UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(mark one)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 28, 2002

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-11406

KADANT INC.
(Exact name of Registrant as specified in its charter)

Delaware	52-1762325
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Acton Place, Suite 202 Acton, Massachusetts	01720
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for at least the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the Registrant as of June 28, 2002, was approximately $222,491,000.

As of January 31, 2003, the Registrant had 13,550,285 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended December 28, 2002, are incorporated by reference into Parts I and II of Form 10-K, and portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 15, 2003, are incorporated by reference into Part III of Form 10-K. Copies of these documents can be obtained at no cost by calling the Company at (978) 776-2000.

PART I

Item 1. Business

(a) General Development of Business

Kadant Inc. (also referred to in this document as "we," "us," "our," "Registrant," or "Company") operates in two segments: the Pulp and Papermaking Equipment and Systems segment and the Composite and Fiber-based Products segment.

Through our Pulp and Papermaking Equipment and Systems segment, we develop, manufacture, and market a range of equipment and products for the domestic and international papermaking and paper recycling industries. Our principal products include:

- Stock-preparation systems and equipment: custom-engineered systems and equipment for de-inking, screening, cleaning, and refining waste fiber to prepare it for entry into the paper machine during production of recycled paper;

- Papermaking machine accessory equipment: doctoring systems and related consumables that clean papermaking rolls to keep paper machines running efficiently, and profiling systems that control moisture, web curl, and gloss during paper production; and

- Water-management systems: equipment that is essential for the continuous cleaning of paper machine fabrics and the draining, purifying, and recycling of process water for paper sheet and web formation.

Our Company is well established and has a long history in the papermaking equipment industry. Certain of our subsidiaries, or their predecessor companies, have been in operation for nearly 100 years or more. We have a large, stable customer base that includes most of the world's major paper manufacturers and our products and systems can be found in most of the world's pulp and paper mills. We also have one of the largest installed bases of equipment in the pulp and paper industry, which provides us with a high-margin spare parts and consumables business that we believe is less susceptible than our capital equipment business to the cyclical trends of the paper industry. We currently manufacture our products for the pulp and paper industry in six countries in Europe and North America, and license certain of our products for manufacture in South America and the Pacific Rim.

Through our Composite and Fiber-based Products segment, we develop, manufacture, and market composite building materials produced from recycled fiber, plastic, and other materials, and manufacture and sell granules derived from pulp fiber that are used primarily as agricultural carriers and for home lawn and garden applications. Our principal products include:

- Composite building products: decking and railing systems and roof tiles that we develop and produce from a combination of recycled fiber, plastic, and other materials, and market primarily to the building industry; and

- Fiber-based granular products: biodegradable, absorbing granules that we produce from papermaking byproducts for use primarily as agricultural carriers and for home lawn and garden applications.

We were incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron Corporation as the successor-in-interest to several of its subsidiaries. In November 1992, we conducted an initial public offering of our common stock and became a majority-owned public subsidiary of Thermo Electron. On August 8, 2001, Thermo Electron spun off its equity interest in us as a dividend to its shareholders and ceased to hold any shares of our common stock. Thermo Electron received a favorable private letter ruling from the Internal Revenue Service that the distribution would generally qualify as a tax-free distribution. The favorable tax treatment was subject to our compliance with various facts and representations, including a representation that we would conduct a public offering of 10 to 20 percent of our outstanding common stock within one year of the distribution. In June 2002, we sold 1.3 million shares, or approximately 10 percent, of our common stock in a public offering at $14.62 per share, for net proceeds of $17.7 million. The offering supported our business plan, which includes repayment of debt, acquisitions, creation of strategic partnerships, and investments in our core papermaking equipment and composite building products businesses.

From January through September 2002, we repurchased $32.0 million principal amount of our 4 1/2 % subordinated convertible debentures, due July 15, 2004, for $31.3 million in cash, plus accrued interest, resulting in an extraordinary gain of $0.3 million, net of deferred debt charges, and net of income tax provision of $0.2 million. In December 2002, we redeemed the remaining $86.2 million outstanding principal amount of the debentures for 100% par value, plus accrued interest, resulting in an extraordinary loss of $0.3 million from the writeoff of the remaining deferred debt, net of income tax benefit of $0.2 million.

During 2002, in accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," we recorded an after-tax goodwill impairment charge accounted for as a cumulative effect of change in accounting principle of $32.8 million, consisting of $29.9 million at the Papermaking Equipment segment and $2.9 million at the Composite and Fiber-based Products segment (see Notes 1 and 17 to Consolidated Financial Statements in our 2002* Annual Report to Shareholders).

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents that we incorporate by reference in this Annual Report on Form 10-K include statements that are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, based on information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "likely," "will," or similar expressions, we are making forward-looking statements. Forward-looking statements include the information concerning possible or assumed future results of our operations set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2002 Annual Report to Shareholders.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Our future results of operations may differ materially from those expressed in the forward-looking statements. Many of the important factors that will determine these results and values are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. For a discussion of important factors that may cause our actual results to differ materially from those suggested by the forward-looking statements, you should read carefully the section of our 2002 Annual Report to Shareholders captioned "Risk Factors," which is incorporated in this document by reference.

(b) Financial Information About Segments

Financial information concerning our segments is summarized in Note 14 to Consolidated Financial Statements in our 2002 Annual Report to Shareholders, and is incorporated in this document by reference.

(c) Description of Business

(i) Principal Products and Services

We operate in two segments: (1) Pulp and Papermaking Equipment and Systems and (2) Composite and Fiber-based Products. We aggregate into segments our businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

- ----------

* References to 2002, 2001, and 2000 in this document are for the fiscal years ended December 28, 2002, December 29, 2001, and December 30, 2000, respectively.

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

Our pulp and papermaking equipment and systems business consists of the following product lines: stock-preparation systems and equipment, papermaking machine accessory equipment, and water-management systems.

Stock-Preparation Systems and Equipment

We develop, manufacture, and sell complete custom-engineered systems, as well as standard individual components, for the preparation of recycled and virgin fibers for entry into the paper machine during production of recycled paper. We offer many products relating to all aspects of the stock-preparation process. Our principal stock-preparation products include:

Screening Systems. We offer a full range of screening systems, including coarse screens that remove metals and sand from the pulp mixture, and fine screens that remove microscopic particles such as glue and plastic. In late 2000, we introduced a patented screening technology that, in certain applications, can produce up to 40% cleaner pulp without decreasing capacity. As a result, we believe our screening systems are the most technologically advanced currently on the market. We also offer screen baskets, which are essentially the consumable portion of the screen.

De-Inking Systems. We offer de-inking systems that remove ink by injecting small air bubbles into the bottom of the pulp mixture. The ink in the pulp mixture bonds to the air bubbles and rises to the surface where the inky film is removed. We believe that our de-inking systems remove ink more effectively with less fiber loss than those systems offered by our competitors.

Pulpers. We offer both high- and low-consistency pulpers that blend wastepaper with water and chemicals to form pulp mixtures without contaminant breakdown, thus allowing easier contaminant removal in later stages of the papermaking process. Our high-consistency pulpers generate pulp mixtures comprised of approximately 85% water and 15% fiber, and our low-consistency pulpers generate pulp mixtures comprised of approximately 94% water and 6% fiber.

Cleaning Systems. We offer both forward and reverse cleaners. Forward cleaners remove heavy contaminants such as metal and sand from the pulp mixture, and reverse cleaners remove light contaminants such as glue and plastic.

Washing Systems. We offer counter-current washing systems that remove ink and ash from the pulp mixture by injecting water counter-current to the flow and drawing contaminants out with the water.

Trash Removal Systems. We offer trash removal systems that remove large debris and impurities by screening them from the pulp mixture.

Thickeners. We offer four principal types of thickeners that remove water from the pulp mixture, thereby increasing the consistency of the mixture. Thicker pulp mixtures are necessary to break up ink particles in the dispersers.

Dispersers. We offer mechanical dispersers that break down ink particles that were not removed in the de-inking system into microscopic particles, or combine them to form sizes that can be removed in subsequent processing.

In addition, we develop, manufacture, and sell products for the virgin pulping process, including:

Washers. We also offer horizontal counter-current belt washers that are used to remove lignin and process chemicals.

Evaporators, Recausticizing, and Condensate Treatment Systems. We offer evaporators, recausticizing, and condensate treatment systems that are used to concentrate and recycle process chemicals and to remove condensate gases.

Bleaching Systems. We offer oxygen-bleaching systems that increase the brightness of the pulp without using chlorine bleach or moving parts.

Revenues from our stock-preparation systems and equipment product line were $82.0 million, $111.1 million, and $113.0 million in 2002, 2001, and 2000, respectively.

Papermaking Machine Accessory Equipment

We develop, manufacture, and sell a wide range of accessories that continuously clean the rolls of a papermaking machine, remove the paper from the machine rolls during sheet breaks, automatically cut the paper sheets and webs at sheet breaks, and eliminate curl from the paper sheets and webs. These functions are critical for paper manufacturers because they reduce machine breakdowns and downtime, extend the life of consumable fabrics, and improve paper quality. Our principal accessories include:

Doctor Systems. A doctor system cleans a paper machine roll by placing a blade at an angle against the tangent of the roll. The system is typically comprised of a doctor (a structure supporting the blade and holder), a blade holder, and a doctor blade. A large paper machine may have as many as 100 doctor systems.

Doctor Holders. A doctor holder is the part of a doctor system that holds the doctor blade to ensure constant and uniform pressure against the tangent of the roll. It is critical that the entire length of the roll is doctored consistently, and the holder is designed to ensure that the force of the blade is evenly applied.

Doctor Blades. We offer doctor blades made of metal, bi-metal, or synthetic materials, customized to individual applications. Our blades typically perform one of four functions on a paper machine: cleaning, creping, web removal, or the application of coatings. We offer doctor blades that keep the rolls of a papermaking machine clean by removing stock accumulations, water rings, fuzz, pitch, and filler buildup. We also offer doctor blades that are specially designed to remove the paper sheet or web from the roll during sheet breaks and startups. In addition, we offer creping doctor blades, which are instrumental in the production of tissue and toweling, and coater blades, which evenly apply coatings that add gloss to the paper sheet. A typical doctor blade has a life ranging from eight hours to two months, depending on the application.

Revenues from our papermaking machine accessory equipment product line were $58.8 million, $63.4 million, and $70.3 million in 2002, 2001, and 2000, respectively.

Water-Management Systems

We develop, manufacture, and sell water-management systems used to clean papermaking machine fabrics, drain water from pulp mixtures, form the sheet or web, and filter the process water for reuse. Our principal water-management systems include:

Shower and Fabric-Conditioning Systems. Paper machine fabrics convey the paper web through the forming, pressing, and drying sections of the paper machine. The average paper machine has between 3 and 12 fabrics. These fabrics can easily become contaminated with fiber, fillers, pitch, and dirt that can have a detrimental effect on paper machine performance and paper quality. Our shower and fabric-conditioning systems assist in the removal of these contaminants. We design and build shower systems that clean the fabrics with oscillating showers using both high-pressure and low-pressure water together with chemical additives. We design our showers to clean the fabrics using a minimum amount of water, thereby reducing fresh water usage. There are generally between 10 and 30 showers used on a paper machine. We also design and manufacture vacuum-augmented dewatering boxes for removing shower water and contaminants from paper machine fabrics.

Formation Systems. On many paper machines, the sheet of paper is formed on a fourdrinier-type former. We supply all the structures located in the fourdrinier section under the forming fabric that remove water from the pulp mixture. These structures consist of the forming board, gravity foils, low- and high-vacuum structures, and vacuum control systems. Our patented VID formation system creates improved sheet or web formation by allowing the papermaker to increase speed, reduce fiber cost, improve formation and sheet properties, and reduce chemical usage.

Water-Filtration Systems. The paper industry is one of the largest industrial users of fresh water. We offer water-filtration systems consisting of single in-line pressure filters, multiple-barrel pressure filters, whitewater gravity strainers, vacuum-augmented fiber recovery strainers, and side-hill screens that remove contaminants from the process water before reuse and recover reusable fiber for recycling back into the pulp mixture. Our filtration systems also allow our customers to reuse their process water within the paper mill, thereby reducing freshwater usage. Our fine-filtration system can remove particles as small as 1 to 20 microns in size.

Revenues from our water-management systems product line were $28.9 million, $37.8 million, and $42.4 million in 2002, 2001, and 2000, respectively.

COMPOSITE AND FIBER-BASED PRODUCTS

Our Composite and Fiber-based Products segment consists of two product lines: composite building products and fiber-based granular products.

Composite Building Products

We develop, manufacture, and market composite building products made from recycled fiber, plastic, and other materials. As an alternative to traditional products such as pressure-treated lumber, and cedar, slate, and clay roof tiles, composite building products have numerous applications, such as decking and roofing.

