the Mortgagor now or hereafter delivered to the Mortgaged Property and replacements thereof owned by the Mortgagor now or at any time hereafter affixed to, attached to, placed upon, or used in any way in connection with the complete and comfortable use, enjoyment, occupancy or operation of the improvements on the Mortgaged Property as a commercial building, but excluding all trade fixtures, furniture, supplies, inventory, and equipment used by the Mortgagor in connection with its business (collectively, the "Personal Property");

(3) all contracts, agreements and warranties, including rights to return of deposits, prepaid premiums or other payments, relating to the construction, renovation, development, redevelopment, maintenance, repair, management, operation, use or occupancy of the Mortgaged Property, but not relating to the Mortgagor's business;

(4) all of the Mortgagor's right, title and interest in and to all proceeds of the conversion, voluntary or involuntary, of any of the Mortgaged Property or Personal Property into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards;

(5) all of the Mortgagor's right, title and interest in and to all licenses, and permits for the development, construction, use or occupancy of the Mortgaged Property as a commercial building, but excluding all such licenses or permits for the operation of the Mortgagor's business; and

(6) all building books and records of the Mortgagor wheresoever situated, directly or indirectly related to the Mortgaged Property whether or not kept in the normal course of Mortgagor's business, but excluding any such books and records related to the Mortgagor's business.

The Personal Property and the items described in clauses (3) through (6) above are hereinafter collectively referred to as the "Collateral."

This Mortgage shall constitute a "security agreement" within the meaning of the Uniform Commercial Code with respect to the Collateral covered hereby. The Mortgagor hereby grants the Mortgagee a security interest in all of the Collateral, and a security interest shall attach thereto and shall be vested directly in the Mortgagee to secure the Obligations.

ARTICLE I  
MORTGAGOR'S COVENANTS

The Mortgagor covenants and agrees as follows:

1.1. Title. The Mortgagor warrants (a) that it has good and marketable title in fee simple to the Mortgaged Property subject to no lien, charge or encumbrance except as listed on Exhibit B attached hereto; (b) that it owns the Personal Property free and clear of all liens and claims; (c) that this Mortgage is and will remain a valid and enforceable first lien on the Mortgaged Property and the Collateral subject only to the exceptions referred to above and such other exceptions as may be approved in writing by the Mortgagee; (d) that it has full power and lawful authority to mortgage the Mortgaged Property and grant a security interest in the Collateral in the manner and form herein done or intended hereafter to be done; and (e) that it will preserve such title, will forever warrant and defend the same to the Mortgagee and will forever warrant and, subject to the matters listed in Exhibit B, defend the validity and priority of the lien hereof against the claims of all persons and parties whomsoever.

1.2. Further Assurances. The Mortgagor will, at the sole cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers and assurances as the Mortgagee shall from time to time require, for the better assuring, conveying, assigning, transferring and confirming unto the Mortgagee the property and rights hereby conveyed or assigned or intended now or hereafter so to be, or which the Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intention or facilitating the performance of the terms of this Mortgage, or for filing, registering or recording this Mortgage and, on demand, will execute and deliver, and hereby authorizes the Mortgagee to execute in the name of the Mortgagor to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments, to evidence more effectively the lien hereof upon the Mortgaged Property or the Collateral.

1.3. Compliance with Laws. The Mortgagor, or any successor to the Mortgagee permitted under Section 1.12(c) below, will, so long as it is owner of the Mortgaged Property or the Collateral do all things necessary to preserve and keep in full force and effect its existence, franchises, rights and privileges as a corporation under the laws of the state of such entity's incorporation and will comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court applicable to the Mortgagor or to the Mortgaged Property or the Collateral or any part thereof.

1.4. Additions to Mortgaged Property. The Mortgagor shall not construct or erect any additional improvements, buildings or structures nor make any substantial additions to or alterations of the improvements, buildings, and structures now or hereafter located on the Mortgaged Property, nor shall the Mortgagor permit any such actions by any other person or entity without the prior written consent of the Mortgagee, which consent shall not be unreasonably withheld or delayed. All right, title and interest of the Mortgagor in and to all extensions, improvements, betterments, renewals, substitutions for and replacements of, and all additions and appurtenances to, the Mortgaged Property or the Collateral, hereafter acquired by, or released to, the Mortgagor or constructed, assembled or placed by the Mortgagor on the Mortgaged Property, and all conversions

of the security constituted thereby, immediately upon such acquisition, release, construction, assembling, placement or conversion, as the case may be, and in each such case, without any further mortgage, conveyance, assignment or other act by the Mortgagor, shall become subject to the lien of this Mortgage as fully and completely, and with the same effect, as though now owned by the Mortgagor and specifically described in the granting clause hereof, and at any and all times the Mortgagor will execute and deliver to the Mortgagee any and all such further assurances, mortgages, conveyances or assignments thereof as the Mortgagee may reasonably require for the purpose of expressly and specifically subjecting the same to the lien of this Mortgage.

1.5. Payment of Taxes and Liens.

(a) The Mortgagor, from time to time when the same shall become due, will pay and discharge, or cause to be paid and discharged, all taxes of every kind and nature (including, without limitation, real and personal property taxes and income, franchise, withholding, profits and gross receipts taxes), all general and special assessments, levies, permits, inspection and license fees, all water and sewer rents and charges, and all other public charges whether of a like or different nature, imposed upon or assessed against it or the Mortgaged Property or the Collateral or any part thereof or upon the revenues, rents, issues, income or profits of the Mortgaged Property or the Collateral or arising in respect of the occupancy, use or possession thereof. Upon demand by the Mortgagee, the Mortgagor shall deliver to the Mortgagee receipts evidencing the payment of all such taxes, assessments, levies, fees, rents and other public charges imposed upon or assessed against it or the Mortgaged Property or the Collateral or the revenues, rents, issues, income or profits thereof.

(b) The Mortgagor will pay, or cause to be paid, from time to time when the same shall become due, all lawful claims and demands of mechanics, materialmen, laborers, and others which, if unpaid, might result in, or permit the creation of, a lien on the Mortgaged Property or the Collateral or any part thereof, or on the revenues, rents, issues, income or profits arising therefrom and in general will do or cause to be done everything necessary so that the lien hereof shall be fully preserved, at the sole cost of the Mortgagor, without expense to the Mortgagee.

(c) Nothing in this Section 1.5 shall require the payment or discharge of any obligation imposed upon the Mortgagor by this Section so long as the Mortgagor shall in good faith and at its own expense contest the same or the validity thereof by appropriate legal proceedings which shall operate to prevent the collection thereof or other realization thereon and the sale or forfeiture of the Mortgaged Property or the Collateral or any part thereof to satisfy the same; provided that during such contest the Mortgagor shall, at the option of the Mortgagee, provide security satisfactory to the Mortgagee, assuring the discharge of the Mortgagor's obligation hereunder and of any additional charge, penalty or expense arising from or incurred as a result of such contest; and provided further, that if at any time payment of any obligation imposed upon the Mortgagor by subsection (a) hereof shall become necessary to prevent the delivery of a tax deed conveying the Mortgaged Property or the Collateral or any portion thereof because of non-payment, then Mortgagor shall pay the same in sufficient time to prevent the delivery of such tax deed.

1.6. Payment of Mortgagee's Taxes. The Mortgagor will pay all taxes (except income taxes) imposed on the Mortgagee by reason of its ownership of this Mortgage.



1.7. Insurance.

(a) The Mortgagor will cause the Mortgaged Property and the Personal Property now and hereafter located on the Mortgaged Property to be kept insured, in such amounts, with such companies, for such periods and on such other terms as the Mortgagee may reasonably require and with such coverages, endorsements, deductibles, and expiration dates as are acceptable to the Mortgagee, providing the following types of insurance covering the Mortgaged Property and Personal Property:

(1) "All Risk" property insurance (including broad form flood, broad form earthquake and comprehensive boiler and machinery coverages) on the Mortgaged Property and the Personal Property in an amount not less than one hundred percent (100%) of the full replacement cost of any Improvements and Personal Property, with deductibles not to exceed \$100,000 for any one occurrence, with a replacement cost coverage endorsement, an agreed amount endorsement, and, if requested by the Mortgagee, a contingent liability from operation of building laws endorsement, a demolition cost endorsement and an increased cost of construction endorsement in such amounts as the Mortgagee may require. Full replacement cost as used herein means the cost of replacing the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) and the Personal Property without deduction for physical depreciation thereof;

(2) During the course of any construction or repair of any Improvements, the insurance required by clause (1) above shall be written on a builder's risk, completed value, non-reporting form, meeting all of the terms required by clause (1) above, covering the total value of work performed, material, equipment, machinery and supplies furnished, existing structures, and temporary structures being erected on or near the Mortgaged Property, including coverage against collapse and damage during transit or while being stored off-site, and containing a soft costs (including loss of rents) coverage endorsement and permission to occupy endorsement;

(3) Flood insurance if at any time the Improvements are located in any federally designated "special hazard area" (including any area having special flood, mudslide and/or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map published by the Federal Emergency Management Agency as Zone A, AO, A1-30, AE, A99, AH, VO, V1-30, VE, V M or E) and the broad form flood coverage required by clause (1) above is not available, in an amount equal to the full replacement cost or the maximum amount then available under the National Flood Insurance Program;

(4) Commercial general liability insurance against claims for personal injury (to include, without limitation, bodily injury and personal and advertising injury) and property damage liability, all on an occurrence basis, if available, with such coverages as the Mortgagee may request (including, without limitation, contractual liability coverage, completed operations coverage for a period of two (2) years following completion of construction of any Improvements on the Mortgaged Property, and coverages equivalent to an ISO broad form endorsement), with a general aggregate limit of not less than \$5,000,000.00, and a combined single "per occurrence" limit of not less than \$1,000,000.00 for bodily injury, property damage and medical payments;

(5) Employer's liability insurance;

(6) Workmen's compensation insurance for all employees of the Mortgagor engaged on or with respect to the Mortgaged Property; and

(7) Such additional types and amounts of coverage in such form and in such amounts as may from time to time be requested by the Mortgagee which at the time are customarily (i) maintained by developers or owners of like properties, or (ii) required by sophisticated institutional lenders in like transactions.