We currently offer the following composite building products:

Decking and Railing Systems. Our decking products are marketed under the name GeoDeck(TM). Our decking system includes deck boards as well as railings. These materials, which are available in several different fade-resistant colors, feature a brushed appearance that we believe offers a more attractive alternative to the homeowner than other composite decking products.

Roof Tiles. Our composite roof tiles are made to resemble traditional slate and clay tiles. Traditional clay and slate tiles are heavy, brittle, and susceptible to breakage, as well as expensive and difficult to install. Our composite tile products are also lighter and less susceptible to breakage than traditional clay and slate tiles, which we believe provides significant savings in labor and other costs. Our composite roof tile products have a Class A fire-resistance rating when used in conjunction with certain underlayments.

Our composite building products are sold to distributors who have numerous distribution centers throughout the U.S.

Revenues from our composite building products business were $8.6 million, $1.9 million, and $0.2 million in 2002, 2001, and 2000, respectively.

Fiber-Based Granular Products

We also produce biodegradable absorbing granules from papermaking byproducts. These granules are used primarily as carriers that deliver agricultural chemicals for professional turf, home lawn and garden, agricultural row-crop, and mosquito-control applications. In addition, our granules are used in our composite building products.

Revenues from our fiber-based granular products business were $6.0 million, $5.8 million, and $6.6 million in 2002, 2001, and 2000, respectively.

(ii) and (xi) New Products; Research and Development

We seek to develop a broad range of equipment for all facets of the markets we serve. Over the next several years, we expect to focus our research and development efforts on the development of fiber-based composite building products and the technological advancement of our stock-preparation, accessory, and water-management equipment.

Our research and development expenses were $4.8 million, $6.6 million, and $7.7 million in 2002, 2001, and 2000, respectively.

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

An important element of our growth strategy for this segment is the development or licensing of new complementary products. We have state-of-the-art research facilities and collaborative relationships with several of our pulp and paper industry customers.

For recycling equipment, we maintain a stock-preparation pilot laboratory adjacent to our manufacturing facility in France, which contains all the equipment necessary to replicate a commercial stock-preparation system. In this laboratory, a customer's wastepaper can be tested to determine the exact system configuration that would be recommended for its future facility. In 2002, we closed a similar, redundant pilot laboratory in Middletown, Ohio. The testing laboratory is also used to evaluate prototype equipment, enabling research teams to quickly and thoroughly evaluate new designs. In addition, we work closely with our customers in the development of products, typically field-testing new products on our customers' papermaking machines using pilot systems. For our other product lines, we have a facility that houses an operation for continued development of accessory equipment, while another is devoted to the development of new water-management systems.

COMPOSITE AND FIBER-BASED PRODUCTS

We are developing fiber-based composite products for the building industry, primarily for decking and roofing applications. We have a research and development facility in Bedford, Massachusetts, that is focused on developing new composite formulations and enhancing the composition, color, and other attributes of our composite building products.

We continue research and development efforts to develop high-value products using materials recovered from the papermaking process, including a low-bulk density product for home lawn and garden applications. We operate a manufacturing plant in Green Bay, Wisconsin, which processes papermaking byproducts provided by a nearby paper recycling mill into cellulose-based granules.

(iii) Raw Materials

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

Raw materials, components, and supplies for all of our significant products are available either from a number of different suppliers or from alternative sources that could be developed without a material adverse effect on our business.

COMPOSITE AND FIBER-BASED PRODUCTS

Raw materials, components, and supplies for our composite building products are available either from a number of different suppliers or from alternative sources that could be developed without a material adverse effect on our business. The raw material used in the manufacture of our fiber-based granules is obtained from a single paper recycling mill. The mill has the exclusive right to supply papermaking byproducts to our existing granulation plant in Green Bay, Wisconsin, under a contract that expires in December 2003, subject to successive mutual two-year extensions. Although we believe that our relationship with the mill is good, the mill may not agree to renew the contract upon its expiration. To date, we have experienced no difficulties in obtaining these materials.

(iv) Patents, Licenses, and Trademarks

We protect our intellectual property rights by applying for and obtaining patents when appropriate. We also rely on technical know-how, trade secrets, and trademarks to maintain our competitive position.

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

We have numerous U.S. and foreign patents, including foreign counterparts to our U.S. patents, expiring on various dates ranging from 2003 to 2018. Third parties have certain rights governing two of our patents that we jointly developed. We currently hold an exclusive long-term, worldwide license for a patent on technology that another third party developed. We have joint ownership with that third party of a second patent on technology that was jointly developed.

We maintain a worldwide network of licensees and cross-licensees of products with other companies serving the pulp, papermaking, converting, and paper recycling industries. We hold an exclusive worldwide license for certain de-inking cells under an agreement that extends until 2007. We also have license arrangements with several companies with regard to accessory equipment.

COMPOSITE AND FIBER-BASED PRODUCTS

We have filed several U.S. patent applications for various products and processes relating to papermaking byproducts and composite building products, and expect to file additional patent applications in the future.

We currently hold several U.S. patents, expiring at various dates ranging from 2004 to 2016, relating to various aspects of the processing of fiber-based granular materials and the use of these materials in the agricultural, professional turf, home lawn and garden, general absorption, oil and grease absorption, and catbox filler markets. Our patent relating to the use of fiber-based granules in the agricultural, professional turf, and home lawn and garden markets expires in 2004. We also have foreign counterparts to these U.S. patents in Canada and in various European countries, and have additional patents pending in Canada and certain European countries. In addition, we have granted third-party nonexclusive licenses under two of our patents to sell fiber-based granules produced at an existing site for sale in the oil and grease absorption and catbox filler markets.

(v) Seasonal Influences

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

There are no material seasonal influences on this segment's sales of products and services.

COMPOSITE AND FIBER-BASED PRODUCTS

Our composite building products are used or installed in outdoor construction applications. This business experiences seasonal fluctuations in sales, particularly in the fourth and first quarters, when holidays and adverse weather conditions in some regions usually reduce the level of home improvement and new construction activity. Operating results will tend to be lower in quarters with lower sales, which are not entirely offset by a corresponding reduction in operating costs. In addition, we may also experience lower gross profit margins in the fourth and first quarters due to seasonal incentive discounts offered to our distributors.

Our fiber-based granular product business also experiences fluctuations in sales, particularly in the third quarter, when sales decline due to the seasonality of the agricultural and home lawn and garden markets.

(vi) Working Capital Requirements

There are no special inventory requirements or credit terms extended to customers that would have a material adverse effect on our working capital.

(vii) Dependency on a Single Customer

A large portion of revenues from our Composite and Fiber-based Products segment depends on a few customers. The loss of revenues from any of these customers could have a material adverse effect on this segment. No single customer accounted for more than 10% of the Company's consolidated revenues in any of the past three years.

(viii) Backlog

Our backlog of firm orders for the Pulp and Papermaking Equipment and Systems segment was $28.4 million and $30.9 million at year-end 2002 and 2001, respectively. The backlog of firm orders for the Composite and Fiber-based Products segment was $4.5 million and $0.3 million at year-end 2002 and 2001, respectively. We anticipate that substantially all of the backlog at December 28, 2002, will be shipped or completed during the next 12 months. Certain of these orders may be canceled by the customer upon payment of a cancellation fee.

(ix) Government Contracts

Not applicable.

(x) Competition

We face significant competition in each of our principal markets. We compete primarily on the basis of quality, price, service, technical expertise, and product innovation. We believe the reputation that we and our predecessor companies have established for quality products and in-depth process knowledge provides us with a competitive advantage. In addition, a significant portion of our business is generated from our existing worldwide customer base. To maintain this base, we have emphasized technology, service, and a problem-solving relationship with our customers.

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

We are a leading supplier of stock-preparation equipment used for the preparation of recycled and virgin fibers in the production of recycled paper. Several major competitors supply various pieces of equipment for this process. Our principal competitors in this market are Voith Paper GmbH, Groupe Laperriere & Verrault Inc., Metso Corporation, and Maschinenfabrik Andritz AG. We compete in this market primarily on the basis of technical expertise, product innovation, and price. Other competitors specialize in segments within the white- and brown-paper markets.

We are a leading supplier of specialty accessory equipment for papermaking machines. Our principal competitors in this market on a worldwide basis are ESSCO, Inc. and Metso Corporation. Because of the high capital costs of papermaking machines and the role of our accessories in maintaining the efficiency of these machines, we generally compete in this market on the basis of service, technical expertise, performance, and price.

Various competitors exist in the formation, shower and fabric-conditioning systems, and filtration systems markets. Asten/Johnson Foils is a major supplier of formation tables, while a variety of smaller companies compete within the shower and fabric-conditioning systems and filtration systems markets. In each of these markets, we generally compete on the basis of process knowledge, application experience, product quality, service, and price.

COMPOSITE AND FIBER-BASED PRODUCTS

Our principal competitors for composite building products are producers of traditional products such as pressure-treated lumber, and clay, slate, and cedar shake roof tiles. Many of the suppliers of traditional products have well-established ties in the building and construction industry. In addition, several suppliers have entered the composite building products market, and competition has become intense. The leading providers of composite decking products include Trex Company, Inc.; Louisiana-Pacific Corporation; Fiber Composites LLC; and Advanced Environmental Recycling Technologies Inc. The leading composite roof tile supplier is Royal Group Technologies Limited. We compete in this market on the basis of product performance, brand awareness, and price.

We believe that we are currently the only producer of fiber-based agricultural carriers. In this market, our principal competitors in the U.S. are producers of clay-based agricultural carriers for row crops and professional turf protection, and producers of corncob-based granules traditionally used in the home lawn and garden and professional turf markets. Our patent relating to fiber-based granular products expires in 2004. After that date, we expect to be subject to additional competition in this market. The principal competitive advantages our agricultural carrier products offer are that they are virtually dust-free and more uniform in absorption and particle-size distribution than clay- and corncob-based carriers. In addition, our granules are chemically neutral, requiring little or no chemical deactivation. We compete in this market on the basis of product quality and price.

(xii) Environmental Protection Regulations

We believe that our compliance with federal, state, and local environmental protection regulations will not have a material adverse effect on our capital expenditures, earnings, or competitive position.

(xiii) Number of Employees

As of December 28, 2002, we employed approximately 1,060 people. Approximately 22 employees at our facility in Pointe Claire, Quebec, Canada, are represented by a labor union under a collective bargaining agreement expiring August 31, 2003. Approximately 27 employees at our facility in Guadalajara, Mexico, are represented by a labor union under an annual collective bargaining agreement. In addition, certain employees of our subsidiaries in France and England are represented by trade unions. We consider our relations with employees and unions to be good.

(d) Financial Information About Geographic Areas

Financial information about exports by domestic operations and about foreign operations is summarized in Note 14 to Consolidated Financial Statements in our 2002 Annual Report to Shareholders, and is incorporated in this document by reference.

(e) Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a Web site that contains reports, proxy and information statements, and other information regarding issuers, including Kadant, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov. We maintain a Web site with the address www.kadant.com. We are not including the information contained in our Web site as part of, or incorporating it by reference into, this Annual Report on Form 10-K. We also make available free of charge through our Web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and amendments to these reports filed with or furnished pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the SEC.

(f) Executive Officers of the Registrant

Name	Age	Present Title (Fiscal Year First Became Executive Officer)
William A. Rainville	61	Chairman of the Board, President, and Chief Executive Officer (1991)
Thomas M. O'Brien	51	Executive Vice President, Chief Financial Officer, and Treasurer (1994)
Jonathan W. Painter	44	Executive Vice President (1997)
Edward J. Sindoni	58	Senior Vice President (1994)
Edwin D. Healy	65	Vice President (2002)
Sandra L. Lambert	48	Vice President, General Counsel, and Secretary (2001)
Michael J. McKenney	41	Vice President, Finance (Chief Accounting Officer) (2002)

Mr. Rainville has been our president and chief executive officer since our incorporation in 1991, a member of our board of directors since 1992, and chairman of our board since 2001. Prior to our spinoff in 2001, Mr. Rainville also held various managerial positions with Thermo Electron, most recently serving as chief operating officer, recycling and resource recovery, a position he held since 1998, and for more than five years prior to that, as a senior vice president. Prior to joining Thermo Electron, Mr. Rainville held positions at Drott Manufacturing, Paper Industry Engineering, and Sterling Pulp and Paper.

Mr. O'Brien has been an executive vice president since 1998 and our chief financial officer and treasurer since 2001. He also served as vice president, finance, from 1991 to 1998. Prior to joining us, Mr. O'Brien held various finance positions at Racal Interlan, Inc.; Prime Computer; Compugraphic Corporation; and the General Electric Company.

Mr. Painter has been an executive vice president since 1997 and the president of our composite building products business since 2001. He served as our treasurer and treasurer of Thermo Electron from 1994 until 1997. Prior to 1994, Mr. Painter also held various managerial positions at Kadant and Thermo Electron.

Mr. Sindoni has been a senior vice president since 2001 and, prior to that, served as a vice president since 1992. Prior to joining us in 1987, he had a 21-year career with the General Electric Company.

Mr. Healy has been a vice president since October 2002 and the president of our Kadant Black Clawson Inc. subsidiary since 2000. He held various managerial positions at Kadant Black Clawson since its acquisition in 1997 and before that, served as the president of our Fiberprep Inc. subsidiary from 1988 to 1997. Prior to joining us, Mr. Healy had a 29-year career with Bird, Escher, Wyss and its predecessor, Bird Machinery.

Ms. Lambert has been a vice president and general counsel since 2001, and our secretary since our incorporation in 1991. Prior to joining us, she was a vice president and the secretary of Thermo Electron from 1999 and 1990, respectively, and before that was a member of Thermo Electron's legal department.

Mr. McKenney has been our vice president, finance, and chief accounting officer since January 2002, and had been corporate controller since 1997. Mr. McKenney was controller of Kadant AES, our division acquired from Albany International Inc., from 1993 to 1997. Prior to 1993, Mr. McKenney held various financial positions at Albany International.

Item 2. Properties

We believe that our facilities are in good condition and are suitable and adequate for our present operations and that, with respect to leases expiring in the near future, suitable space is readily available if any leases are not extended. The location and general character of our principal properties by segment as of December 28, 2002, are as follows:

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS

We own approximately 1,056,000 square feet and lease approximately 100,000 square feet, under leases expiring at various dates ranging from 2003 to 2008, of manufacturing, engineering, and office space. Our principal engineering and manufacturing space is located in Vitry-le-Francois, France; Auburn, Massachusetts; Rayville, Louisiana; Queensbury, New York; Mason, Ohio; Guadalajara, Mexico; Pointe Claire, Quebec, Canada; Bury, England; and Hindas, Sweden. We are currently planning to establish an assembly facility in China to support our stock-preparation equipment business.

COMPOSITE AND FIBER-BASED PRODUCTS

We own approximately 26,000 square feet and lease approximately 146,000 square feet, under leases expiring at various dates ranging from 2003 to 2006, of manufacturing, engineering, and office space located principally in Green Bay, Wisconsin; and Bedford, Massachusetts. The Green Bay facility's operating lease may be extended through 2014, at our option. We are currently exploring our options regarding significant capacity expansion at the existing facility in Green Bay, or at a new location.

Item 3. Legal Proceedings

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information concerning the market and market price for our common stock, $.01 par value per share, and our dividend policy is included under the headings "Common Stock Market Information" and "Dividend Policy" in our 2002 Annual Report to Shareholders, and is incorporated in this document by reference.

Item 6. Selected Financial Data

This information is included under the heading "Selected Financial Information" in our 2002 Annual Report to Shareholders, and is incorporated in this document by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This information is included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2002 Annual Report to Shareholders, and is incorporated in this document by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

These disclosures are included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2002 Annual Report to Shareholders, and are incorporated in this document by reference.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements as of December 28, 2002, and Supplementary Data, are included in our 2002 Annual Report to Shareholders and are incorporated in this document by reference. See Item 15 "Exhibits, Financial Statement Schedules, and Reports on Form 8-K."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

In June 2002, we changed our independent accountants as reported in our Current Report on Form 8-K dated June 19, 2002.

Our consolidated financial statements for each of the two fiscal years ended December 29, 2001, and December 30, 2000, were audited by Arthur Andersen LLP, independent accountants. On August 31, 2002, Arthur Andersen ceased practicing before the SEC. Therefore, Arthur Andersen did not participate in the preparation of this Form 10-K, did not reissue its audit report with respect to the financial statements included in this Form 10-K, and did not consent to the inclusion of its audit report in this Form 10-K. As a result, holders of our securities may have no effective remedy against Arthur Andersen in connection with any material misstatement or omission in the financial statements to which its audit report relates. In addition, even if such holders were able to assert such a claim, because it has ceased operations, Arthur Andersen may fail or otherwise have insufficient assets to satisfy claims made by holders of our securities that might arise under federal securities laws or otherwise with respect to Arthur Andersen's audit report.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information concerning directors is included under the heading "Election of Directors" in our definitive proxy statement to be filed with the SEC, not later than 120 days after the close of the fiscal year. This information is incorporated in this document by reference. The information concerning executive officers is included under the heading "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

We are also required under Item 405 of Regulation S-K to provide information concerning delinquent filers of reports under Section 16 of the Securities and Exchange Act of 1934, as amended. This information is included under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement to be filed with the SEC, not later than 120 days after the close of the fiscal year. This information is incorporated in this document by reference.

Item 11. Executive Compensation

This information is included under the heading "Executive Compensation" in our definitive proxy statement to be filed with the SEC, not later than 120 days after the close of the fiscal year. This information is incorporated in this document by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information concerning security ownership is included under the heading "Stock Ownership" in our definitive proxy statement to be filed with the SEC, not later than 120 days after the close of the fiscal year. This information is incorporated in this document by reference.

The following table provides information about the securities authorized for issuance under our equity compensation plans as of December 28, 2002:

Equity Compensation Plan Information

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	2,133,252(1)	$ 17.14(1)	507,010(2)
Equity compensation plans not approved by security holders	603,167	$ 13.16	5,500
Total	2,736,419(1)	$ 16.26(1)	512,510(2)

(1) Excludes an aggregate of 334,062 shares of common stock issuable under our employees stock purchase plan in connection with current and future offering periods under the plan. Excludes 6,557 shares reserved for issuance pursuant to our deferred compensation plan for directors.

(2) Includes 334,062 shares of common stock issuable under our employees stock purchase plan in connection with current and future offering periods under the plan, including 20,006 shares issued on December 31, 2002 upon the completion of the 2002 offering period.

Item 13. Certain Relationships and Related Transactions

This information is included under the heading "Certain Relationships and Related Transactions" in our definitive proxy statement to be filed with the SEC, not later than 120 days after the close of the fiscal year. This information is incorporated in this document by reference.

Item 14. Controls and Procedures

Our management, including our chief executive officer (CEO) and chief financial officer (CFO), performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures within 90 days prior to the filing of this report pursuant to Exchange Act Rule 13a-14. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are operating in an effective manner. There have been no significant changes in our internal controls or in other factors that could significantly affect these internal controls subsequent to the date of the most recent evaluation by our CEO and CFO.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a,d) Financial Statements and Schedules

(1) The consolidated financial statements set forth in the list below are filed as part of this Report.

Information incorporated by reference from Exhibit 13 filed herewith:

Consolidated Statement of Operations
Consolidated Balance Sheet
Consolidated Statement of Cash Flows
Consolidated Statement of Comprehensive Income (Loss) and Shareholders' Investment
Notes to Consolidated Financial Statements
Report of Independent Auditor
Report of Independent Public Accountants

(2) The consolidated financial statement schedule set forth in the list below is filed as part of this Report.

Financial Statement Schedule filed herewith:

Schedule II: Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the financial statements or in the notes thereto.

(3) Exhibits filed herewith or incorporated in this document by reference are set forth in Item 15(c) below.

(b) Reports on Form 8-K

None.

(c) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 24, 2003

KADANT INC.

By: /s/ William A. Rainville
William A. Rainville
President, Chief Executive Officer, and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, as of March 24, 2003.

Signature	Title
By: /s/ William A. Rainville William A. Rainville	President, Chief Executive Officer, and Chairman of the Board
By: /s/ Thomas M. O'Brien Thomas M. O'Brien	Executive Vice President, Chief Financial Officer, and Treasurer
By: /s/ Michael J. McKenney Michael J. McKenney	Vice President, Finance (Chief Accounting Officer)
By: /s/ John M. Albertine John M. Albertine	Director
By /s/ John K. Allen John K. Allen	Director
By: /s/ Francis L. McKone Francis L. McKone	Director

CERTIFICATIONS

I, William A. Rainville, certify that:

1. I have reviewed this annual report on Form 10-K of Kadant Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/s/ William A. Rainville

William A. Rainville

Chief Executive Officer

CERTIFICATIONS

I, Thomas M. O'Brien, certify that:

1. I have reviewed this annual report on Form 10-K of Kadant Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/s/ Thomas M. O'Brien

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

Report of Independent Auditor

To the Board of Directors and Shareholders of Kadant Inc.:

We have audited the consolidated financial statements of Kadant Inc. as of December 28, 2002, and for the year then ended, and have issued our report thereon dated February 7, 2003 (included elsewhere in this Form 10-K). Our audit also included Schedule II - Valuation and Qualifying Accounts as of December 28, 2002, and for the year then ended, included in this Annual Report on Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. The financial statement schedule of Kadant Inc. as of December 29, 2001 and December 30, 2000, and for the years then ended, was subjected to the auditing procedures applied by other auditors, who have ceased operation, in connection with their audit of the consolidated financial statements for those two years and whose report dated February 8, 2002, indicated that such financial statement schedule fairly stated in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

In our opinion, the financial statement schedule as of December 28, 2002, and for the year then ended, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 7, 2003

Report of Independent Public Accountants

THE FOLLOWING REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. THIS REPORT APPLIES TO SUPPLEMENTAL SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 29, 2001, AND DECEMBER 30, 2000.

To the Shareholders and Board of Directors of Kadant Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Kadant Inc.'s (formerly named Thermo Fibertek Inc.) Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 8, 2002. Our audits were made for the purpose of forming an opinion on those basic statements taken as a whole. The schedule listed in Item 14 on page 14* is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the consolidated financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Boston, Massachusetts
February 8, 2002

* The schedule is now listed in Item 15 on page 16.

SCHEDULE II

KADANT INC.
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Year	Provision Charged to Expense	Accounts Recovered	Accounts Written Off	Other(a)	Balance at End of Year
ALLOWANCE FOR DOUBTFUL ACCOUNTS						
Year Ended December 28, 2002	$ 2,515	$ 818	$ 121	$ (808)	$ (12)	$ 2,634
Year Ended December 29, 2001	$ 2,182	$ 1,146	$ 31	$ (876)	$ 32	$ 2,515
Year Ended December 30, 2000	$ 1,659	$ 1,197	$ 7	$ (616)	$ (65)	$ 2,182

Description	Balance at Beginning of Year	Provision Charged to Expense (Reversed to Income)	Activity Charged to Reserve	Currency Translation	Balance at End of Year
ACCRUED RESTRUCTURING COSTS (b)					
Year Ended December 28, 2002	$ 56	$ 1,129	$ (1,163)	$ 6	$ 28
Year Ended December 29, 2001	$ 32	$ 673	$ (648)	$ (1)	$ 56
Year Ended December 30, 2000	$ 669	$ (506)	$ (33)	$ (98)	$ 32

(a) Includes allowances of businesses acquired and sold during the year, as described in Note 4 to Consolidated Financial Statements in our 2002 Annual Report to Shareholders, and the effect of foreign currency translation.
(b) The nature of activity in this account is described in Note 12 to Consolidated Financial Statements in our 2002 Annual Report to Shareholders.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 1-11406] and incorporated in this document by reference).
3.2	By-Laws of the Registrant, as amended and restated (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 1-11406] and incorporated in this document by reference).
4.1	Rights Agreement, dated as of July 16, 2001, between the Registrant and American Stock Transfer & Trust Company, which includes as Exhibit A the Form of Certificate of Designations, as Exhibit B the Form of Rights Certificate, and as Exhibit C the Summary of Rights to Purchase Preferred Stock (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K [File No. 1-11406], filed with the Commission on July 17, 2001, and incorporated in this document by reference).
4.2	Fiscal Agency Agreement dated as of July 16, 1997, among the Registrant, Thermo Electron Corporation, and Bankers Trust Company as fiscal agent, relating to $153 million principal amount of 4 1/2% Convertible Subordinated Debentures due 2004 (filed as Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated in this document by reference).
10.1*	Form of Indemnification Agreement between the Registrant and its directors and officers (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 1-11406] and incorporated in this document by reference).
10.2*	Form of Executive Retention Agreement between the Registrant and its executive officers - each executive officer has a two-year agreement, except Mr. William A. Rainville, who has a three-year agreement, and Mr. Michael J. McKenney, who has a one-year agreement (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 1-11406] and incorporated in this document by reference).
10.3	Plan and Agreement of Distribution, dated as of August 3, 2001, between the Registrant and Thermo Electron Corporation (filed as Exhibit 99.3 to the Registrant's Current Report on Form 8-K [File No. 1-11406] filed with the Commission on August 6, 2001, and incorporated in this document by reference).
10.4	First Amendment to Plan and Agreement of Distribution, dated as of December 27, 2001, between the Registrant and Thermo Electron Corporation (filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2001 [File No. 1-11406] and incorporated in this document by reference).
10.5	Tax Matters Agreement, dated as of August 8, 2001, between the Registrant and Thermo Electron Corporation (filed as Exhibit 99.4 to the Registrant's Current Report on Form 8-K [File No. 1-11406] filed with the Commission on August 6, 2001, and incorporated in this document by reference).
10.6*	Amended and Restated Nonqualified Stock Option Plan of the Registrant.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.7*	Amended and Restated Equity Incentive Plan of the Registrant.
10.8*	Amended and Restated Deferred Compensation Plan for Directors of the Registrant (filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated in this document by reference).
10.9*	Amended and Restated Directors' Stock Option Plan of the Registrant (filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated in this document by reference).
10.10*	Directors Restricted Stock Plan (filed as Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2002 [File No 1-11406] and incorporated in this document by reference).
10.11*	2001 Employee Equity Incentive Plan of the Registrant.
16.1	Letter from Arthur Andersen LLP to the Securities and Exchange Commission, dated June 20, 2002 (filed as Exhibit 16.1 to the Registrant's Current Report on Form 8-K dated June 19, 2002 [File No 1-11406] and incorporated in this document by reference).
13	Annual Report to Shareholders for the year ended December 28, 2002 (only those portions incorporated in this document by reference).
21	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP.
23.2	Information Regarding Consent of Arthur Andersen LLP.
99.1	Certification of the Chief Executive Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Management contract or compensatory plan or arrangement filed as an exhibit to this Form 10-K pursuant to Item 15(c) of this Form 10-K.