(b) The insurance provided for in clause (4) above shall name the Mortgagee as an additional insured and shall contain a cross liability/severability endorsement. The insurance provided for in clauses (1), (2), and (3) above shall name the Mortgagee as mortgagee and loss payee. The Mortgagor shall deliver certificates of insurance and, if requested by the Mortgagee, duplicate originals or certified copies of all such policies to the Mortgagee together with receipts evidencing payment of all premiums for such policies, and the Mortgagor shall promptly furnish to the Mortgagee all renewal notices. All insurance policies shall provide that such insurance shall not be cancelled without at least thirty (30) days' prior written notice to the Mortgagee.

(c) The Mortgagor shall not permit any condition to exist which would wholly or partially invalidate such insurance policies and will make all payments of insurance premiums for which provision has not been made herein, and in default thereof, the Mortgagee may pay the same and the Mortgagor shall reimburse the Mortgagee therefor on demand. The Mortgagee shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any such insurance, incur any liability for the form or legal sufficiency of insurance policies, solvency of insurers, payment of losses or otherwise in connection with such insurance; and the Mortgagor hereby expressly assumes full responsibility therefor and liability, if any, thereunder.

(d) The Mortgagor shall not obtain separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 1.7, unless the Mortgagee is included thereon as a named insured with loss payable to the Mortgagee under a standard mortgagee endorsement. The Mortgagor shall immediately notify the Mortgagee whenever any such separate insurance is obtained, specifying the insurer thereunder and providing copies of the insurance policies evidencing the same.

(e) Notwithstanding the foregoing, upon thirty days prior notice to the Lender, the Mortgagor may self-insure.

#### 1.8. Casualty.

(a) In the event of any damage or destruction, with a repair or replacement cost of more than \$250,000 in the aggregate, to the Mortgaged Property or the other Collateral by reason of fire or other hazard or casualty (collectively, a "Casualty"), the Mortgagor shall give immediate written notice thereof to the Mortgagee and proceed with reasonable diligence, in full compliance with all applicable laws and regulations ("Legal Requirements"), to repair, restore, rebuild or replace the affected property (collectively, the "Repair Work"). If pursuant to paragraph (c) below, the Mortgagee applies insurance proceeds to the Obligations and does not release the same to the Mortgagor, the obligation of the Mortgagor to complete the Repair Work shall be limited to taking

all actions reasonably required to make the Mortgaged Property safe and in compliance with all Legal Requirements and to restore the undamaged portion of the Mortgaged Property to an economically functional unit to the extent that it is reasonably possible to do so.

(b) All insurance claims shall be adjusted by the Mortgagor at the Mortgagor's sole cost and expense, except that the adjustment of all insurance claims of more than \$250,000 shall be subject to the Mortgagee's prior written approval, which shall not be unreasonably withheld; provided that if any Event of Default (as defined below) exists, the Mortgagee shall have the right to adjust and compromise such claims without the approval of the Mortgagor.

(c) All proceeds of insurance shall be paid to the Mortgagor and the Mortgagee and, at the Mortgagee's option, be applied to the Obligations or released, in whole or in part, to pay for the actual cost of repair, restoration, rebuilding or replacement (collectively, the "Repair Costs"). Notwithstanding the foregoing, if the Repair Costs do not exceed \$250,000, the Mortgagee shall release so much of the insurance proceeds as may be required to pay for the Repair Costs in accordance with the provisions of paragraph (d) below.

(d) If the Mortgagee elects, or is required to, release insurance proceeds, then the Mortgagee may impose reasonable conditions on such release which shall include, but not be limited to, the following:

- (i) prior written approval by the Mortgagee, which approval shall not be unreasonably withheld or delayed, of plans, specifications, cost estimates, contracts and bonds for the restoration or repair of the loss or damage;
- (ii) waivers of lien, architect's certificates, contractor's sworn statements and other evidence of costs, payments and completion as the Mortgagee may in good faith require;
- (iii) if the Repair Costs do not exceed \$250,000, the funds to pay therefor shall be released to the Mortgagor; otherwise, funds shall be released upon final completion of the Repair Work, unless the Mortgagor requests earlier funding, in which event partial monthly disbursements equal to 90% of the value of the work completed (or, if the applicable contract is on a cost plus basis, then 90% of the costs of the work completed if such cost is less than the value thereof) shall be made prior to final completion of the repair, restoration or replacement and the balance of the disbursements shall be made upon full completion and the receipt by the Mortgagee of satisfactory evidence of payment and release of all liens;
- (iv) determination in good faith by the Mortgagee that the undisbursed balance of such proceeds on deposit with the Mortgagee, together with additional funds deposited for the purpose, shall be sufficient to pay for the remaining Repair Costs, free and clear of all liens and claims for lien;
- (v) all work shall comply with Legal Requirements and shall be of a quality that is consistent with or better than the original construction of the Mortgaged Property or the construction of the Mortgaged Property pursuant to the Construction Loan Agreement, as the case may be; and

(vi) the absence of any Event of Default.

1.9. Taking. If there is any taking for public use of the Mortgaged Property or of any tangible Collateral, then any awards in excess of \$250,000 on account thereof (a) shall be paid to the Mortgagee and shall be applied to the Obligations, and the excess, if any, shall be released to the Mortgagor, or (b) at the Mortgagee's discretion, shall be released to the Mortgagor. If the award is \$250,000 or less, such amount shall be paid to the Mortgagor. If, in the case of a partial taking or a temporary taking, in the good faith judgment of the Mortgagee the effect of such taking is such that there has not been a material and adverse impairment of the viability of the Mortgaged Property or the value of the Collateral, so long as no Event of Default exists, the Mortgagee shall release awards on account of such taking to the Mortgagor if such awards are sufficient (or amounts sufficient are otherwise made available) to repair or restore the Mortgaged Property to a condition reasonably satisfactory to the Mortgagee and such partial or temporary taking shall not be deemed to violate the provisions of Section 1.12.

1.10. Mortgagee's Right to Satisfy Mortgagor's Obligations. If the Mortgagor shall fail to perform any of the covenants contained herein the Mortgagee may perform the same on its behalf, and any sums advanced by the Mortgagee in performing any of the Mortgagor's covenants shall be secured by this Mortgage. The Mortgagor will repay on demand all sums so advanced on its behalf with interest at the Prime Rate as defined under the Note (the "Default Rate"). The exercise of any right by the Mortgagee under this Section 1.10 shall not prevent any default by the Mortgagor in the observance of any covenant contained in this Mortgage from constituting an Event of Default.

1.11. Maintenance. The Mortgagor will not abandon or leave unprotected the whole or any part of the Mortgaged Property or the Collateral and, except as provided in the Loan Documents, will not commit any waste on the Mortgaged Property or make any change in the use of the Mortgaged Property which will in any way create any unreasonable risk of fire or other hazard. The Mortgagor will, at all times, maintain the Mortgaged Property and the Personal Property in good operating order and condition, and will promptly make from time to time all repairs, renewals, replacements, additions and improvements reasonably necessary to maintain the Mortgaged Property and the Personal Property in such order and condition. Except as otherwise provided in the Loan Documents, the Mortgagor shall not demolish or substantially alter the Mortgaged Property, nor remove any of the Personal Property without the prior written consent of the Mortgagee, except where such Personal Property is replaced by appropriate substitutes, free of superior title, liens and claims, and of value at least equal to the value of the Personal Property removed. The Mortgagee or its authorized representative shall have the right to enter upon the Mortgaged Property from time to time at reasonable times to ascertain the Mortgagor's compliance with the terms of this Section 1.11 upon twenty-four (24) hours' prior notice to the Mortgagor, except in the case of an emergency.

1.12. Alienation.

(a) The Mortgagor agrees that if, except for the Permitted Transfers (as defined in subsection (c) below), the Mortgaged Property or the Collateral or any part thereof or interest therein is sold, assigned, transferred, conveyed or otherwise alienated by the Mortgagor (including,

without limitation, any leasing of the Mortgaged Property), whether voluntarily or involuntarily or by operation of law, in either or in any case without the prior written consent of the Mortgagee, which may be granted or withheld by the Mortgagee in its sole discretion, the Mortgagee, at its option, may declare the Obligations to be forthwith due and payable. Any change in the legal or equitable title to the Mortgaged Property or the Collateral or any part thereof or interest therein or in the beneficial ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein whether or not of record and whether or not for consideration, or any sale or sales or other disposition of any membership interest in the Mortgagor, shall be deemed to be the transfer of an interest in the Mortgaged Property and the Collateral.

(b) Except in the case of a Permitted Transfer, if ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein becomes vested in a person or persons other than the Mortgagor, whether with or without the prior written approval of the Mortgagee, then the Mortgagee may, without notice to the Mortgagor, waive a default if such occurs thereby and deal with such successor or successors in interest with reference to this Mortgage and the other Loan Documents in the same manner as with the Mortgagor, without in any way releasing, discharging or otherwise affecting the liability of the Mortgagor hereunder, or the Obligations. No sale of the Mortgaged Property or the Collateral or any part thereof or interest therein, no forbearance on the part of the Mortgagee, no extension of the time for the payment and performance of the Obligations, and no change in the terms thereof consented to by the Mortgagee shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of the Mortgagor herein, either in whole or in part, nor shall the full force and effect of this lien be altered thereby.

(c) "Permitted Transfers" shall mean the transfer of the Mortgaged Property, or the Collateral, or any part thereof or interest therein, or of any interests in the Mortgagor, (i) to the Borrower, or any entity owned or controlled by the Borrower or under common control with the Borrower, provided that if the whole or any part of the Mortgaged Property or Collateral is so transferred, such transferee shall execute a limited guaranty and mortgage and security agreement (or similar document) acceptable to the Mortgagee, or (ii) to any other entity, provided the Borrower provides (x) cash collateral for the Obligations or (y) other substitute collateral for the Obligations approved by the Mortgagee (which approval shall not be unreasonably withheld if the value of such substitute collateral together with the other collateral for the Loan, is (1) sufficient to satisfy an eighty percent (80%) loan-to-value ratio for the then outstanding balance of the Loan and (2) satisfies the Mortgagee's environmental and title requirements) and the owner of such substitute collateral executes a limited guaranty and a mortgage (in the case of real estate collateral) and security agreement (or other applicable security document) acceptable to the Mortgagee prior to any such transfer (together, the "Substitute Security Documents"), provided that if such substitute collateral is real estate, if the mortgage and security agreement is substantially the same as the Mortgage, except to such extent that revisions are necessary to comply with the requirements of the laws of the state in which such real estate is located, it will be acceptable to the Mortgagee.

1.13. Encumbrances. The Mortgagor will not create or suffer to be created any liens, mortgages, security interests or other encumbrances of any kind whatsoever against the Mortgaged Property or the Collateral, except for this Mortgage, and the liens and encumbrances listed in Exhibit B, without the prior written consent of the Mortgagee, which consent may be given or withheld in the sole discretion of the Mortgagee.

1.14. Mortgagor's Notice. The Mortgagor shall provide to the Mortgagee immediate notice of each and every Event of Default and each and every default which after notice or lapse of time or both would constitute an Event of Default, which has occurred and is continuing, as soon as the Mortgagor becomes aware of such Event of Default or default, and in such notice shall specify the nature and period of existence thereof and what action the Mortgagor has taken or proposes to take with respect thereto.

1.15 Certain Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee as follows:

(a) There are no actions, suits, proceedings or investigations of any kind pending or threatened against the Mortgagor before any court, tribunal or administrative agency or board that, if adversely determined, could reasonably be expected to, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of such entity or person or materially impair the right of such entity or person to carry on business substantially as now conducted by it, or result in any material liability not adequately covered by insurance, or for which adequate reserves are not maintained on the balance sheet of such entity or person, or which question the validity of any of the Loan Documents, any action taken or to be taken pursuant hereto or thereto, or any lien or security interest created or intended to be created pursuant hereto or thereto, or which will adversely affect the ability of the Mortgagor to pay and perform the Obligations in the manner contemplated by the Loan Documents.

(b) No event which after notice or lapse of time or both would constitute an Event of Default, has occurred and is continuing.

(c) The Mortgaged Property is not now damaged or injured as a result of any Casualty. Except as set forth in Exhibit B, the Mortgaged Property is not currently the subject of any taking for public use, and to the knowledge of the Mortgagor, no such taking is pending or contemplated.

1.16 Records and Accounts. The Mortgagor will (a) keep true and accurate records and books of account with respect to the Mortgaged Property in which full, true and correct entries will be made in accordance with generally accepted accounting principles and (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation and amortization, contingencies, and other reserves with respect to the Mortgaged Property. The Mortgagor shall permit the Mortgagee at the Mortgagor's expense to examine such books of account of the Mortgagor (and to make copies thereof and extracts therefrom) and to discuss the affairs, finances and accounts of the Mortgagor with, and to be advised as to the same by, its officers, all at such reasonable times and intervals as the Mortgagee may reasonably request; provided that the Mortgagor shall only be obligated to pay the expenses associated with one such investigation during any twelve (12) month period.

ARTICLE II  
EVENTS OF DEFAULT

2.1. Events of Default. The occurrence of any one or more of the following shall be deemed an "Event of Default" under this Mortgage:

(a) any failure by the Borrower to pay any principal due under the Note at maturity or upon acceleration; or

(b) any failure by the Mortgagor, the Borrower, or any of the other Guarantors to pay any other sum to be paid to the Mortgagee under this Mortgage or any other Loan Document and such failure continues for five (5) days after written notice from the Mortgagee to the Mortgagor that such amount was due in accordance with the terms of this Mortgage or any other Loan Document; or

(c) any breach by the Mortgagor, the Borrower or any of the other Guarantors, or failure of the Mortgagor, the Borrower or any of the other Guarantors to observe, any other covenant, term or condition contained in this Mortgage or in any other Loan Document, or in any certificate or side letter executed and delivered in connection with the Loan Documents, and such breach or failure continues for thirty (30) days after written notice thereof from the Mortgagee to the Mortgagor or if such breach or failure cannot through the exercise of reasonable diligence be cured within said 30-day period, such additional period of time as may reasonably be required to cure such matter, not to exceed one hundred eighty (180) days, provided the Mortgagor, the Borrower, or other Guarantor shall commence to cure such breach or failure with thirty (30) days and use diligent efforts to completed such cure (except for any breach or failure to observe any term or condition contained in Section 1.5, 1.7, 1.8 or 1.12 or any application of insurance proceeds by the Mortgagor in violation of the provisions of Section 1.8, each of which shall constitute an Event of Default without notice or any opportunity to cure); or

(d) the occurrence of any Event of Default, which phrase shall mean a default after any applicable notice and beyond any applicable cure period, under that certain \$85,000,000 Credit Agreement among Kadant Inc. and JP Morgan Chase Bank as Administrative Agent, et al., dated as of May 9, 2005, and all amendments, modifications, extensions, substitutions, or replacements thereof, including, without limitation, new loan documents entered into in connection with any re-financings of the loan described therein; or

(e) title to the Mortgaged Property or the Collateral is or becomes unsatisfactory to the Mortgagee in its reasonable sole discretion by reason of any lien, charge, encumbrance, title condition or exception not listed in Exhibit B (including without limitation, any mechanic's, materialman's or similar statutory or common law lien or notice thereof), and such matter causing title to be or become unsatisfactory is not cured or removed (including by bonding) within twenty (20) days after notice thereof from the Mortgagee to the Mortgagor; or

(f) any material representation or warranty made or deemed to be made by or on behalf of the Borrower or any of the other Guarantors in any Loan Document, or in any report, certificate, financial statement, document or other instrument delivered by or on behalf of

such party pursuant to or in connection with any Loan Document, shall prove to have been false or incorrect in any material respect upon the date when made or deemed to be made or repeated; or

(g) any dissolution, termination, partial or complete liquidation, merger or consolidation of the Borrower, the Mortgagor, or any other Guarantor, or any sale, transfer or other disposition of all or substantially all of the assets of the Borrower, the Mortgagor, or any other Guarantor, other than as permitted under the terms of this Mortgage; or

(h) any suit or proceeding shall be filed against the Borrower or any Guarantor, the Mortgaged Property or the Personal Property which, if adversely determined, would have a materially adverse affect on the ability of the Borrower or any Guarantor to perform their obligations under and by virtue of the Loan Documents and such suit or proceeding is not dismissed within thirty (30) days after notice thereof; or

(i) any of the Borrower or the other Guarantors shall file a voluntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code, or an order for relief shall be issued against any of the Borrower or the other Guarantors in any involuntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code and such order is not dismissed within ninety (90) days after the issuance thereof, or any of the Borrower or the Guarantors shall file any petition or answer seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief of debtors, or any of the Borrower or the Guarantors shall seek or consent to or acquiesce in the appointment of any custodian, trustee, receiver, conservator or liquidator of any of the Borrower or the Guarantors, or of all or any substantial part of the property of any of the Borrower or the Guarantors, or any of the Borrower or the Guarantors shall make an assignment for the benefit of creditors, or any of the Borrower or the Guarantors shall give notice to any governmental authority or body of insolvency or pending insolvency or suspension of operation; or

(j) a court of competent jurisdiction shall enter any order, judgment or decree approving a petition filed against any of the Borrower or any Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief for debtors, or appointing any custodian, trustee, receiver, conservator or liquidator of all or any substantial part of its property; or

(k) any uninsured final judgment in excess of \$250,000.00 shall be rendered against any of the Borrower or any Guarantor and shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty (60) days, whether or not consecutive, unless any of the Borrower or the Guarantors posts a bond for any such amount in excess of \$250,000.00; or

(l) any of the Loan Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior approval of the Mortgagee, or any action at law, suit in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of any of the



Borrower or the Guarantors or any of the stockholders of any of the Borrower or the Guarantors or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof.

ARTICLE III  
REMEDIES

3.1. Remedies. Upon the occurrence of an Event of Default, the Mortgagee may, at its option, and without notice to or demand upon the Mortgagor, take any one or more of the following actions:

(a) declare any or all Obligations to be due and payable immediately;

(b) enter onto the Mortgaged Property, in person or by agent or by court-appointed receiver, and take any and all steps that may be desirable in the Mortgagee's judgment to complete any unfinished construction or to manage and operate the Mortgaged Property, and the Mortgagee may apply any rents, royalties, income or profits collected against the indebtedness secured by this Mortgage without in any way curing or waiving any default of the Mortgagor;

(c) foreclose this Mortgage by any process permitted by applicable law, or bring a court action to enforce its provisions or payment of any of the indebtedness or obligations secured by this Mortgage;

(d) cause any or all of the Mortgaged Property to be sold under the power of sale granted by this Mortgage in any manner permitted by applicable law; or

(e) exercise any other right or remedy available under law or in equity.

3.2. Foreclosure Sales. For any sale under the power of sale granted by this Mortgage, the Mortgagee shall give all notices required by law, and upon the expiration of such time as is required by law, the Mortgagee may sell the Mortgaged Property upon any terms and conditions permitted by applicable law. The Mortgagee may postpone any sale by public announcement at the time and place noticed for the sale. If the Mortgaged Property consists of several lots or parcels, the Mortgagee in its discretion may sell such lots or parcels separately in any order of sale or may elect to sell all of them as an entirety, and the Mortgagor hereby waives its rights, if any, to require that said lots or parcels be sold separately. Any person, including the Mortgagee and the Mortgagor, may purchase at any such sale.

3.3. Proceeds of Sales. The proceeds of any sale under this Mortgage shall be applied in the following manner:

(a) First, to payment of the costs and expenses of the sale, including but not limited to the Mortgagee's reasonable fees, legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of the Mortgagee, together with interest at the Default Rate on all advances made by the Mortgagee;

(b) Second, to payment of all sums expended by the Mortgagee under the terms of this Mortgage and not yet repaid, together with interest on such sums at the Default Rate;

(c) Third, to payment of the Obligations, including interest on the unpaid principal and interest due under the Note from the due date thereof, in any order that the Mortgagee chooses; and

(d) Fourth, the remainder, if any, to the person or persons legally entitled thereto as directed by a court of competent jurisdiction.

3.4. Method of Sales. The Mortgagor waives all rights to direct the order in which any of the Mortgaged Property or the Collateral will be sold in the event of any sale under this Mortgage, and also any right to have any of the Mortgaged Property or the Collateral marshalled upon any sale.

3.5. Receiver. Following an Event of Default, the Mortgagee may require the appointment of a receiver for the Mortgaged Property or for the collection of rents therefrom, either pending a foreclosure sale or otherwise, irrespective of whether or not the Mortgaged Property is adequate security for the Obligations secured hereby, and the Mortgagor hereby consents to such appointment.