EXHIBIT 10.6

KADANT INC.

AMENDED AND RESTATED NONQUALIFIED STOCK OPTION PLAN

1. PURPOSE

This Nonqualified Stock Option Plan (the "Plan") is intended to encourage ownership of Common Stock (the "Common Stock"), of Kadant Inc. ("Company"), by persons selected by the Board of Directors (or a committee thereof) in its sole discretion, including directors, executive officers, key employees and consultants of the Company and its subsidiaries, and to provide additional incentive for them to promote the success of the business of the Company. The Plan is intended to be a nonstatutory stock option plan.

2. EFFECTIVE DATE OF THE PLAN

The Plan shall become effective when adopted by the Board of Directors of the Company.

3. STOCK SUBJECT TO PLAN

Subject to adjustment as provided in Section 11, the total number of shares of Common Stock reserved and available for issuance under the Plan and the Company's Incentive Stock Option Plan in the aggregate shall be 720,000 shares. Shares to be issued upon the exercise of options granted under the Plan may be either authorized but unissued shares or shares held by the Company in its treasury. If any option expires or terminates for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for options thereafter to be granted.

4. ADMINISTRATION

The Plan will be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board shall have complete authority, in its discretion, to make the following determinations with respect to each option to be granted by the Company: (a) the person to receive the option (the "Optionee"); (b) the time of granting the option; (c) the number of shares subject thereto; (d) the option price; (e) the option period; (f) the terms and conditions of options granted under the Plan (including terms and conditions relating to events of merger, consolidation, dissolution and liquidation, change of control, vesting, forfeiture, restrictions, dividends and interest, if any, on deferred amounts); (g) waive compliance by an optionee with any obligation to be performed by him or her under an option; (h) waive any term or condition of an option; (i) cancel an existing option in whole or in part with the consent of an Optionee; (j) grant replacement options; (k) accelerate the vesting or lapse of any restrictions of any option; and (l) adopt the form of instruments evidencing options under the Plan and change such forms from time to time. In making such determinations, the Board may take into account the nature of the services rendered by the Optionees, their present and potential contributions to the success of the Company and/or one or more of its subsidiaries, and such other factors as the Board in its discretion shall deem relevant. Subject to the provisions of the Plan, the Board shall also have complete authority to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements (which need not be identical), and to make all other determinations necessary or advisable for the administration of the Plan. Any interpretation by the Board of the terms and provisions of the Plan or any Award thereunder and the administration thereof, and all action taken by the Board, shall be final, binding and conclusive on all parties and any person claiming under or through any party. No Director shall be liable for any action or determination made in good faith. The Board may, to the full extent permitted by law, delegate any or all of its responsibilities under the Plan to a committee (the "Committee") appointed by the Board and consisting of two or more members of the Board, each of whom shall be deemed a "disinterested person" within the meaning of Rule 16b-3 (or any successor rule) of the Securities Exchange Act of 1934 (the "Exchange Act").

5. ELIGIBILITY

An option may be granted to any person selected by the Board in its sole discretion.

6. TIME OF GRANTING OPTIONS

The granting of an option shall take place at the time specified by the Board. Only if expressly so provided by the Board shall the granting of an option be regarded as taking place at the time when a written option agreement shall have been duly executed and delivered by or on behalf of the Company and the Optionee to whom such option shall be granted. The agreement shall provide, among other things, that it does not confer upon an Optionee any right to continue in the employ of the Company and/or one or more of its subsidiaries or to continue as a director or consultant of the Company, and that it does not interfere in any way with the right of the Company or any such subsidiary to terminate the employment of the Optionee at any time if the Optionee is an employee, to remove the Optionee as a director of the Company if the Optionee is a director, or to terminate the services of the Optionee if the Optionee is a consultant.

7. OPTION PERIOD

An option may become exercisable immediately or in such installments, cumulative or noncumulative, as the Board may determine.

8. EXERCISE OF OPTION

An option may be exercised in accordance with its terms by written notice of intent to exercise the option, specifying the number of shares of stock with respect to which the option is then being exercised. The notice shall be accompanied by payment in the form of cash or shares of Common Stock (the "Tendered Shares") with a then current market value equal to the option price of the shares to be purchased; provided, however, that such Tendered Shares shall have been acquired by the Optionee more than six months prior to the date of exercise, unless such requirement is waived in writing by the Company. Against such payment the Company shall deliver or cause to be delivered to the Optionee a certificate for the number of shares then being purchased, registered in the name of the Optionee or other person exercising the option. If any law or applicable regulation of the Securities and Exchange Commission or other body having jurisdiction in the premises shall require the Company or the Optionee to take any action in connection with shares being purchased upon exercise of the option, exercise of the option and delivery of the certificate or certificates for such shares shall be postponed until completion of the necessary action, which shall be taken at the Company's expense.

9. TRANSFERABILITY

Except as may be authorized by the Board, in its sole discretion, no Option may be transferred other than by will or the laws of descent and distribution, and during a Optionee's lifetime an option requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which options granted to an Optionee shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the option executed and delivered by or on behalf of the Company and the Optionee.

10. VESTING, RESTRICTIONS AND TERMINATION OF OPTIONS

The Board, in its sole discretion, may determine the manner in which options shall vest, the rights of the Company to repurchase the shares issued upon the exercise of any option and the manner in which such rights shall lapse, and the terms upon which any option granted shall terminate. The Board shall have the right to accelerate the date of exercise of any installment or to accelerate the lapse of the Company's repurchase rights. All of such terms shall be specified in a written option agreement executed and delivered by or on behalf of the Company and the Optionee to whom such option shall be granted.

11. ADJUSTMENTS IN THE EVENT OF CERTAIN TRANSACTIONS

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 3 above, and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Options then outstanding or subsequently granted, any exercise prices relating to Options and any other provisions of Awards affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to outstanding Options to avoid distortion in the operation of the Plan.

12. CHANGE IN CONTROL

12.1 IMPACT OF EVENT

In the event of a "Change in Control" as defined in Section 12.2 or Section 12.3, as applicable, the following provisions shall apply, unless the agreement evidencing the Award otherwise provides (by specific explicit reference to Section 12.2 and Section 12.3 below). If a Change in Control occurs while any Awards are outstanding, then, effective upon the Change in Control, (i) each outstanding stock option or other stock-based Award awarded under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and vested, and will no longer be subject to a right of repurchase by the Company, (ii) each outstanding restricted stock award or other stock-based Award subject to restrictions and to the extent not fully vested, shall be deemed to be fully vested, free of restrictions and conditions and no longer subject to a right of repurchase by the Company, and (iii) deferral limitations and conditions that relate solely to the passage of time, continued employment or affiliation will be waived and removed as to deferred stock Awards and performance Awards; performance of other conditions (other than conditions relating solely to the passage of time, continued employment or affiliation) will continue to apply unless otherwise provided in the agreement evidencing the Award or in any other agreement between the Participant and the Company or unless otherwise agreed by the Board.

12.2 DEFINITION OF "CHANGE IN CONTROL" PRIOR TO THE SPIN-OFF

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below that occurs prior to the distribution of all or substantially all of the shares of Common Stock held beneficially by Thermo Electron Corporation in a tax-free spin-off under Section 355 of the Code (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the

"Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

12.3 DEFINITION OF "CHANGE IN CONTROL" UPON SPIN-OFF

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below that occurs on or after the distribution of all or substantially all of the shares of Common Stock held beneficially by Thermo Electron Corporation in a tax-free spin-off under Section 355 of the Code (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection)(references to Section 12.2 in written option agreements shall be deemed to refer to this Section 12.3 after the date of said spin-off):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the

Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Common Stock") or (ii) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions of shares of Common Stock shall not constitute a Change in Control: (i) any acquisition by the Company, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the board of directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (i) who was a member of the Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Common Stock and Outstanding Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

13. LIMITATION OF RIGHTS IN OPTION STOCK

The Optionees shall have no rights as stockholders in respect of shares as to which their options shall not have been exercised, certificates issued and delivered and payment as herein provided made in full, and shall have no rights with respect to such shares not expressly conferred by this Plan.

14. STOCK RESERVED

The Company shall at all times during the term of the options reserve and keep available such number of shares of the Common Stock as will be sufficient to satisfy the requirements of this Plan and shall pay all other fees and expenses necessarily incurred by the Company in connection therewith.

15. SECURITIES LAWS RESTRICTIONS

Each Optionee exercising an option, at the request of the Company, will be required to give a representation in form satisfactory to counsel for the Company that he will not transfer, sell or otherwise dispose of the shares received upon exercise of the option at any time purchased by him, upon exercise of any portion of the option, in a manner which would violate the Securities Act of 1933, as amended, and the regulations of the Securities and Exchange Commission thereunder and the Company may, if required or at its discretion, make a notation on any certificates issued upon exercise of options to the effect that such certificate may not be transferred except after receipt by the Company of an opinion of counsel satisfactory to it to the effect that such transfer will not violate such Act and such regulations.

16. TAX WITHHOLDING

The Company shall have the right to deduct from payments of any kind otherwise due to an Optionee any federal, state or local taxes of any kind required by law to be withheld with respect to any shares issued upon exercise of options under the Plan (the "withholding requirements"). The Board will have the right to require that the Optionee or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Board with regard to such requirements, prior to the delivery of any Common Stock pursuant to exercise of an option. If and to the extent that such withholding is required, the Board may permit the Optionee or such other person to elect at such time and in such manner as the Board provides to have the Company hold back from the shares to be delivered, or to deliver to the Company, Common Stock having a value calculated to satisfy the withholding requirements.

17. TERMINATION AND AMENDMENT

The Plan shall remain in full force and effect until terminated by the Board. Subject to the last sentence of the first paragraph of this Section 17, the Board may at any time or times amend the Plan or any outstanding Option for any purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Options. No amendment of the Plan or any agreement evidencing Options under the Plan may adversely affect the rights of any participant under any Option previously granted without such participant's consent.

Notwithstanding any other provisions hereof, the Plan shall terminate on December 28, 2001 and no options shall be granted hereunder thereafter.

EXHIBIT 10.7

KADANT INC.

AMENDED AND RESTATED EQUITY INCENTIVE PLAN

1. PURPOSE

The purpose of this Equity Incentive Plan (the "Plan") is to secure for Kadant Inc. (the "Company") and its Stockholders the benefits arising from capital stock ownership by employees, officers and directors of, and consultants to, the Company and its subsidiaries or other persons who are expected to make significant contributions to the future growth and success of the Company and its subsidiaries. The Plan is intended to accomplish these goals by enabling the Company to offer such persons equity-based interests, equity-based incentives or performance-based stock incentives in the Company, or any combination thereof ("Awards").

2. ADMINISTRATION

The Plan will be administered by the Board of Directors of the Company (the "Board"). The Board shall have full power to interpret and administer the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan and Awards, and full authority to select the persons to whom Awards will be granted ("Participants"), determine the type and amount of Awards to be granted to Participants (including any combination of Awards), determine the terms and conditions of Awards granted under the Plan (including terms and conditions relating to events of merger, consolidation, dissolution and liquidation, change of control, vesting, forfeiture, restrictions, dividends and interest, if any, on deferred amounts), waive compliance by a participant with any obligation to be performed by him or her under an Award, waive any term or condition of an Award, cancel an existing Award in whole or in part with the consent of a Participant, grant replacement Awards, accelerate the vesting or lapse of any restrictions of any Award, correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any award and adopt the form of instruments evidencing Awards under the Plan and change such forms from time to time. Any interpretation by the Board of the terms and provisions of the Plan or any Award thereunder and the administration thereof, and all action taken by the Board, shall be final, binding and conclusive on all parties and any person claiming under or through any party. No Director shall be liable for any action or determination made in good faith. The Board may, to the full extent permitted by law, delegate any or all of its responsibilities under the Plan to a committee (the "Committee") appointed by the Board and consisting of members of the Board. All references in the Plan to the "Board" shall mean the Board or a Committee of the Board to the extent that the Board's powers or authority under the Plan have been delegated to such Committee.