3.6. Cumulative Remedies. All remedies contained in this Mortgage are cumulative, and the Mortgagee shall have all other remedies provided by law or in any other agreement securing the Note. No delay or failure by the Mortgagee to exercise any right or remedy under this Mortgage will be construed to be a waiver of that right or remedy or of any default by the Mortgagor. The Mortgagee may exercise any one or more of its rights and remedies at its option without regard to the adequacy of its security.

3.7. Release of Parties or Collateral. Without affecting the liability of the Mortgagor or any other person (except any person expressly released in writing) for payment or performance of the Obligations, and without affecting the rights of the Mortgagee with respect to any security not expressly released in writing, the Mortgagee may, at any time and from time to time, either before or after the maturity of the Note, and without notice or consent:

(a) release any person liable for payment of all or any part of the Obligations;

(b) make any agreement extending the time or otherwise altering the terms of payment of all or any part of the Obligations, or modifying or waiving any Obligation hereunder, or subordinating, modifying or otherwise dealing with the lien or charge hereof;

(c) exercise or refrain from exercising or waive any right that the Mortgagee may have;

(d) accept additional security of any kind; or

(e) release or otherwise deal with any property, real or personal, securing any indebtedness, including all or any part of the Mortgaged Property or the Collateral.

3.8. Payment of Expenses. The Mortgagor shall pay all costs and expenses, including reasonable attorneys' and paralegals' fees, incurred by the Mortgagee in enforcing its rights or any appeal of its rights under the Note, under this Mortgage, or under any other instrument securing the Note, in defending or upholding the lien of this Mortgage or the rights of the Mortgagee hereunder, whether in an action, suit or otherwise, including but not limited to proceedings in bankruptcy court. Any such sums not paid by the Mortgagor to the Mortgagee upon demand shall bear interest at the Default Rate, and any such sums and the interest thereon shall be a lien on the Mortgaged Property and the Collateral prior to any right or title to, interest in or claim upon the Mortgaged Property and the Collateral attaching or accruing subsequent to the lien of this Mortgage and shall be secured by this Mortgage.

3.9. Uniform Commercial Code. With respect to the Collateral, upon and after any default or Event of Default, the Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as then in effect in the Commonwealth of Massachusetts, to the extent applicable.

ARTICLE IV  
MISCELLANEOUS

4.1 Severability. In the event any one or more of the provisions contained in this Mortgage or in the Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall, at the option of the Mortgagee, not affect any other provision of this Mortgage, but this Mortgage shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

4.2 Notices. Each notice, demand, election or request provided for or permitted to be given pursuant to this Agreement (hereinafter in this Section 4.2 referred to as "Notice") must be in writing and shall be deemed to have been properly given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, and addressed as follows:

If to the Mortgagee:

Citizens Bank of Massachusetts  
28 State Street  
Boston, Massachusetts 02109  
Attn: William E. Lingard, Senior Vice President  
Phone: (617) 994-7114  
Fax: (617) 723-9371

with a copy to:

Thomas L. Guidi, Esq.  
Hemenway & Barnes  
60 State Street  
Boston, Massachusetts 02109  
Phone: (617) 227-7940  
Fax: (617) 227-0781

If to the Mortgagor to:

Kadant Black Clawson Inc.  
7312 Central Parke Boulevard  
Mason, Ohio 04540  
Attn: President

With a copy to:

Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Attn: Dan Walsh, Treasurer  
Phone: (978) 776-2020  
Fax: (978) 635-1593

and to:

Sandra L. Lambert  
Vice President, General Counsel and Secretary  
Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Phone: (978) 776-2013  
Fax: (978) 635-1593

Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid. The time period in which a response to such Notice must be given or any action taken with respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier, or if so deposited in the United States Mail, the earlier of three (3) Business Days following such deposit or the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no Notice was given shall be deemed to be receipt of the Notice sent. By giving at least ten (10) days prior Notice thereof, the Mortgagor or the Mortgagee shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

4.3 Waiver of Notice. Whenever in this Mortgage the giving of notice is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice.

4.4 Successors. All of the grants, covenants, terms, provisions and conditions contained herein shall run with the land and shall apply to, bind and inure to the benefit of, the successors and assigns of the Mortgagor and the successors and assigns of the Mortgagee.

4.5 Statutory Provisions. All covenants and conditions contained herein shall be construed as affording to the Mortgagee rights additional to, and separate from, the rights conferred by the Mortgagor's covenants made hereby. This Mortgage is upon the STATUTORY CONDITION, and for any breach of said STATUTORY CONDITION or of any other covenants or conditions contained herein, the holder shall have all of the rights and remedies, provided herein and by law, including without limitation the STATUTORY POWER OF SALE. The Mortgagor represents that it is not a trustee and that the Mortgaged Property is not used by the Mortgagor exclusively for residential purposes.

4.6 Governing Law. This Mortgage shall be governed by the laws of the State of Alabama.

[Remainder of page left intentionally blank.]

Executed as a sealed instrument as of the date first above written.

KADANT BLACK CLAWSON INC.

By: /s/ Daniel J. Walsh  
Daniel J. Walsh  
Treasurer

COMMONWEALTH OF MASSACHUSETTS  
COUNTY OF MIDDLESEX

Before me, the undersigned notary public, on this 4th day of May, 2006, personally appeared Daniel J. Walsh, who is personally known to me or was provided to me through a current document issued by a federal or state government agency bearing a photographic image of the signatory's face and signature to be the person whose name is signed to the foregoing instrument and acknowledged to me that he signed it as his free act and deed and the free act and deed of Kadant Black Clawson Inc. as Treasurer of Kadant Black Clawson Inc., for its stated purpose.

/s/ Sandra L. Lambert

[notary seal]

MORTGAGE AND SECURITY AGREEMENT

THIS MORTGAGE AND SECURITY AGREEMENT (this "Mortgage"), dated as of the 4th day of May, 2006 is made by Kadant Johnson Inc., a Michigan corporation (the "Mortgagor"), having a place of business at 805 Wood Street, Three Rivers, Michigan 49093, in favor of CITIZENS BANK OF MASSACHUSETTS, a Massachusetts bank (the "Mortgagee"), having its principal place of business at 28 State Street, Boston, Massachusetts 02109.

RECITALS

The Mortgagor has executed and delivered to the Mortgagee that certain Limited Guaranty of even date herewith (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Guaranty") which guaranties the payment of all amounts due, up to Four Million One Hundred Thousand Dollars (\$4,100,000.00), under that certain Promissory Note of even date herewith from Kadant Inc., a Delaware corporation (the "Borrower") to the Mortgagee (together with all amendments, modifications, replacements, renewals and extensions thereof, the "Note").

This Mortgage, the Guaranty, the Note, and the other Mortgages (as defined in the Note) together with all other documents or instruments previously, now or hereafter executed by any of the Borrower or the other Guarantors (as defined in the Note) in favor of the Mortgagee in connection with the Loan (as defined below) or entered into by any of the Borrower or the other Guarantors and the Mortgagee in connection with the Loan, including without limitation, interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and all other agreements or arrangements designed to protect the Borrower against fluctuations in interest rates or currency exchange rates, including any and all extensions, renewals, amendments, modifications and supplements thereof, are collectively referred to herein as the "Loan Documents".

GRANTING CLAUSE

NOW, THEREFORE, in consideration of the Mortgagee's making the loan that is evidenced by the Note (the "Loan"), and in order to secure the payment of all amounts due and payable under the Guaranty, (the "Obligations"), the Mortgagor does hereby give, grant, bargain, sell and confirm to the Mortgagee, with MORTGAGE COVENANTS, the following property, rights and interests, TO HAVE AND TO HOLD unto the Mortgagee, its successors and assigns forever:

(1) the land in Three Rivers, St. Joseph County, Michigan, described in Exhibit A attached hereto (the "Land"), together with all buildings and improvements now or hereafter situated thereon owned by the Mortgagor (collectively "Improvements"); all easements, rights, privileges and appurtenances thereto; and all leases, rents, issues and profits therefrom (collectively, the "Mortgaged Property");

(2) all fixtures, fittings, appliances, apparatus, equipment, machinery, and all building materials, supplies and equipment owned by the Mortgagor now or hereafter delivered to the Mortgaged Property and replacements thereof owned by the Mortgagor now or at any time hereafter affixed to, attached to, placed upon, or used in any way in connection with the complete and comfortable use, enjoyment, occupancy or operation of the improvements on the Mortgaged Property as a commercial building, but excluding all trade fixtures, furniture, supplies, inventory, and equipment used by the Mortgagor in connection with its business (collectively, the "Personal Property");

(3) all contracts, agreements and warranties, including rights to return of deposits, prepaid premiums or other payments, relating to the construction, renovation, development, redevelopment, maintenance, repair, management, operation, use or occupancy of the Mortgaged Property, but not relating to the Mortgagor's business;

(4) all of the Mortgagor's right, title and interest in and to all proceeds of the conversion, voluntary or involuntary, of any of the Mortgaged Property or Personal Property into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards;

(5) all of the Mortgagor's right, title and interest in and to all licenses, and permits for the development, construction, use or occupancy of the Mortgaged Property as a commercial building, but excluding all such licenses or permits for the operation of the Mortgagor's business; and

(6) all building books and records of the Mortgagor wheresoever situated, directly or indirectly related to the Mortgaged Property whether or not kept in the normal course of Mortgagor's business, but excluding any such books and records related to the Mortgagor's business.

The Personal Property and the items described in clauses (3) through (6) above are hereinafter collectively referred to as the "Collateral."

This Mortgage shall constitute a "security agreement" within the meaning of the Uniform Commercial Code with respect to the Collateral covered hereby. The Mortgagor hereby grants the Mortgagee a security interest in all of the Collateral, and a security interest shall attach thereto and shall be vested directly in the Mortgagee to secure the Obligations.



ARTICLE I  
MORTGAGOR'S COVENANTS

The Mortgagor covenants and agrees as follows:

1.1. Title. The Mortgagor warrants (a) that it has good and marketable title in fee simple to the Mortgaged Property subject to no lien, charge or encumbrance except as listed on Exhibit B attached hereto; (b) that it owns the Personal Property free and clear of all liens and claims; (c) that this Mortgage is and will remain a valid and enforceable first lien on the Mortgaged Property and the Collateral subject only to the exceptions referred to above and such other exceptions as may be approved in writing by the Mortgagee; (d) that it has full power and lawful authority to mortgage the Mortgaged Property and grant a security interest in the Collateral in the manner and form herein done or intended hereafter to be done; and (e) that it will preserve such title, will forever warrant and defend the same to the Mortgagee and will forever warrant and, subject to the matters listed in Exhibit B, defend the validity and priority of the lien hereof against the claims of all persons and parties whomsoever.

1.2. Further Assurances. The Mortgagor will, at the sole cost of the Mortgagor, and without expense to the Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers and assurances as the Mortgagee shall from time to time require, for the better assuring, conveying, assigning, transferring and confirming unto the Mortgagee the property and rights hereby conveyed or assigned or intended now or hereafter so to be, or which the Mortgagor may be or may hereafter become bound to convey or assign to the Mortgagee, or for carrying out the intention or facilitating the performance of the terms of this Mortgage, or for filing, registering or recording this Mortgage and, on demand, will execute and deliver, and hereby authorizes the Mortgagee to execute in the name of the Mortgagor to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments, to evidence more effectively the lien hereof upon the Mortgaged Property or the Collateral.

1.3. Compliance with Laws. The Mortgagor, or any successor to the Mortgagee permitted under Section 1.12(c) below, will, so long as it is owner of the Mortgaged Property or the Collateral do all things necessary to preserve and keep in full force and effect its existence, franchises, rights and privileges as a corporation under the laws of the state of such entity's incorporation and will comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court applicable to the Mortgagor or to the Mortgaged Property or the Collateral or any part thereof.

1.4. Additions to Mortgaged Property. The Mortgagor shall not construct or erect any additional improvements, buildings or structures nor make any substantial additions to or alterations of the improvements, buildings, and structures now or hereafter located on the Mortgaged Property, nor shall the Mortgagor permit any such actions by any other person or entity without the prior written consent of the Mortgagee, which consent shall not be unreasonably withheld or delayed. All right, title and interest of the Mortgagor in and to all extensions, improvements, betterments, renewals, substitutions for and replacements of, and all additions and appurtenances to, the Mortgaged Property or the Collateral, hereafter acquired by, or released to, the Mortgagor or constructed, assembled or placed by the Mortgagor on the Mortgaged Property, and all conversions

of the security constituted thereby, immediately upon such acquisition, release, construction, assembling, placement or conversion, as the case may be, and in each such case, without any further mortgage, conveyance, assignment or other act by the Mortgagor, shall become subject to the lien of this Mortgage as fully and completely, and with the same effect, as though now owned by the Mortgagor and specifically described in the granting clause hereof, and at any and all times the Mortgagor will execute and deliver to the Mortgagee any and all such further assurances, mortgages, conveyances or assignments thereof as the Mortgagee may reasonably require for the purpose of expressly and specifically subjecting the same to the lien of this Mortgage.

1.5. Payment of Taxes and Liens.

(a) The Mortgagor, from time to time when the same shall become due, will pay and discharge, or cause to be paid and discharged, all taxes of every kind and nature (including, without limitation, real and personal property taxes and income, franchise, withholding, profits and gross receipts taxes), all general and special assessments, levies, permits, inspection and license fees, all water and sewer rents and charges, and all other public charges whether of a like or different nature, imposed upon or assessed against it or the Mortgaged Property or the Collateral or any part thereof or upon the revenues, rents, issues, income or profits of the Mortgaged Property or the Collateral or arising in respect of the occupancy, use or possession thereof. Upon demand by the Mortgagee, the Mortgagor shall deliver to the Mortgagee receipts evidencing the payment of all such taxes, assessments, levies, fees, rents and other public charges imposed upon or assessed against it or the Mortgaged Property or the Collateral or the revenues, rents, issues, income or profits thereof.

(b) The Mortgagor will pay, or cause to be paid, from time to time when the same shall become due, all lawful claims and demands of mechanics, materialmen, laborers, and others which, if unpaid, might result in, or permit the creation of, a lien on the Mortgaged Property or the Collateral or any part thereof, or on the revenues, rents, issues, income or profits arising therefrom and in general will do or cause to be done everything necessary so that the lien hereof shall be fully preserved, at the sole cost of the Mortgagor, without expense to the Mortgagee.

(c) Nothing in this Section 1.5 shall require the payment or discharge of any obligation imposed upon the Mortgagor by this Section so long as the Mortgagor shall in good faith and at its own expense contest the same or the validity thereof by appropriate legal proceedings which shall operate to prevent the collection thereof or other realization thereon and the sale or forfeiture of the Mortgaged Property or the Collateral or any part thereof to satisfy the same; provided that during such contest the Mortgagor shall, at the option of the Mortgagee, provide security satisfactory to the Mortgagee, assuring the discharge of the Mortgagor's obligation hereunder and of any additional charge, penalty or expense arising from or incurred as a result of such contest; and provided further, that if at any time payment of any obligation imposed upon the Mortgagor by subsection (a) hereof shall become necessary to prevent the delivery of a tax deed conveying the Mortgaged Property or the Collateral or any portion thereof because of non-payment, then Mortgagor shall pay the same in sufficient time to prevent the delivery of such tax deed.

1.6. Payment of Mortgagee's Taxes. The Mortgagor will pay all taxes (except income taxes) imposed on the Mortgagee by reason of its ownership of this Mortgage.

1.7. Insurance.

(a) The Mortgagor will cause the Mortgaged Property and the Personal Property now and hereafter located on the Mortgaged Property to be kept insured, in such amounts, with such companies, for such periods and on such other terms as the Mortgagee may reasonably require and with such coverages, endorsements, deductibles, and expiration dates as are acceptable to the Mortgagee, providing the following types of insurance covering the Mortgaged Property and Personal Property:

(1) "All Risk" property insurance (including broad form flood, broad form earthquake and comprehensive boiler and machinery coverages) on the Mortgaged Property and the Personal Property in an amount not less than one hundred percent (100%) of the full replacement cost of any Improvements and Personal Property, with deductibles not to exceed \$100,000 for any one occurrence, with a replacement cost coverage endorsement, an agreed amount endorsement, and, if requested by the Mortgagee, a contingent liability from operation of building laws endorsement, a demolition cost endorsement and an increased cost of construction endorsement in such amounts as the Mortgagee may require. Full replacement cost as used herein means the cost of replacing the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) and the Personal Property without deduction for physical depreciation thereof;

(2) During the course of any construction or repair of any Improvements, the insurance required by clause (1) above shall be written on a builder's risk, completed value, non-reporting form, meeting all of the terms required by clause (1) above, covering the total value of work performed, material, equipment, machinery and supplies furnished, existing structures, and temporary structures being erected on or near the Mortgaged Property, including coverage against collapse and damage during transit or while being stored off-site, and containing a soft costs (including loss of rents) coverage endorsement and permission to occupy endorsement;

(3) Flood insurance if at any time the Improvements are located in any federally designated "special hazard area" (including any area having special flood, mudslide and/or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map published by the Federal Emergency Management Agency as Zone A, AO, A1-30, AE, A99, AH, VO, V1-30, VE, V M or E) and the broad form flood coverage required by clause (1) above is not available, in an amount equal to the full replacement cost or the maximum amount then available under the National Flood Insurance Program;

(4) Commercial general liability insurance against claims for personal injury (to include, without limitation, bodily injury and personal and advertising injury) and property damage liability, all on an occurrence basis, if available, with such coverages as the Mortgagee may request (including, without limitation, contractual liability coverage, completed operations coverage for a period of two (2) years following completion of construction of any Improvements on the Mortgaged Property, and coverages equivalent to an ISO broad form endorsement), with a general aggregate limit of not less than \$5,000,000.00, and a combined single "per occurrence" limit of not less than \$1,000,000.00 for bodily injury, property damage and medical payments;

(5) Employer's liability insurance;

(6) Workmen's compensation insurance for all employees of the Mortgagor engaged on or with respect to the Mortgaged Property; and

(7) Such additional types and amounts of coverage in such form and in such amounts as may from time to time be requested by the Mortgagee which at the time are customarily (i) maintained by developers or owners of like properties, or (ii) required by sophisticated institutional lenders in like transactions.

(b) The insurance provided for in clause (4) above shall name the Mortgagee as an additional insured and shall contain a cross liability/severability endorsement. The insurance provided for in clauses (1), (2), and (3) above shall name the Mortgagee as mortgagee and loss payee. The Mortgagor shall deliver certificates of insurance and, if requested by the Mortgagee, duplicate originals or certified copies of all such policies to the Mortgagee together with receipts evidencing payment of all premiums for such policies, and the Mortgagor shall promptly furnish to the Mortgagee all renewal notices. All insurance policies shall provide that such insurance shall not be cancelled without at least thirty (30) days' prior written notice to the Mortgagee.

(c) The Mortgagor shall not permit any condition to exist which would wholly or partially invalidate such insurance policies and will make all payments of insurance premiums for which provision has not been made herein, and in default thereof, the Mortgagee may pay the same and the Mortgagor shall reimburse the Mortgagee therefor on demand. The Mortgagee shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any such insurance, incur any liability for the form or legal sufficiency of insurance policies, solvency of insurers, payment of losses or otherwise in connection with such insurance; and the Mortgagor hereby expressly assumes full responsibility therefor and liability, if any, thereunder.

(d) The Mortgagor shall not obtain separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 1.7, unless the Mortgagee is included thereon as a named insured with loss payable to the Mortgagee under a standard mortgagee endorsement. The Mortgagor shall immediately notify the Mortgagee whenever any such separate insurance is obtained, specifying the insurer thereunder and providing copies of the insurance policies evidencing the same.

(e) Notwithstanding the foregoing, upon thirty days prior notice to the Lender, the Mortgagor may self-insure.

#### 1.8. Casualty.

(a) In the event of any damage or destruction, with a repair or replacement cost of more than \$250,000 in the aggregate, to the Mortgaged Property or the other Collateral by reason of fire or other hazard or casualty (collectively, a "Casualty"), the Mortgagor shall give immediate written notice thereof to the Mortgagee and proceed with reasonable diligence, in full compliance with all applicable laws and regulations ("Legal Requirements"), to repair, restore, rebuild or replace the affected property (collectively, the "Repair Work"). If pursuant to paragraph (c) below, the Mortgagee applies insurance proceeds to the Obligations and does not release the same to the Mortgagor, the obligation of the Mortgagor to complete the Repair Work shall be limited to taking

all actions reasonably required to make the Mortgaged Property safe and in compliance with all Legal Requirements and to restore the undamaged portion of the Mortgaged Property to an economically functional unit to the extent that it is reasonably possible to do so.