3. EFFECTIVE DATE

The Plan shall be effective as of the date first approved by the Board, subject to the approval of the Plan by the Company's stockholders. Grants of Awards under the Plan made prior to such approval shall be effective when made (unless otherwise specified by the Board at the time of grant), but shall be conditioned on and subject to such approval of the Plan.

4. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in Section 10.6, the total number of shares of common stock of the Company, par value $.01 per share (the "Common Stock"), reserved and available for distribution under the Plan shall be 2,050,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

If any Award of shares of Common Stock requiring exercise by the Participant for delivery of such shares expires or terminates without having been exercised in full, is forfeited or is otherwise terminated without a payment being made to the Participant in the form of Common Stock, or if any shares of Common Stock subject to restrictions are repurchased by the Company pursuant to the terms of any Award or are otherwise reacquired by the Company to satisfy obligations arising by virtue of any Award, such shares shall be available for distribution in connection with future Awards under the Plan, subject, however, in the case of Incentive Stock Options (as hereinafter defined), to any limitations under the Code.

5. ELIGIBILITY

Employees, officers and directors of, and consultants to, the Company and its subsidiaries, or other persons who are expected to make significant contributions to the future growth and success of the Company and its subsidiaries shall be eligible to receive Awards under the Plan. The Board, or other appropriate committee or person to the extent permitted pursuant to the last sentence of Section 2, shall from time to time select from among such eligible persons those who will receive Awards under the Plan.

6. TYPES OF AWARDS

The Board may offer Awards under the Plan in any form of equity-based interest, equity-based incentive or performance-based stock incentive in Common Stock of the Company or any combination thereof. The type, terms and conditions and restrictions of an Award shall be determined by the Board at the time such Award is made to a Participant; provided however that the maximum number of shares permitted to be granted under any Award or combination of Awards to any Participant during any one calendar year may not exceed 500,000 shares of Common Stock, subject to adjustment as provided under Section 10.6.

An Award shall be made at the time specified by the Board, shall be subject to such conditions or restrictions as may be imposed by the Board and shall conform to the general rules applicable under the Plan as well as any special rules then applicable under federal tax laws or regulations or the federal securities laws relating to the type of Award granted.

Without limiting the foregoing, Awards may take the following forms and shall be subject to the following rules and conditions:

6.1 OPTIONS

An option is an Award that entitles the holder on exercise thereof to purchase Common Stock at a specified exercise price. Options granted under the Plan may be either incentive stock options ("incentive stock options") that meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options that are not intended to meet the requirements of Section 422 of the Code ("non-statutory options").

6.1.1 Option Price. The price at which Common Stock may be purchased upon exercise of an option shall be determined by the Board, provided however, the exercise price shall not be less than 85% of the fair market value per share of Common Stock as of the date of grant.

6.1.2 Option Grants. The granting of an option shall take place at the time specified by the Board. Options shall be evidenced by option agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions (including but not limited to vesting and forfeiture provisions, acceleration, change of control, protection in the event of merger, consolidations, dissolutions and liquidations) as the Board shall deem advisable. Option agreements shall expressly state whether an option grant is intended to qualify as an incentive stock option or non-statutory option.

6.1.3 Option Period. An option will become exercisable at such time or times (which may be immediately or in such installments as the Board shall determine) and on such terms and conditions as the Board shall specify. The option agreements shall specify the terms and conditions applicable in the event of an option holder's termination of employment during the option's term.

Any exercise of an option must be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (1) any additional documents required by the Board and (2) payment in full in accordance with Section 6.1.4 for the number of shares for which the option is exercised.

6.1.4 Payment of Exercise Price. Stock purchased on exercise of an option shall be paid for as follows: (1) in cash or by check (subject to such guidelines as the Company may establish for this purpose), bank draft or money order payable to the order of the Company or (2) if so permitted by the instrument evidencing the option (or in the case of a non-statutory option, by the Board at or after grant of the option), (i) through the delivery of shares of Common Stock that have been outstanding for at least six months (unless the Board expressly approves a shorter period) and that have a fair market value (determined in accordance with procedures prescribed by the Board) equal to the exercise price, (ii) by delivery of a promissory note of the option holder to the Company, payable on such terms as are specified by the Board, (iii) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price, or (iv) by any combination of the foregoing permissible forms of payment.

6.1.5 Buyout Provision. The Board may at any time offer to buy out for a payment in cash, shares of Common Stock, deferred stock or restricted stock, an option previously granted, based on such terms and conditions as the Board shall establish and communicate to the option holder at the time that such offer is made.

6.1.6 Special Rules for Incentive Stock Options. Each provision of the Plan and each option agreement evidencing an incentive stock option shall be construed so that each incentive stock option shall be an incentive stock option as defined in Section 422 of the Code or any statutory provision that may replace such Section, and any provisions thereof that cannot be so construed shall be disregarded. Instruments evidencing incentive stock options shall contain such provisions as are required under applicable provisions of the Code. Incentive stock options may be granted only to employees of the Company and its subsidiaries. The exercise price of an incentive stock option shall not be less than 100% (110% in the case of an incentive stock option granted to a more than ten percent Stockholder of the Company) of the fair market value of the Common Stock on the date of grant, as determined by the Board. An incentive stock option may not be granted after the tenth anniversary of the date on which the Plan was adopted by the Board and the latest date on which an incentive stock option may be exercised shall be the tenth anniversary (fifth anniversary, in the case of any incentive stock option granted to a more than ten percent Stockholder of the Company) of the date of grant, as determined by the Board.

6.2 RESTRICTED AND UNRESTRICTED STOCK

An Award of restricted stock entitles the recipient thereof to acquire shares of Common Stock upon payment of the purchase price subject to restrictions specified in the instrument evidencing the Award.

6.2.1 Restricted Stock Awards. Awards of restricted stock shall be evidenced by restricted stock agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions (including restriction and forfeiture provisions, change of control, protection in the event of mergers, consolidations, dissolutions and liquidations) as the Board shall deem advisable.

6.2.2 Restrictions. Until the restrictions specified in a restricted stock agreement shall lapse, restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of, and upon certain conditions specified in the restricted stock agreement, must be resold to the Company for the price, if any, specified in such agreement. The restrictions shall lapse at such time or times, and on such conditions, as the Board may specify. The Board may at any time accelerate the time at which the restrictions on all or any part of the shares shall lapse.

6.2.3 Rights as a Stockholder. A Participant who acquires shares of restricted stock will have all of the rights of a Stockholder with respect to such shares including the right to receive dividends and to vote such shares.

Unless the Board otherwise determines, certificates evidencing shares of restricted stock will remain in the possession of the Company until such shares are free of all restrictions under the Plan.

6.2.4 Purchase Price. The purchase price of shares of restricted stock shall be determined by the Board, in its sole discretion.

6.2.5 Other Awards Settled With Restricted Stock. The Board may provide that any or all the Common Stock delivered pursuant to an Award will be restricted stock.

6.2.6 Unrestricted Stock. The Board may, in its sole discretion, sell to any Participant shares of Common Stock free of restrictions under the Plan for a price determined by the Board, but which may not be less than the par value per share of the Common Stock.

6.3 DEFERRED STOCK

6.3.1 Deferred Stock Award. A deferred stock Award entitles the recipient to receive shares of deferred stock, which is Common Stock to be delivered in the future. Delivery of the Common Stock will take place at such time or times, and on such conditions, as the Board may specify. The Board may at any time accelerate the time at which delivery of all or any part of the Common Stock will take place.

6.3.2 Other Awards Settled with Deferred Stock. The Board may, at the time any Award described in this Section 6 is granted, provide that, at the time Common Stock would otherwise be delivered pursuant to the Award, the Participant will instead receive an instrument evidencing the right to future delivery of deferred stock.

6.4 PERFORMANCE AWARDS

6.4.1 Performance Awards. A performance Award entitles the recipient to receive, without payment, an amount, in cash or Common Stock or a combination thereof (such form to be determined by the Board), following the attainment of performance goals. Performance goals may be related to personal performance, corporate performance, departmental performance or any other category of performance deemed by the Board to be important to the success of the Company. The Board will determine the performance goals, the period or periods during which performance is to be measured and all other terms and conditions applicable to the Award.

6.4.2 Other Awards Subject to Performance Conditions. The Board may, at the time any Award described in this Section 6 is granted, impose a condition or conditions (in addition to any conditions specified or authorized in this Section 6 of the Plan) that performance goals be met prior to the Participant's realization of any payment or benefit under the Award.

7. PURCHASE PRICE AND PAYMENT

Except as otherwise provided in the Plan, the purchase price of Common Stock to be acquired pursuant to an Award shall be the price determined by the Board, provided that such price shall not be less than the par value of the Common Stock. Except as otherwise provided in the Plan, the Board may determine the method of payment of the exercise price or purchase price of an Award granted under the Plan and the form of payment. The Board may determine that all or any part of the purchase price of Common Stock pursuant to an Award has been satisfied by past services rendered by the Participant. The Board may agree at any time, upon request of the Participant, to defer the date on which any payment under an Award will be made.

8. LOANS AND SUPPLEMENTAL GRANTS

The Company may make a loan to a Participant, either on or after the grant to the Participant of any Award, in connection with the purchase of Common Stock under the Award or with the payment of any obligation incurred or recognized as a result of the Award. The Board will have full authority to decide whether the loan is to be secured or unsecured or with or without recourse against the borrower, the terms on which the loan is to be repaid and the conditions, if any, under which it may be forgiven.

In connection with any Award, the Board may at the time such Award is made or at a later date, provide for and make a cash payment to the participant not to exceed an amount equal to (a) the amount of any federal, state and local income tax or ordinary income for which the Participant will be liable with respect to the Award, plus (b) an additional amount on a grossed-up basis necessary to make him or her whole after tax, discharging all the participant's income tax liabilities arising from all payments under the Plan.

9. CHANGE IN CONTROL

9.1 IMPACT OF EVENT

In the event of a "Change in Control" as defined in Section 9.2 or Section 9.3, as applicable, the following provisions shall apply, unless the agreement evidencing the Award otherwise provides (by specific explicit reference to Section 9.2 and Section 9.3 below). If a Change in Control occurs while any Awards are outstanding, then, effective upon the Change in Control, (i) each outstanding stock option or other stock-based Award awarded under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and vested, and will no longer be subject to a right of repurchase by the Company, (ii) each outstanding restricted stock award or other stock-based Award subject to restrictions and to the extent not fully vested, shall be deemed to be fully vested, free of restrictions and conditions and no longer subject to a right of repurchase by the Company, and (iii) deferral limitations and conditions that relate solely to the passage of time, continued employment or affiliation will be waived and removed as to deferred stock Awards and performance Awards; performance of other conditions (other than conditions relating solely to the passage of time, continued employment or affiliation) will continue to apply unless otherwise provided in the agreement evidencing the Award or in any other agreement between the Participant and the Company or unless otherwise agreed by the Board.

9.2 DEFINITION OF "CHANGE IN CONTROL" PRIOR TO THE SPIN-OFF

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below that occurs prior to the distribution of all or substantially all of the shares of Common Stock held beneficially by Thermo Electron Corporation in a tax-free spin-off under Section 355 of the Code (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the "Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

9.3 DEFINITION OF "CHANGE IN CONTROL" UPON SPIN-OFF

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below that occurs on or after the distribution of all or substantially all of the shares of Common Stock held beneficially by Thermo Electron Corporation in a tax-free spin-off under Section 355 of the Code (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection)(references to Section 9.2 in written option agreements shall be deemed to refer to this Section 9.3 after the date of said spin-off):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Common Stock") or (ii) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions of shares of Common Stock shall not constitute a Change in Control: (i) any acquisition by the Company, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the board of directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (i) who was a member of the Board as of May 23, 1994 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Common Stock and Outstanding Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

10. GENERAL PROVISIONS

10.1 DOCUMENTATION OF AWARDS

Awards will be evidenced by written instruments, which may differ among Participants, prescribed by the Board from time to time. Such instruments may be in the form of agreements to be executed by both the Participant and the Company or certificates, letters or similar instruments which need not be executed by the participant but acceptance of which will evidence agreement to the terms thereof. Such instruments shall conform to the requirements of the Plan and may contain such other provisions (including provisions relating to events of merger, consolidation, dissolution and liquidations, change of control and restrictions affecting either the agreement or the Common Stock issued thereunder), as the Board deems advisable.

10.2 RIGHTS AS A STOCKHOLDER

Except as specifically provided by the Plan or the instrument evidencing the Award, the receipt of an Award will not give a Participant rights as a Stockholder with respect to any shares covered by an Award until the date of issue of a stock certificate to the participant for such shares.

10.3 CONDITIONS ON DELIVERY OF STOCK

The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove any restriction from shares previously delivered under the Plan (a) until all conditions of the Award have been satisfied or removed, (b) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (c) if the outstanding Common Stock is at the time listed on any stock exchange, until the shares have been listed or authorized to be listed on such exchange upon official notice of issuance, and (d) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Common Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such act and may require that the certificates evidencing such Common Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the participant's legal representative, the Company will be under no obligation to deliver Common Stock pursuant to such exercise until the Company is satisfied as to the authority of such representative.

10.4 TAX WITHHOLDING

The Company will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding requirements").

In the case of an Award pursuant to which Common Stock may be delivered, the Board will have the right to require that the participant or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Board with regard to such requirements, prior to the delivery of any Common Stock. If and to the extent that such withholding is required, the Board may permit the participant or such other person to elect at such time and in such manner as the Board provides to have the Company hold back from the shares to be delivered, or to deliver to the Company, Common Stock having a value calculated to satisfy the withholding requirement.

10.5 TRANSFERABILITY OF AWARDS

Except as may be authorized by the Board, in its sole discretion, no Award (other than an Award in the form of an outright transfer of cash or Common Stock not subject to any restrictions) may be sold, assigned, transferred, pledged or otherwise encumbered other than by will or the laws of descent and distribution, and during a Participant's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which Awards granted to a Participant shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the Award executed and delivered by or on behalf of the Company and the Participant.

10.6 ADJUSTMENTS IN THE EVENT OF CERTAIN TRANSACTIONS

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 4 above and the participant limit set forth in Section 6, and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provisions of Awards affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to outstanding Awards to avoid distortion in the operation of the Plan.

10.7 EMPLOYMENT RIGHTS

Neither the adoption of the Plan nor the grant of Awards will confer upon any person any right to continued employment with the Company or any subsidiary or interfere in any way with the right of the Company or subsidiary to terminate any employment relationship at any time or to increase or decrease the compensation of such person. Except as specifically provided by the Board in any particular case, the loss of existing or potential profit in Awards granted under the Plan will not constitute an element of damages in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Company to the employee.

Whether an authorized leave of absence, or absence in military or government service, shall constitute termination of employment shall be determined by the Board at the time. For purposes of this Plan, transfer of employment between the Company and its subsidiaries shall not be deemed termination of employment.

10.8 OTHER EMPLOYEE BENEFITS

The value of an Award granted to a Participant who is an employee, and the amount of any compensation deemed to be received by an employee as a result of any exercise or purchase of Common Stock pursuant to an Award or sale of shares received under the Plan, will not constitute "earnings" or "compensation" with respect to which any other employee benefits of such employee are determined, including without limitation benefits under any pension, stock ownership, stock purchase, life insurance, medical, health, disability or salary continuation plan.

10.9 LEGAL HOLIDAYS

If any day on or before which action under the Plan must be taken falls on a Saturday, Sunday or legal holiday, such action may be taken on the next succeeding day not a Saturday, Sunday or legal holiday.

10.10 FOREIGN NATIONALS

Without amending the Plan, Awards may be granted to persons who are foreign nationals or employed outside the United States or both, on such terms and conditions different from those specified in the Plan, as may, in the judgment of the Board, be necessary or desirable to further the purpose of the Plan.

10.11 GOVERNING LAW

The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law.

11. TERMINATION AND AMENDMENT

The Plan shall remain in full force and effect until terminated by the Board. Subject to the last sentence of this Section 11, the Board may at any time or times amend the Plan or any outstanding Award for any purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards. No amendment of the Plan or any agreement evidencing Awards under the Plan may adversely affect the rights of any participant under any Award previously granted without such participant's consent.

As amended and in effect as of May 16, 2002

EXHIBIT 10.11

KADANT INC.

2001 EMPLOYEES EQUITY INCENTIVE PLAN

1. PURPOSE

The purpose of this 2001 Employees Equity Incentive Plan (the "Plan") is to secure for Kadant Inc. (the "Company") and its Stockholders the benefits arising from capital stock ownership by employees and consultants to the Company and its subsidiaries or other persons who are expected to make significant contributions to the future growth and success of the Company and its subsidiaries. The Plan is intended to accomplish these goals by enabling the Company to offer such persons equity-based interests, equity-based incentives or performance-based stock incentives in the Company, or any combination thereof ("Awards").

2. ADMINISTRATION

The Plan will be administered by the Board of Directors of the Company (the "Board"). The Board shall have full power to interpret and administer the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan and Awards, and full authority to select the persons to whom Awards will be granted ("Participants"), determine the type and amount of Awards to be granted to Participants (including any combination of Awards), determine the terms and conditions of Awards granted under the Plan (including terms and conditions relating to events of merger, consolidation, dissolution and liquidation, change of control, vesting, forfeiture, restrictions, dividends and interest, if any, on deferred amounts), waive compliance by a participant with any obligation to be performed by him or her under an Award, waive any term or condition of an Award, cancel an existing Award in whole or in part with the consent of a Participant, grant replacement Awards, accelerate the vesting or lapse of any restrictions of any Award, correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any award and adopt the form of instruments evidencing Awards under the Plan and change such forms from time to time. Any interpretation by the Board of the terms and provisions of the Plan or any Award thereunder and the administration thereof, and all action taken by the Board, shall be final, binding and conclusive on all parties and any person claiming under or through any party. No Director shall be liable for any action or determination made in good faith. The Board may, to the full extent permitted by law, delegate any or all of its responsibilities under the Plan to a committee (the "Committee") appointed by the Board and consisting of members of the Board. All references in the Plan to the "Board" shall mean the Board or a Committee of the Board to the extent that the Board's powers or authority under the Plan have been delegated to such Committee.

3. EFFECTIVE DATE

The Plan shall be effective as of the date first approved by the Board.

4. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in Section 10.6, the total number of shares of common stock of the Company, par value $.01 per share (the "Common Stock"), reserved and available for distribution under the Plan shall be 612,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

If any Award of shares of Common Stock requiring exercise by the Participant for delivery of such shares expires or terminates without having been exercised in full, is forfeited or is otherwise terminated without a payment being made to the Participant in the form of Common Stock, or if any shares of Common Stock subject to restrictions are repurchased by the Company pursuant to the terms of any Award or are otherwise reacquired by the Company to satisfy obligations arising by virtue of any Award, such shares shall be available for distribution in connection with future Awards under the Plan.

5. ELIGIBILITY

Employees and consultants to the Company and its subsidiaries, or other persons who are expected to make significant contributions to the future growth and success of the Company and its subsidiaries shall be eligible to receive Awards under the Plan. Executive officers and directors shall not be eligible to receive Awards under the Plan. The Board, or other appropriate committee or person to the extent permitted pursuant to the last sentence of Section 2, shall from time to time select from among such eligible persons those who will receive Awards under the Plan.

6. TYPES OF AWARDS

The Board may offer Awards under the Plan in any form of equity-based interest, equity-based incentive or performance-based stock incentive in Common Stock of the Company or any combination thereof. The type, terms and conditions and restrictions of an Award shall be determined by the Board at the time such Award is made to a Participant.

An Award shall be made at the time specified by the Board, shall be subject to such conditions or restrictions as may be imposed by the Board and shall conform to the general rules applicable under the Plan as well as any special rules then applicable under federal tax laws or regulations or the federal securities laws relating to the type of Award granted.

Without limiting the foregoing, Awards may take the following forms and shall be subject to the following rules and conditions:

6.1 OPTIONS

An option is an Award that entitles the holder on exercise thereof to purchase Common Stock at a specified exercise price. Options granted under the Plan are not intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

6.1.1 Option Price. The price at which Common Stock may be purchased upon exercise of an option shall be determined by the Board.

6.1.2 Option Grants. The granting of an option shall take place at the time specified by the Board. Options shall be evidenced by option agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions (including but not limited to vesting and forfeiture provisions, acceleration, change of control, protection in the event of merger, consolidations, dissolutions and liquidations) as the Board shall deem advisable. Option agreements shall expressly state whether an option grant is intended to qualify as an incentive stock option or non-statutory option.

6.1.3 Option Period. An option will become exercisable at such time or times (which may be immediately or in such installments as the Board shall determine) and on such terms and conditions as the Board shall specify. The option agreements shall specify the terms and conditions applicable in the event of an option holder's termination of employment during the option's term.

Any exercise of an option must be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (1) any additional documents required by the Board and (2) payment in full in accordance with Section 6.1.4 for the number of shares for which the option is exercised.

6.1.4 Payment of Exercise Price. Stock purchased on exercise of an option shall be paid for as follows: (1) in cash or by check (subject to such guidelines as the Company may establish for this purpose), bank draft or money order payable to the order of the Company or (2) if so permitted by the instrument evidencing the option (or in the case of a non-statutory option, by the Board at or after grant of the option), (i) through the delivery of shares of Common Stock that have been outstanding for at least six months (unless the Board expressly approves a shorter period) and that have a fair market value (determined in accordance with procedures prescribed by the Board) equal to the exercise price, (ii) by delivery of a promissory note of the option holder to the Company, payable on such terms as are specified by the Board, (iii) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price, or (iv) by any combination of the foregoing permissible forms of payment.

6.1.5 Buyout Provision. The Board may at any time offer to buy out for a payment in cash, shares of Common Stock, deferred stock or restricted stock, an option previously granted, based on such terms and conditions as the Board shall establish and communicate to the option holder at the time that such offer is made.

6.2 RESTRICTED AND UNRESTRICTED STOCK

An Award of restricted stock entitles the recipient thereof to acquire shares of Common Stock upon payment of the purchase price subject to restrictions specified in the instrument evidencing the Award.

6.2.1 Restricted Stock Awards. Awards of restricted stock shall be evidenced by restricted stock agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions (including restriction and forfeiture provisions, change of control, protection in the event of mergers, consolidations, dissolutions and liquidations) as the Board shall deem advisable.

6.2.2 Restrictions. Until the restrictions specified in a restricted stock agreement shall lapse, restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of, and upon certain conditions specified in the restricted stock agreement, must be resold to the Company for the price, if any, specified in such agreement. The restrictions shall lapse at such time or times, and on such conditions, as the Board may specify. The Board may at any time accelerate the time at which the restrictions on all or any part of the shares shall lapse.

6.2.3 Rights as a Stockholder. A Participant who acquires shares of restricted stock will have all of the rights of a Stockholder with respect to such shares including the right to receive dividends and to vote such shares. Unless the Board otherwise determines, certificates evidencing shares of restricted stock will remain in the possession of the Company until such shares are free of all restrictions under the Plan.

6.2.4 Purchase Price. The purchase price of shares of restricted stock shall be determined by the Board, in its sole discretion.

6.2.5 Other Awards Settled With Restricted Stock. The Board may provide that any or all the Common Stock delivered pursuant to an Award will be restricted stock.

6.2.6 Unrestricted Stock. The Board may, in its sole discretion, sell to any Participant shares of Common Stock free of restrictions under the Plan for a price determined by the Board, but which may not be less than the par value per share of the Common Stock.

6.3 DEFERRED STOCK

6.3.1 Deferred Stock Award. A deferred stock Award entitles the recipient to receive shares of deferred stock, which is Common Stock to be delivered in the future. Delivery of the Common Stock will take place at such time or times, and on such conditions, as the Board may specify. The Board may at any time accelerate the time at which delivery of all or any part of the Common Stock will take place.

6.3.2 Other Awards Settled with Deferred Stock. The Board may, at the time any Award described in this Section 6 is granted, provide that, at the time Common Stock would otherwise be delivered pursuant to the Award, the Participant will instead receive an instrument evidencing the right to future delivery of deferred stock.

6.4 PERFORMANCE AWARDS

6.4.1 Performance Awards. A performance Award entitles the recipient to receive, without payment, an amount, in cash or Common Stock or a combination thereof (such form to be determined by the Board), following the attainment of performance goals. Performance goals may be related to personal performance, corporate performance, departmental performance or any other category of performance deemed by the Board to be important to the success of the Company. The Board will determine the performance goals, the period or periods during which performance is to be measured and all other terms and conditions applicable to the Award.

6.4.2 Other Awards Subject to Performance Conditions. The Board may, at the time any Award described in this Section 6 is granted, impose a condition or conditions (in addition to any conditions specified or authorized in this Section 6 of the Plan) that performance goals be met prior to the Participant's realization of any payment or benefit under the Award.

7. PURCHASE PRICE AND PAYMENT

Except as otherwise provided in the Plan, the purchase price of Common Stock to be acquired pursuant to an Award shall be the price determined by the Board, provided that such price shall not be less than the par value of the Common Stock. Except as otherwise provided in the Plan, the Board may determine the method of payment of the exercise price or purchase price of an Award granted under the Plan and the form of payment. The Board may determine that all or any part of the purchase price of Common Stock pursuant to an Award has been satisfied by past services rendered by the Participant. The Board may agree at any time, upon request of the Participant, to defer the date on which any payment under an Award will be made.