(b) All insurance claims shall be adjusted by the Mortgagor at the Mortgagor's sole cost and expense, except that the adjustment of all insurance claims of more than \$250,000 shall be subject to the Mortgagee's prior written approval, which shall not be unreasonably withheld; provided that if any Event of Default (as defined below) exists, the Mortgagee shall have the right to adjust and compromise such claims without the approval of the Mortgagor.

(c) All proceeds of insurance shall be paid to the Mortgagor and the Mortgagee and, at the Mortgagee's option, be applied to the Obligations or released, in whole or in part, to pay for the actual cost of repair, restoration, rebuilding or replacement (collectively, the "Repair Costs"). Notwithstanding the foregoing, if the Repair Costs do not exceed \$250,000, the Mortgagee shall release so much of the insurance proceeds as may be required to pay for the Repair Costs in accordance with the provisions of paragraph (d) below.

(d) If the Mortgagee elects, or is required to, release insurance proceeds, then the Mortgagee may impose reasonable conditions on such release which shall include, but not be limited to, the following:

- (i) prior written approval by the Mortgagee, which approval shall not be unreasonably withheld or delayed, of plans, specifications, cost estimates, contracts and bonds for the restoration or repair of the loss or damage;
- (ii) waivers of lien, architect's certificates, contractor's sworn statements and other evidence of costs, payments and completion as the Mortgagee may in good faith require;
- (iii) if the Repair Costs do not exceed \$250,000, the funds to pay therefor shall be released to the Mortgagor; otherwise, funds shall be released upon final completion of the Repair Work, unless the Mortgagor requests earlier funding, in which event partial monthly disbursements equal to 90% of the value of the work completed (or, if the applicable contract is on a cost plus basis, then 90% of the costs of the work completed if such cost is less than the value thereof) shall be made prior to final completion of the repair, restoration or replacement and the balance of the disbursements shall be made upon full completion and the receipt by the Mortgagee of satisfactory evidence of payment and release of all liens;
- (iv) determination in good faith by the Mortgagee that the undisbursed balance of such proceeds on deposit with the Mortgagee, together with additional funds deposited for the purpose, shall be sufficient to pay for the remaining Repair Costs, free and clear of all liens and claims for lien;
- (v) all work shall comply with Legal Requirements and shall be of a quality that is consistent with or better than the original construction of the Mortgaged Property or the construction of the Mortgaged Property pursuant to the Construction Loan Agreement, as the case may be; and

(vi) the absence of any Event of Default.

1.9. Taking. If there is any taking for public use of the Mortgaged Property or of any tangible Collateral, then any awards in excess of \$250,000 on account thereof (a) shall be paid to the Mortgagee and shall be applied to the Obligations, and the excess, if any, shall be released to the Mortgagor, or (b) at the Mortgagee's discretion, shall be released to the Mortgagor. If the award is \$250,000 or less, such amount shall be paid to the Mortgagor. If, in the case of a partial taking or a temporary taking, in the good faith judgment of the Mortgagee the effect of such taking is such that there has not been a material and adverse impairment of the viability of the Mortgaged Property or the value of the Collateral, so long as no Event of Default exists, the Mortgagee shall release awards on account of such taking to the Mortgagor if such awards are sufficient (or amounts sufficient are otherwise made available) to repair or restore the Mortgaged Property to a condition reasonably satisfactory to the Mortgagee and such partial or temporary taking shall not be deemed to violate the provisions of Section 1.12.

1.10. Mortgagee's Right to Satisfy Mortgagor's Obligations. If the Mortgagor shall fail to perform any of the covenants contained herein the Mortgagee may perform the same on its behalf, and any sums advanced by the Mortgagee in performing any of the Mortgagor's covenants shall be secured by this Mortgage. The Mortgagor will repay on demand all sums so advanced on its behalf with interest at the Prime Rate as defined under the Note (the "Default Rate"). The exercise of any right by the Mortgagee under this Section 1.10 shall not prevent any default by the Mortgagor in the observance of any covenant contained in this Mortgage from constituting an Event of Default.

1.11. Maintenance. The Mortgagor will not abandon or leave unprotected the whole or any part of the Mortgaged Property or the Collateral and, except as provided in the Loan Documents, will not commit any waste on the Mortgaged Property or make any change in the use of the Mortgaged Property which will in any way create any unreasonable risk of fire or other hazard. The Mortgagor will, at all times, maintain the Mortgaged Property and the Personal Property in good operating order and condition, and will promptly make from time to time all repairs, renewals, replacements, additions and improvements reasonably necessary to maintain the Mortgaged Property and the Personal Property in such order and condition. Except as otherwise provided in the Loan Documents, the Mortgagor shall not demolish or substantially alter the Mortgaged Property, nor remove any of the Personal Property without the prior written consent of the Mortgagee, except where such Personal Property is replaced by appropriate substitutes, free of superior title, liens and claims, and of value at least equal to the value of the Personal Property removed. The Mortgagee or its authorized representative shall have the right to enter upon the Mortgaged Property from time to time at reasonable times to ascertain the Mortgagor's compliance with the terms of this Section 1.11 upon twenty-four (24) hours' prior notice to the Mortgagor, except in the case of an emergency.

1.12. Alienation.

(a) The Mortgagor agrees that if, except for the Permitted Transfers (as defined in subsection (c) below), the Mortgaged Property or the Collateral or any part thereof or interest therein is sold, assigned, transferred, conveyed or otherwise alienated by the Mortgagor (including,

without limitation, any leasing of the Mortgaged Property), whether voluntarily or involuntarily or by operation of law, in either or in any case without the prior written consent of the Mortgagee, which may be granted or withheld by the Mortgagee in its sole discretion, the Mortgagee, at its option, may declare the Obligations to be forthwith due and payable. Any change in the legal or equitable title to the Mortgaged Property or the Collateral or any part thereof or interest therein or in the beneficial ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein whether or not of record and whether or not for consideration, or any sale or sales or other disposition of any membership interest in the Mortgagor, shall be deemed to be the transfer of an interest in the Mortgaged Property and the Collateral.

(b) Except in the case of a Permitted Transfer, if ownership of the Mortgaged Property or the Collateral or any part thereof or interest therein becomes vested in a person or persons other than the Mortgagor, whether with or without the prior written approval of the Mortgagee, then the Mortgagee may, without notice to the Mortgagor, waive a default if such occurs thereby and deal with such successor or successors in interest with reference to this Mortgage and the other Loan Documents in the same manner as with the Mortgagor, without in any way releasing, discharging or otherwise affecting the liability of the Mortgagor hereunder, or the Obligations. No sale of the Mortgaged Property or the Collateral or any part thereof or interest therein, no forbearance on the part of the Mortgagee, no extension of the time for the payment and performance of the Obligations, and no change in the terms thereof consented to by the Mortgagee shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of the Mortgagor herein, either in whole or in part, nor shall the full force and effect of this lien be altered thereby.

(c) "Permitted Transfers" shall mean the transfer of the Mortgaged Property, or the Collateral, or any part thereof or interest therein, or of any interests in the Mortgagor, (i) to the Borrower, or any entity owned or controlled by the Borrower or under common control with the Borrower, provided that if the whole or any part of the Mortgaged Property or Collateral is so transferred, such transferee shall execute a limited guaranty and mortgage and security agreement (or similar document) acceptable to the Mortgagee, or (ii) to any other entity, provided the Borrower provides (x) cash collateral for the Obligations or (y) other substitute collateral for the Obligations approved by the Mortgagee (which approval shall not be unreasonably withheld if the value of such substitute collateral together with the other collateral for the Loan, is (1) sufficient to satisfy an eighty percent (80%) loan-to-value ratio for the then outstanding balance of the Loan and (2) satisfies the Mortgagee's environmental and title requirements) and the owner of such substitute collateral executes a limited guaranty and a mortgage (in the case of real estate collateral) and security agreement (or other applicable security document) acceptable to the Mortgagee prior to any such transfer (together, the "Substitute Security Documents"), provided that if such substitute collateral is real estate, if the mortgage and security agreement is substantially the same as the Mortgage, except to such extent that revisions are necessary to comply with the requirements of the laws of the state in which such real estate is located, it will be acceptable to the Mortgagee.

1.13. Encumbrances. The Mortgagor will not create or suffer to be created any liens, mortgages, security interests or other encumbrances of any kind whatsoever against the Mortgaged Property or the Collateral, except for this Mortgage, and the liens and encumbrances listed in Exhibit B, without the prior written consent of the Mortgagee, which consent may be given or withheld in the sole discretion of the Mortgagee.

1.14. Mortgagor's Notice. The Mortgagor shall provide to the Mortgagee immediate notice of each and every Event of Default and each and every default which after notice or lapse of time or both would constitute an Event of Default, which has occurred and is continuing, as soon as the Mortgagor becomes aware of such Event of Default or default, and in such notice shall specify the nature and period of existence thereof and what action the Mortgagor has taken or proposes to take with respect thereto.

1.15 Certain Representations and Warranties. The Mortgagor represents and warrants to the Mortgagee as follows:

(a) There are no actions, suits, proceedings or investigations of any kind pending or threatened against the Mortgagor before any court, tribunal or administrative agency or board that, if adversely determined, could reasonably be expected to, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of such entity or person or materially impair the right of such entity or person to carry on business substantially as now conducted by it, or result in any material liability not adequately covered by insurance, or for which adequate reserves are not maintained on the balance sheet of such entity or person, or which question the validity of any of the Loan Documents, any action taken or to be taken pursuant hereto or thereto, or any lien or security interest created or intended to be created pursuant hereto or thereto, or which will adversely affect the ability of the Mortgagor to pay and perform the Obligations in the manner contemplated by the Loan Documents.

(b) No event which after notice or lapse of time or both would constitute an Event of Default, has occurred and is continuing.

(c) The Mortgaged Property is not now damaged or injured as a result of any Casualty. Except as set forth in Exhibit B, the Mortgaged Property is not currently the subject of any taking for public use, and to the knowledge of the Mortgagor, no such taking is pending or contemplated.