8. LOANS AND SUPPLEMENTAL GRANTS

The Company may make a loan to a Participant, either on or after the grant to the Participant of any Award, in connection with the purchase of Common Stock under the Award or with the payment of any obligation incurred or recognized as a result of the Award. The Board will have full authority to decide whether the loan is to be secured or unsecured or with or without recourse against the borrower, the terms on which the loan is to be repaid and the conditions, if any, under which it may be forgiven.

In connection with any Award, the Board may at the time such Award is made or at a later date, provide for and make a cash payment to the participant not to exceed an amount equal to (a) the amount of any federal, state and local income tax or ordinary income for which the Participant will be liable with respect to the Award, plus (b) an additional amount on a grossed-up basis necessary to make him or her whole after tax, discharging all the participant's income tax liabilities arising from all payments under the Plan.

9. CHANGE IN CONTROL

9.1 IMPACT OF EVENT

In the event of a "Change in Control" as defined in Section 9.2, as applicable, the following provisions shall apply, unless the agreement evidencing the Award otherwise provides (by specific explicit reference to Section 9.2 below). If a Change in Control occurs while any Awards are outstanding, then, effective upon the Change in Control, (i) each outstanding stock option or other stock-based Award awarded under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and vested, and will no longer be subject to a right of repurchase by the Company, (ii) each outstanding restricted stock award or other stock-based Award subject to restrictions and to the extent not fully vested, shall be deemed to be fully vested, free of restrictions and conditions and no longer subject to a right of repurchase by the Company, and (iii) deferral limitations and conditions that relate solely to the passage of time, continued employment or affiliation will be waived and removed as to deferred stock Awards and performance Awards; performance of other conditions (other than conditions relating solely to the passage of time, continued employment or affiliation) will continue to apply unless otherwise provided in the agreement evidencing the Award or in any other agreement between the Participant and the Company or unless otherwise agreed by the Board.

9.2 DEFINITION OF "CHANGE IN CONTROL"

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Common Stock") or (ii) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions of shares of Common Stock shall not constitute a Change in Control: (i) any acquisition by the Company, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the board of directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (i) who was a member of the Board as of December 10, 2001 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company in one or a series of transactions (a "Business Combination"), unless, immediately following such Business

Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Common Stock and Outstanding Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

10. GENERAL PROVISIONS

10.1 DOCUMENTATION OF AWARDS

Awards will be evidenced by written instruments, which may differ among Participants, prescribed by the Board from time to time. Such instruments may be in the form of agreements to be executed by both the Participant and the Company or certificates, letters or similar instruments which need not be executed by the participant but acceptance of which will evidence agreement to the terms thereof. Such instruments shall conform to the requirements of the Plan and may contain such other provisions (including provisions relating to events of merger, consolidation, dissolution and liquidations, change of control and restrictions affecting either the agreement or the Common Stock issued thereunder), as the Board deems advisable.

10.2 RIGHTS AS A STOCKHOLDER

Except as specifically provided by the Plan or the instrument evidencing the Award, the receipt of an Award will not give a Participant rights as a Stockholder with respect to any shares covered by an Award until the date of issue of a stock certificate to the participant for such shares.

10.3 CONDITIONS ON DELIVERY OF STOCK

The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove any restriction from shares previously delivered under the Plan (a) until all conditions of the Award have been satisfied or removed, (b) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (c) if the outstanding Common Stock is at the time listed on any stock exchange, until the shares have been listed or authorized to be listed on such exchange upon official notice of issuance, and (d) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Common Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such act and may require that the certificates evidencing such Common Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the participant's legal representative, the Company will be under no obligation to deliver Common Stock pursuant to such exercise until the Company is satisfied as to the authority of such representative.

10.4 TAX WITHHOLDING

The Company will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding requirements").

In the case of an Award pursuant to which Common Stock may be delivered, the Board will have the right to require that the participant or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Board with regard to such requirements, prior to the delivery of any Common Stock. If and to the extent that such withholding is required, the Board may permit the participant or such other person to elect at such time and in such manner as the Board provides to have the Company hold back from the shares to be delivered, or to deliver to the Company, Common Stock having a value calculated to satisfy the withholding requirement.

10.5 TRANSFERABILITY OF AWARDS

Except as may be authorized by the Board, in its sole discretion, no Award (other than an Award in the form of an outright transfer of cash or Common Stock not subject to any restrictions) may be sold, assigned, transferred, pledged or otherwise encumbered other than by will or the laws of descent and distribution, and during a Participant's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which Awards granted to a Participant shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the Award executed and delivered by or on behalf of the Company and the Participant.

10.6 ADJUSTMENTS IN THE EVENT OF CERTAIN TRANSACTIONS

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 4 above and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provisions of Awards affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to outstanding Awards to avoid distortion in the operation of the Plan.

10.7 EMPLOYMENT RIGHTS

Neither the adoption of the Plan nor the grant of Awards will confer upon any person any right to continued employment with the Company or any subsidiary or interfere in any way with the right of the Company or subsidiary to terminate any employment relationship at any time or to increase or decrease the compensation of such person. Except as specifically provided by the Board in any particular case, the loss of existing or potential profit in Awards granted under the Plan will not constitute an element of damages in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Company to the employee.

Whether an authorized leave of absence, or absence in military or government service, shall constitute termination of employment shall be determined by the Board at the time. For purposes of this Plan, transfer of employment between the Company and its subsidiaries shall not be deemed termination of employment.

10.8 OTHER EMPLOYEE BENEFITS

The value of an Award granted to a Participant who is an employee, and the amount of any compensation deemed to be received by an employee as a result of any exercise or purchase of Common Stock pursuant to an Award or sale of shares received under the Plan, will not constitute "earnings" or "compensation" with respect to which any other employee benefits of such employee are determined, including without limitation benefits under any pension, stock ownership, stock purchase, life insurance, medical, health, disability or salary continuation plan.

10.9 LEGAL HOLIDAYS

If any day on or before which action under the Plan must be taken falls on a Saturday, Sunday or legal holiday, such action may be taken on the next succeeding day not a Saturday, Sunday or legal holiday.

10.10 FOREIGN NATIONALS

Without amending the Plan, Awards may be granted to persons who are foreign nationals or employed outside the United States or both, on such terms and conditions different from those specified in the Plan, as may, in the judgment of the Board, be necessary or desirable to further the purpose of the Plan.

10.11 GOVERNING LAW

The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law.

11. TERMINATION AND AMENDMENT

The Plan shall remain in full force and effect until terminated by the Board. Subject to the last sentence of this Section 11, the Board may at any time or times amend the Plan or any outstanding Award for any purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards. No amendment of the Plan or any agreement evidencing Awards under the Plan may adversely affect the rights of any participant under any Award previously granted without such participant's consent.

As adopted and in effect as of December 10, 2001

EXHIBIT 13

Kadant Inc.

Consolidated Financial Statements

2002

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands except per share amounts)	2002	2001	2000
Revenues (Notes 14 and 17)	$ 185,674	$ 221,166	$ 234,914
Costs and Operating Expenses:			
Cost of revenues	115,234	138,425	145,111
Selling, general, and administrative expenses (Note 9)	50,323	58,960	60,901
Research and development expenses	4,819	6,612	7,687
Gain on sale of business and property (Note 4)	-	-	(1,700)
Restructuring and unusual costs (income) (Note 12)	3,590	673	(506)
	173,966	204,670	211,493
Operating Income	11,708	16,496	23,420
Interest Income	2,579	6,615	10,466
Interest Expense (Note 8)	(4,741)	(7,341)	(7,503)
Income Before Provision for Income Taxes, Minority Interest, Extraordinary Item, and Cumulative Effect of Change in Accounting Principles	9,546	15,770	26,383
Provision for Income Taxes (Note 7)	3,619	6,642	10,947
Minority Interest (Income) Expense	4	(234)	(576)
Income Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles	5,923	9,362	16,012
Extraordinary Item (net of income taxes of $19 and $440; Note 8)	31	620	-
Income Before Cumulative Effect of Change in Accounting Principles	5,954	9,982	16,012
Cumulative Effect of Change in Accounting Principles (net of income tax benefits of $12,420 and $580; Note 17)	(32,756)	-	(870)
Net Income (Loss)	$ (26,802)	$ 9,982	$ 15,142
EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES (Note 15)			
Basic	$ .46	$ .76	$ 1.31
Diluted	$ .45	$ .76	$ 1.30
EARNINGS (LOSS) PER SHARE (Note 15)			
Basic	$ (2.07)	$ .81	$ 1.24
Diluted	$ (2.04)	$ .81	$ 1.23
WEIGHTED AVERAGE SHARES (Note 15)			
Basic	12,945	12,266	12,260
Diluted	13,109	12,313	12,298

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

CONSOLIDATED BALANCE SHEET

(In thousands)	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 44,429	$ 102,807
Available-for-sale investments, at quoted market value (amortized cost of $16,625; Note 2)	-	16,625
Accounts receivable, less allowances of $2,634 and $2,515	30,818	39,178
Unbilled contract costs and fees	6,002	10,126
Inventories	29,486	33,534
Deferred tax asset (Note 7)	6,668	6,991
Other current assets	2,974	3,198
	120,377	212,459
Property, Plant, and Equipment, at Cost, Net (Notes 3 and 12)	25,461	28,485
Other Assets (Notes 5 and 7)	13,458	10,441
Goodwill (Notes 4, 11, and 17)	72,221	116,269
	$ 231,517	$ 367,654

CONSOLIDATED BALANCE SHEET (CONTINUED)

(In thousands except share amounts)	2002	2001
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Current maturities of long-term obligations (Notes 4 and 8)	$ 585	$ 573
Accounts payable	18,093	18,661
Accrued payroll and employee benefits	9,445	7,990
Accrued warranty costs	4,310	4,598
Customer deposits	2,301	3,070
Accrued income taxes	1,403	2,120
Other current liabilities	9,539	13,240
Accrued merger consideration (Note 11)	-	2,824
	45,676	53,076
Deferred Income Taxes (Note 7)	940	8,983
Other Long-Term Liabilities (Note 5)	2,763	2,474
Long-Term Obligations:		
Subordinated convertible debentures (Notes 8 and 13)	-	118,138
Notes payable (Notes 4 and 8)	580	1,129
	580	119,267
Minority Interest (Note 3)	301	297
Commitments and Contingencies (Note 10)		
Shareholders' Investment (Notes 5 and 6):		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 150,000,000 shares authorized; 14,045,550 and 12,745,165 shares issued	140	127
Capital in excess of par value	98,567	81,229
Retained earnings	116,702	143,504
Treasury stock at cost, 495,265 and 505,146 shares	(20,901)	(21,345)
Deferred compensation	(27)	(5)
Accumulated other comprehensive items (Note 16)	(13,224)	(19,953)
	181,257	183,557
	$ 231,517	$ 367,654

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)	2002	2001	2000
OPERATING ACTIVITIES			
Net income (loss)	$ (26,802)	$ 9,982	$ 15,142
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Extraordinary item, net of income taxes (Note 8)	(31)	(620)	-
Cumulative effect of change in accounting principles, net of income tax benefit (Note 17)	32,756	-	870
Depreciation and amortization	5,177	9,296	9,540
Provision for losses on accounts receivable	818	1,146	1,197
Minority interest (income) expense	4	(234)	(576)
Gain on sale of business and property (Note 4)	-	-	(1,700)
Noncash restructuring and unusual items (Note 12)	2,399	-	(506)
Deferred income tax (income) expense	(1,019)	1,028	108
Other noncash items	891	158	(246)
Changes in current accounts, excluding the effects of acquisitions and dispositions:			
Accounts receivable	8,426	3,161	1,021
Unbilled contract costs and fees	4,821	(2,202)	1,069
Inventories	5,349	(803)	(2,505)
Other current assets	(640)	22	(3,791)
Accounts payable	(1,610)	(2,942)	1,049
Other current liabilities	(3,545)	(5,187)	(2,234)
Net cash provided by operating activities	26,994	12,805	18,438
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired (Note 4)	-	-	(3,302)
Acquisition of capital equipment and technology (Note 3)	-	-	(1,200)
Acquisition of minority interest in subsidiary (Note 11)	(1,363)	(1,761)	-
Proceeds from sale of business and property, net of cash divested (Note 4)	-	-	4,109
Advances to former affiliates, net	-	5,704	88,076
Purchases of available-for-sale investments	-	-	(132,058)
Proceeds from maturities of available-for-sale investments	16,625	69,480	92,424
Purchases of property, plant, and equipment	(3,344)	(4,589)	(6,355)
Proceeds from sale of property, plant, and equipment	512	177	252
Proceeds from repayment of notes receivable (Note 4)	200	2,400	800
Other	(364)	(55)	(295)
Net cash provided by investing activities	$ 12,266	$ 71,356	$ 42,451