1.16 Records and Accounts. The Mortgagor will (a) keep true and accurate records and books of account with respect to the Mortgaged Property in which full, true and correct entries will be made in accordance with generally accepted accounting principles and (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation and amortization, contingencies, and other reserves with respect to the Mortgaged Property. The Mortgagor shall permit the Mortgagee at the Mortgagor's expense to examine such books of account of the Mortgagor (and to make copies thereof and extracts therefrom) and to discuss the affairs, finances and accounts of the Mortgagor with, and to be advised as to the same by, its officers, all at such reasonable times and intervals as the Mortgagee may reasonably request; provided that the Mortgagor shall only be obligated to pay the expenses associated with one such investigation during any twelve (12) month period.



ARTICLE II  
EVENTS OF DEFAULT

2.1. Events of Default. The occurrence of any one or more of the following shall be deemed an "Event of Default" under this Mortgage:

(a) any failure by the Borrower to pay any principal due under the Note at maturity or upon acceleration; or

(b) any failure by the Mortgagor, the Borrower, or any of the other Guarantors to pay any other sum to be paid to the Mortgagee under this Mortgage or any other Loan Document and such failure continues for five (5) days after written notice from the Mortgagee to the Mortgagor that such amount was due in accordance with the terms of this Mortgage or any other Loan Document; or

(c) any breach by the Mortgagor, the Borrower or any of the other Guarantors, or failure of the Mortgagor, the Borrower or any of the other Guarantors to observe, any other covenant, term or condition contained in this Mortgage or in any other Loan Document, or in any certificate or side letter executed and delivered in connection with the Loan Documents, and such breach or failure continues for thirty (30) days after written notice thereof from the Mortgagee to the Mortgagor or if such breach or failure cannot through the exercise of reasonable diligence be cured within said 30-day period, such additional period of time as may reasonably be required to cure such matter, not to exceed one hundred eighty (180) days, provided the Mortgagor, the Borrower, or other Guarantor shall commence to cure such breach or failure with thirty (30) days and use diligent efforts to completed such cure (except for any breach or failure to observe any term or condition contained in Section 1.5, 1.7, 1.8 or 1.12 or any application of insurance proceeds by the Mortgagor in violation of the provisions of Section 1.8, each of which shall constitute an Event of Default without notice or any opportunity to cure); or

(d) the occurrence of any Event of Default, which phrase shall mean a default after any applicable notice and beyond any applicable cure period, under that certain \$85,000,000 Credit Agreement among Kadant Inc. and JP Morgan Chase Bank as Administrative Agent, et al., dated as of May 9, 2005, and all amendments, modifications, extensions, substitutions, or replacements thereof, including, without limitation, new loan documents entered into in connection with any re-financings of the loan described therein; or

(e) title to the Mortgaged Property or the Collateral is or becomes unsatisfactory to the Mortgagee in its reasonable sole discretion by reason of any lien, charge, encumbrance, title condition or exception not listed in Exhibit B (including without limitation, any mechanic's, materialman's or similar statutory or common law lien or notice thereof), and such matter causing title to be or become unsatisfactory is not cured or removed (including by bonding) within twenty (20) days after notice thereof from the Mortgagee to the Mortgagor; or

(f) any material representation or warranty made or deemed to be made by or on behalf of the Borrower or any of the other Guarantors in any Loan Document, or in any report, certificate, financial statement, document or other instrument delivered by or on behalf of

such party pursuant to or in connection with any Loan Document, shall prove to have been false or incorrect in any material respect upon the date when made or deemed to be made or repeated; or

(g) any dissolution, termination, partial or complete liquidation, merger or consolidation of the Borrower, the Mortgagor, or any other Guarantor, or any sale, transfer or other disposition of all or substantially all of the assets of the Borrower, the Mortgagor, or any other Guarantor, other than as permitted under the terms of this Mortgage; or

(h) any suit or proceeding shall be filed against the Borrower or any Guarantor, the Mortgaged Property or the Personal Property which, if adversely determined, would have a materially adverse affect on the ability of the Borrower or any Guarantor to perform their obligations under and by virtue of the Loan Documents and such suit or proceeding is not dismissed within thirty (30) days after notice thereof; or

(i) any of the Borrower or the other Guarantors shall file a voluntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code, or an order for relief shall be issued against any of the Borrower or the other Guarantors in any involuntary petition in bankruptcy under Chapter 11 of the United States Bankruptcy Code and such order is not dismissed within ninety (90) days after the issuance thereof, or any of the Borrower or the Guarantors shall file any petition or answer seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief of debtors, or any of the Borrower or the Guarantors shall seek or consent to or acquiesce in the appointment of any custodian, trustee, receiver, conservator or liquidator of any of the Borrower or the Guarantors, or of all or any substantial part of the property of any of the Borrower or the Guarantors, or any of the Borrower or the Guarantors shall make an assignment for the benefit of creditors, or any of the Borrower or the Guarantors shall give notice to any governmental authority or body of insolvency or pending insolvency or suspension of operation; or

(j) a court of competent jurisdiction shall enter any order, judgment or decree approving a petition filed against any of the Borrower or any Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief for debtors, or appointing any custodian, trustee, receiver, conservator or liquidator of all or any substantial part of its property; or

(k) any uninsured final judgment in excess of \$250,000.00 shall be rendered against any of the Borrower or any Guarantor and shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty (60) days, whether or not consecutive, unless any of the Borrower or the Guarantors posts a bond for any such amount in excess of \$250,000.00; or

(l) any of the Loan Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior approval of the Mortgagee, or any action at law, suit in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of any of the

Borrower or the Guarantors or any of the stockholders of any of the Borrower or the Guarantors or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof.

ARTICLE III  
REMEDIES

3.1. Remedies. Upon the occurrence of an Event of Default, the Mortgagee may, at its option, and without notice to or demand upon the Mortgagor, take any one or more of the following actions:

(a) declare any or all Obligations to be due and payable immediately;

(b) enter onto the Mortgaged Property, in person or by agent or by court-appointed receiver, and take any and all steps that may be desirable in the Mortgagee's judgment to complete any unfinished construction or to manage and operate the Mortgaged Property, and the Mortgagee may apply any rents, royalties, income or profits collected against the indebtedness secured by this Mortgage without in any way curing or waiving any default of the Mortgagor;

(c) foreclose this Mortgage by any process permitted by applicable law, or bring a court action to enforce its provisions or payment of any of the indebtedness or obligations secured by this Mortgage;

(d) cause any or all of the Mortgaged Property to be sold under the power of sale granted by this Mortgage in any manner permitted by applicable law; or

(e) exercise any other right or remedy available under law or in equity.

3.2. Foreclosure Sales. For any sale under the power of sale granted by this Mortgage, the Mortgagee shall give all notices required by law, and upon the expiration of such time as is required by law, the Mortgagee may sell the Mortgaged Property upon any terms and conditions permitted by applicable law. The Mortgagee may postpone any sale by public announcement at the time and place noticed for the sale. If the Mortgaged Property consists of several lots or parcels, the Mortgagee in its discretion may sell such lots or parcels separately in any order of sale or may elect to sell all of them as an entirety, and the Mortgagor hereby waives its rights, if any, to require that said lots or parcels be sold separately. Any person, including the Mortgagee and the Mortgagor, may purchase at any such sale.

3.3. Proceeds of Sales. The proceeds of any sale under this Mortgage shall be applied in the following manner:

(a) First, to payment of the costs and expenses of the sale, including but not limited to the Mortgagee's reasonable fees, legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of the Mortgagee, together with interest at the Default Rate on all advances made by the Mortgagee;

(b) Second, to payment of all sums expended by the Mortgagee under the terms of this Mortgage and not yet repaid, together with interest on such sums at the Default Rate;

(c) Third, to payment of the Obligations, including interest on the unpaid principal and interest due under the Note from the due date thereof, in any order that the Mortgagee chooses; and

(d) Fourth, the remainder, if any, to the person or persons legally entitled thereto as directed by a court of competent jurisdiction.

3.4. Method of Sales. The Mortgagor waives all rights to direct the order in which any of the Mortgaged Property or the Collateral will be sold in the event of any sale under this Mortgage, and also any right to have any of the Mortgaged Property or the Collateral marshalled upon any sale.

3.5. Receiver. Following an Event of Default, the Mortgagee may require the appointment of a receiver for the Mortgaged Property or for the collection of rents therefrom, either pending a foreclosure sale or otherwise, irrespective of whether or not the Mortgaged Property is adequate security for the Obligations secured hereby, and the Mortgagor hereby consents to such appointment.

3.6. Cumulative Remedies. All remedies contained in this Mortgage are cumulative, and the Mortgagee shall have all other remedies provided by law or in any other agreement securing the Note. No delay or failure by the Mortgagee to exercise any right or remedy under this Mortgage will be construed to be a waiver of that right or remedy or of any default by the Mortgagor. The Mortgagee may exercise any one or more of its rights and remedies at its option without regard to the adequacy of its security.

3.7. Release of Parties or Collateral. Without affecting the liability of the Mortgagor or any other person (except any person expressly released in writing) for payment or performance of the Obligations, and without affecting the rights of the Mortgagee with respect to any security not expressly released in writing, the Mortgagee may, at any time and from time to time, either before or after the maturity of the Note, and without notice or consent:

(a) release any person liable for payment of all or any part of the Obligations;

(b) make any agreement extending the time or otherwise altering the terms of payment of all or any part of the Obligations, or modifying or waiving any Obligation hereunder, or subordinating, modifying or otherwise dealing with the lien or charge hereof;

(c) exercise or refrain from exercising or waive any right that the Mortgagee may have;

(d) accept additional security of any kind; or

(e) release or otherwise deal with any property, real or personal, securing any indebtedness, including all or any part of the Mortgaged Property or the Collateral.

3.8. Payment of Expenses. The Mortgagor shall pay all costs and expenses, including reasonable attorneys' and paralegals' fees, incurred by the Mortgagee in enforcing its rights or any appeal of its rights under the Note, under this Mortgage, or under any other instrument securing the Note, in defending or upholding the lien of this Mortgage or the rights of the Mortgagee hereunder, whether in an action, suit or otherwise, including but not limited to proceedings in bankruptcy court. Any such sums not paid by the Mortgagor to the Mortgagee upon demand shall bear interest at the Default Rate, and any such sums and the interest thereon shall be a lien on the Mortgaged Property and the Collateral prior to any right or title to, interest in or claim upon the Mortgaged Property and the Collateral attaching or accruing subsequent to the lien of this Mortgage and shall be secured by this Mortgage.

3.9. Uniform Commercial Code. With respect to the Collateral, upon and after any default or Event of Default, the Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as then in effect in the Commonwealth of Massachusetts, to the extent applicable.

ARTICLE IV  
MISCELLANEOUS

4.1 Severability. In the event any one or more of the provisions contained in this Mortgage or in the Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall, at the option of the Mortgagee, not affect any other provision of this Mortgage, but this Mortgage shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

4.2 Notices. Each notice, demand, election or request provided for or permitted to be given pursuant to this Agreement (hereinafter in this Section 4.2 referred to as "Notice") must be in writing and shall be deemed to have been properly given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, and addressed as follows:

If to the Mortgagee:

Citizens Bank of Massachusetts  
28 State Street  
Boston, Massachusetts 02109  
Attn: William E. Lingard, Senior Vice President  
Phone: (617) 994-7114  
Fax: (617) 723-9371

with a copy to:

Thomas L. Guidi, Esq.  
Hemenway & Barnes  
60 State Street  
Boston, Massachusetts 02109  
Phone: (617) 227-7940  
Fax: (617) 227-0781

If to the Mortgagor to:

Kadant Johnson Inc.  
805 Wood Street  
Three Rivers, Michigan 49093  
Attn: President

With a copy to:

Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Attn: Dan Walsh, Treasurer  
Phone: (978) 776-2020  
Fax: (978) 635-1593

and to:

Sandra L. Lambert  
Vice President, General Counsel and Secretary  
Kadant Inc.  
One Acton Place, Suite 202  
Acton, Massachusetts 01720  
Phone: (978) 776-2013  
Fax: (978) 635-1593

Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid. The time period in which a response to such Notice must be given or any action taken with respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier, or if so deposited in the United States Mail, the earlier of three (3) Business Days following such deposit or the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no Notice was given shall be deemed to be receipt of the Notice sent. By giving at least ten (10) days prior Notice thereof, the Mortgagor or the Mortgagee shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

4.3 Waiver of Notice. Whenever in this Mortgage the giving of notice is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice.

4.4 Successors. All of the grants, covenants, terms, provisions and conditions contained herein shall run with the land and shall apply to, bind and inure to the benefit of, the successors and assigns of the Mortgagor and the successors and assigns of the Mortgagee.

4.5 Statutory Provisions. All covenants and conditions contained herein shall be construed as affording to the Mortgagee rights additional to, and separate from, the rights conferred by the Mortgagor's covenants made hereby. This Mortgage is upon the STATUTORY CONDITION, and for any breach of said STATUTORY CONDITION or of any other covenants or conditions contained herein, the holder shall have all of the rights and remedies, provided herein and by law, including without limitation the STATUTORY POWER OF SALE. The Mortgagor represents that it is not a trustee and that the Mortgaged Property is not used by the Mortgagor exclusively for residential purposes.

4.6 Governing Law. This Mortgage shall be governed by the laws of the State of Michigan.

[Remainder of page left intentionally blank.]

Executed as a sealed instrument as of the date first above written.

KADANT JOHNSON INC.

By: /s/ Daniel J. Walsh  
Daniel J. Walsh  
Treasurer  
[in black ink only]

COMMONWEALTH OF MASSACHUSETTS  
COUNTY OF MIDDLESEX

Before me, the undersigned notary public, on this 4th day of May, 2006, personally appeared Daniel L. Walsh, who is personally known to me or was provided to me through a current document issued by a federal or state government agency bearing a photographic image of the signatory's face and signature to be the person whose name is signed to the foregoing instrument and acknowledged to me that he signed it as his free act and deed and the free act and deed of Kadant Johnson Inc. as Treasurer of Kadant Johnson Inc., for its stated purpose.

/s/ Sandra L. Lambert  
[notary seal]

Notary Public acting in Middlesex County,  
Massachusetts  
[in black ink only]

Drafted by:  
Teresa A. Belmonte, Esquire  
Hemenway & Barnes  
60 State Street  
Boston, MA 02109



Date: 09 May 2006

Kadant Inc.  
1 Acton Place, Suite 202  
Acton, Massachusetts 01720

Dear Sirs:

**Our Reference: CBD13698**  
**Re: USD Amortizing Interest Rate Swap**

The purpose of this document is to set forth the terms and conditions of the transaction entered into between Citizens Bank of Massachusetts (“CBMA”) and yourselves (“Counterparty”) on the trade date specified below (the “Transaction”). This document will constitute a “Confirmation” as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2000 ISDA Definitions,(the “Definitions”), as published by the International Swaps and Derivatives Association, Inc.(“ISDA”)are incorporated into this Confirmation.

In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

This Confirmation evidences a complete and binding agreement between Counterparty and CBMA as to the terms of the Transaction to which this Confirmation relates. This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement dated as of May 13, 2005 between Counterparty and CBMA, as the same may be amended and supplemented from time to time (the “Agreement”). All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. In the event of any inconsistency between this Confirmation and the Agreement, this Confirmation will govern for the purpose of this transaction.

The terms of the particular transaction to which this confirmation relates are as follows:

Notional Amount	See Schedule A
Trade Date	03 May 2006
Effective Date	05 May 2006
Termination Date	04 May 2016, subject to adjustment in accordance with the Modified Following Business Day Convention.
<u>Fixed Amounts</u>	
Fixed Rate Payer	Counterparty
Fixed Rate Payer Payment Dates	The last day of each March, June, September and December from and including 30 June 2006 to and including 31 March 2016, and the Termination Date subject to adjustment in accordance with the Modified Following Business Day Convention.

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Fixed Rate	5.63 pct
Fixed Rate Day Count Fraction	Actual/360
<u>Floating Amounts</u>	
Floating Rate Payer	CBMA
Floating Rate Payer Payment Dates	The last day of each March, June, September and December from and including 30 June 2006 to and including 31 March 2016, and the Termination Date subject to adjustment in accordance with the Modified Following Business Day Convention.
Floating Rate for initial Calculation Period	5.09104 pct (exclusive of Spread where applicable)
Floating Rate Option	USD-LIBOR-BBA
Designated Maturity	3 Months, with the exception of the final Calculation Period which will be a Linear Interpolation
Spread	None
Floating Rate Day Count Fraction	Actual/360
Reset Dates	The first day of each Calculation Period.
Business Days	New York and London
Calculation Agent	CBMA
Payments to Counterparty:	
Account Number:	To be advised
Account Name:	To be advised
Bank:	To be advised

So long as no Event of Default or Termination Event shall have occurred and then be continuing with respect to Counterparty, the parties hereto agree that Counterparty may terminate this Transaction by at least [5] Business days prior notice to CBMA of its intention to do so, whereupon (a) the obligations of the parties to make any further payments under Section 2(a)(i) of the Agreement in respect of such Transaction shall terminate, (b) the Calculation Agent shall determine a Settlement Amount in accordance with the provisions of the Agreement and provide a statement with respect thereto, and (c) a termination payment shall be made on the Early Termination Date as if such Transaction were a Terminated Transaction and Counterparty was the Affected Party.

Counterparty and CBMA represent that each party is acting for its own account and, that each party has made its own independent decisions to enter into this Transaction and as to whether this transaction is appropriate or proper for it based on its own judgement and upon advice from such advisors as it has deemed necessary. Neither party is relying upon any communication (written or oral) from the other party as investment advice or as a recommendation to enter into this Transaction. Information and explanations related to the terms and conditions of this Transaction shall not be considered investment advice or a recommendation to enter into this Transaction. No assurances or guarantees (written or oral) as to the expected results of this Transaction have been received by either party. Each party is capable of evaluating and understanding the terms, risks and conditions of this Transaction. Each party is capable of assuming, and assumes, the financial and other risks of this Transaction.

Counterparty understands that the Transaction entered into under this agreement does not constitute a deposit and is not insured by the Federal Deposit Insurance Corporation, Federal Reserve Board, Office of the Comptroller of the Currency or any state or federal banking agency.

**For the purposes of this Transaction, the Schedule to the Agreement is hereby amended as follows:**

- (i) Part 5(c) to the Schedule is deleted in its entirety and replaced by the below:

(c) **Additional Event of Default.** It shall constitute an Event of Default under this Agreement if there should occur and be continuing, unwaived and uncured, an Event of Default under the Credit Agreement. As used herein, "Credit Agreement" shall mean (i) the Credit Agreement, dated as of May 9, 2005, by and among Party B as Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, and the several lenders from time to time party thereto, as such agreement may be amended, restated, modified, or extended from time to time hereafter (the "JPM Credit Agreement"), (ii) the Promissory Note dated May 4, 2006 between Party A and Party B as such agreement may be amended, restated, modified, or extended from time to time hereafter (the "Citizens' Loan") and (iii) any credit agreement that in whole or substantial part replaces the JPM Credit Agreement or the Citizens' Loan, as such replacement agreement shall be amended, restated, modified or replaced from time to time or (iv) any obligation of Party B to repay borrowed money to Party A (or its successors and assigns).

- (ii) Part 1(h) to the Schedule is deleted in its entirety and replaced by the below:

(h) "**Additional Termination Event**" will apply. The following shall constitute an Additional Termination Event with respect to Party B:

The expiration or termination for any reason (including as a result of a pre-payment by Party B) of all of the JPM Credit Agreement, the Citizens' Loan, and (if applicable) any other Credit Agreement, as defined herein, or prior to the satisfaction of all obligations of Party B under this Transaction, there is no Credit Agreement, as defined herein, in full force and effect.

For the purpose of the foregoing Additional Termination Event, Party B shall be deemed to be the Affected Party.

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All inquiries regarding payments and/or rate re-settings should be sent to:

CBMA:  
Citizens Bank of Massachusetts  
One Citizens Plaza  
Providence, RI 02903  
Attn: Treasury  
James Hill Phone: 401-282-1809  
Fax: 401-282-7718

Counterparty:  
Kadant Inc.  
1 Acton Place, Suite 202  
Acton, Massachusetts 01720

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation enclosed for that purpose and returning it to us via mail at the address listed above.

For and on behalf of Citizens Bank of Massachusetts

By: /s/ Kristen Silva

Name: Kristen Silva  
Title: Authorized Signatory

Kadant Inc.

By: /s/ Daniel J. Walsh

Name: Daniel J. Walsh  
Title: Treasurer