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(In thousands)	2002	2001	2000
FINANCING ACTIVITIES			
Redemption of subsidiary common stock (Note 11)	$ (1,461)	$ (13,140)	$ (34,603)
Purchases of Company subordinated convertible debentures (Note 8)	(117,545)	(33,407)	-
Purchases of Company and subsidiary common stock	-	(587)	-
Net proceeds from issuance of Company common stock (Note 6)	17,655	-	-
Net proceeds from issuance of Company and subsidiary common stock (Note 5)	516	2,584	1,204
Transfer from Thermo Electron	-	1,309	-
Repayment of long-term obligations	(537)	(509)	(313)
Net cash used in financing activities	(101,372)	(43,750)	(33,712)
Exchange Rate Effect on Cash	3,734	(65)	(3,970)
Increase (Decrease) in Cash and Cash Equivalents	(58,378)	40,346	23,207
Cash and Cash Equivalents at Beginning of Year	102,807	62,461	39,254
Cash and Cash Equivalents at End of Year	$ 44,429	$ 102,807	$ 62,461
CASH PAID FOR			
Interest	$ 6,853	$ 7,521	$ 7,041
Income taxes	$ 4,978	$ 4,631	$ 11,779
NONCASH ACTIVITIES (Notes 3 and 4)			
Fair value of assets of acquired companies, capital equipment, and technology	$ -	$ -	$ 6,345
Cash paid for acquired companies, capital equipment, and technology	-	-	(3,889)
Payable for acquired companies, capital equipment, and technology	-	-	(795)
Liabilities assumed of acquired companies	$ -	$ -	$ 1,661
Amounts forgiven in exchange for the acquisition of 49% minority interest in Kadant Composites Inc. (Note 3)	$ -	$ 2,053	$ -

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) AND SHAREHOLDERS' INVESTMENT

(In thousands)	2002	2001	2000
COMPREHENSIVE INCOME (LOSS)			
Net Income (Loss)	$ (26,802)	$ 9,982	$ 15,142
Other Comprehensive Items (Note 16):			
Foreign currency translation adjustment	6,528	(460)	(8,465)
Deferred gain (loss) on foreign currency contracts	201	(19)	-
Unrealized gain (loss) on available-for-sale investments, net of taxes	-	(21)	63
	6,729	(500)	(8,402)
	$ (20,073)	$ 9,482	$ 6,740
SHAREHOLDERS' INVESTMENT			
Common Stock, $.01 Par Value:			
Balance at beginning of year	$ 127	$ 127	$ 127
Issuance of Company common stock (Note 6)	13	-	-
Balance at end of year	140	127	127
Capital in Excess of Par Value:			
Balance at beginning of year	81,229	77,231	77,919
Issuance of Company common stock (Note 6)	17,642	-	-
Activity under employees' and directors' stock plans	(304)	142	167
Tax benefit related to employees' and directors' stock plans	-	1,058	512
Effect of majority-owned subsidiary's equity transactions (Note 11)	-	2,798	(1,367)
Balance at end of year	98,567	81,229	77,231
Retained Earnings:			
Balance at beginning of year	143,504	133,522	118,380
Net income (loss)	(26,802)	9,982	15,142
Balance at end of year	116,702	143,504	133,522
Treasury Stock, at Cost:			
Balance at beginning of year	(21,345)	(20,758)	(21,239)
Purchases of Company common stock	-	(587)	-
Activity under employees' and directors' stock plans	444	-	481
Balance at end of year	(20,901)	(21,345)	(20,758)
Deferred Compensation:			
Balance at beginning of year	(5)	(36)	(66)
Issuance of restricted stock under directors' stock plans (Note 5)	(106)	-	-
Amortization of deferred compensation	84	31	30
Balance at end of year	(27)	(5)	(36)
Accumulated Other Comprehensive Items (Note 16):			
Balance at beginning of year	(19,953)	(19,453)	(11,051)
Other comprehensive items	6,729	(500)	(8,402)
Balance at end of year	(13,224)	(19,953)	(19,453)
	$ 181,257	$ 183,557	$ 170,633

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

NATURE OF OPERATIONS

Kadant Inc. (the Company) operates in two segments: (1) Pulp and Papermaking Equipment and Systems and (2) Composite and Fiber-based Products. Through its Pulp and Papermaking Equipment and Systems segment, the Company develops, manufactures, and markets a range of equipment and products for the domestic and international papermaking and paper recycling industries. The Company's principal products in this segment include custom-engineered stock-preparation systems and equipment for the preparation of wastepaper for conversion into recycled paper; papermaking machine accessory equipment and related consumables important to the efficient operation of paper machines; and water-management systems essential for draining, purifying, and recycling process water. Through its Composite and Fiber-based Products segment, the Company develops, manufactures, and markets composite products for the building industry made from recycled fiber and plastic, and manufactures and sells granules derived from pulp fiber primarily for use as agricultural carriers and for home lawn and garden applications.

On July 12, 2001, the Company changed its name to Kadant Inc. from Thermo Fibertek Inc. The Company's common stock trades under the ticker symbol "KAI" on the American Stock Exchange.

COMPANY HISTORY AND FORMER RELATIONSHIP WITH THERMO ELECTRON CORPORATION

The Company was incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron Corporation and as the successor-in-interest to several of Thermo Electron's subsidiaries. In November 1992, the Company conducted an initial public offering of its common stock and became a majority-owned public subsidiary of Thermo Electron. As part of a major reorganization plan, Thermo Electron spun off its equity interest in the Company as a dividend to Thermo Electron shareholders on August 8, 2001 (Spinoff Date), on the basis of 0.0612 shares of the Company's common stock for each share of Thermo Electron common stock outstanding. Following the distribution, Thermo Electron ceased to hold any shares of the Company's common stock. Thermo Electron received a favorable private letter ruling from the Internal Revenue Service (IRS) that the distribution would generally qualify as a tax-free distribution, with approximately 8% of the shares distributed being considered "taxable" shares, subject to certain conditions.

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, and its 95%-owned Fiberprep, Inc. subsidiary. In December 2001, Kadant Fibergen Inc., formerly Thermo Fibergen Inc., a majority-owned public subsidiary, was merged into a wholly owned subsidiary of the Company (Note 11). All material intercompany accounts and transactions have been eliminated.

FISCAL YEAR

The Company has adopted a fiscal year ending the Saturday nearest December 31. References to 2002, 2001, and 2000 are for the fiscal years ended December 28, 2002, December 29, 2001, and December 30, 2000, respectively. The Company's Kadant Lamort subsidiary, based in France, has a fiscal year ending on November 30 to allow sufficient time for the Company to consolidate the financial statements of that business.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Critical accounting policies are defined as those that entail significant judgments and estimates, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the most critical accounting policies upon which its financial condition depends, and which involve the most complex or subjective decisions or assessments, concern revenue recognition, accounts receivable, inventories, warranties, and the valuation of intangible assets and goodwill. A discussion on the application of these and other accounting policies is detailed throughout Note 1.

Although the Company makes every effort to ensure the accuracy of the estimates and assumptions used in the preparation of the financial statements or in the application of accounting policies, if business conditions were different, or if the Company used different estimates and assumptions, it is possible that materially different amounts could be reported in the Company's financial statements.

REVENUE RECOGNITION

Prior to 2000, the Company generally recognized revenues upon shipment of its products. During the fourth quarter of 2000, effective January 2, 2000, the Company adopted Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." Under SAB No. 101, when the terms of sale include customer acceptance provisions, and compliance with those provisions cannot be demonstrated until customer acceptance, revenues are recognized upon such acceptance. Revenues for products sold that require installation for which the installation is essential to functionality, or is not deemed inconsequential or perfunctory, are recognized upon completion of installation. Revenues for products sold where installation is not essential to functionality, and is deemed inconsequential or perfunctory, are recognized upon shipment with estimated installation costs accrued (Note 17).

In addition, revenues and profits on certain long-term contracts are recognized using the percentage-of-completion method. Revenues recorded under the percentage-of-completion method were $35,403,000 in 2002, $53,508,000 in 2001, and $43,440,000 in 2000. The percentage of completion is determined by relating the actual costs incurred to date to an estimate of total costs to be incurred on each contract. If a loss is indicated on any contract in process, a provision is made currently for the entire loss. The Company's contracts generally provide for billing of customers upon the attainment of certain milestones specified in each contract. Revenues earned on contracts in process in excess of billings are classified as unbilled contract costs and fees, and amounts billed in excess of revenues earned are classified as billings in excess of contract costs and fees in the accompanying balance sheet. There are no significant amounts included in the accompanying balance sheet that are not expected to be recovered from existing contracts at current contract values, or that are not expected to be collected within one year, including amounts that are billed but not paid under retainage provisions.

WARRANTY OBLIGATIONS

The Company provides for the estimated cost of product warranties, primarily using historical information and repair costs, at the time product revenue is recognized. In the Papermaking Equipment segment, we typically negotiate the terms regarding warranty coverage and length of warranty depending on the products and applications. In the Composite and Fiber-based Products segment, we offer a standard limited warranty on our decking and roofing products restricted to repair or replacement of the defective product or refund of the original purchase price. While the Company engages in extensive product quality programs and processes, the Company's warranty obligation is affected by product failure rates, repair costs, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company. Should actual product failure rates, repair costs, service delivery costs, or supplier warranties on parts differ from the Company's estimates, revisions to the estimated warranty liability

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

would be required. The changes in the carrying amount of product warranties for the year ended December 28, 2002, are as follows (in thousands):

	2002
Balance at December 29, 2001	$ 4,598
Provision charged to income	2,241
Usage	(2,725)
Other, net (a)	196
Balance at December 28, 2002	$ 4,310

(a) Primarily represents the effects of currency translation.

STOCK-BASED COMPENSATION PLANS

The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based compensation plans (Note 5). Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to shareholders' investment.

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation," which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. No stock-based employee compensation cost related to stock option awards is reflected in net income as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation cost for awards granted after 1994 under the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain of the Company's financial results would have been as follows:

(In thousands except per share amounts)	2002	2001	2000
Net Income (Loss):			
As reported	$ (26,802)	$ 9,982	$ 15,142
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	(1,389)	(602)	(944)
Pro forma	$ (28,191)	$ 9,380	$ 14,198
Basic Earnings (Loss) per Share:			
As reported	(2.07)	.81	1.24
Pro forma	(2.18)	.76	1.16
Diluted Earnings (Loss) per Share:			
As reported	(2.04)	.81	1.23
Pro forma	(2.15)	.76	1.15

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

The weighted average fair value per share of options granted was $8.19, $6.29, and $5.50, in 2002, 2001, and 2000, respectively. The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model, assuming an expected dividend yield of zero with the following weighted-average assumptions:

	2002	2001	2000
Volatility	46%	50%	42%
Risk-Free Interest Rate	4.3%	4.1%	4.9%
Expected Life of Options	7 years	5 years	1 year

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

INCOME TAXES

In accordance with SFAS No. 109, "Accounting for Income Taxes," the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return.

Prior to the spinoff from Thermo Electron, the Company and Thermo Electron were parties to a tax allocation agreement under which the Company and its subsidiaries, except its foreign operations, its Fiberprep subsidiary, and in 2000, its Kadant Composites Inc. subsidiary, were included in the consolidated federal and certain state income tax returns filed by Thermo Electron. The tax allocation agreement provided that, in years in which these entities had taxable income, the Company would pay to Thermo Electron amounts comparable to the taxes it would have paid if the Company had filed separate tax returns. The tax allocation agreement terminated as of the Spinoff Date, at which time the Company and Thermo Electron entered into a tax matters agreement.

The tax matters agreement requires, among other things, that the Company file its own income tax returns for tax periods beginning immediately after the Spinoff Date. In addition, the tax matters agreement requires that the Company indemnify Thermo Electron, but not the shareholders of Thermo Electron, against liability for taxes resulting from (a) the conduct of the Company's business following the distribution or (b) the failure of the distribution to Thermo Electron shareholders of shares of the Company's common stock or of Viasys Healthcare Inc. (another Thermo Electron spinoff) common stock to continue to qualify as a tax-free spinoff under Section 355 of the Internal Revenue Code as a result of certain actions that the Company takes following the distribution. Thermo Electron has agreed to indemnify the Company against taxes resulting from the conduct of Thermo Electron's business prior to and following the distribution, or from the failure of the distribution of shares of the Company's common stock to Thermo Electron shareholders to continue to qualify as a tax-free spinoff other than as a result of some actions that the Company may take following the distribution. Although not anticipated, if any of the Company's post-distribution activities causes the distribution to become taxable, the Company could incur liability to Thermo Electron and/or various taxing authorities, which could adversely affect the Company's results of operations, financial position, and cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

EARNINGS PER SHARE

Basic earnings per share have been computed by dividing net income by the weighted average number of shares outstanding during the year. Except where the effect would have been antidilutive, diluted earnings per share have been computed assuming the exercise of stock options, as well as their related income tax effects. The conversion of the Company's convertible obligations and the elimination of its related interest expense was antidilutive in all periods presented.

STOCK SPLIT

All share and per share information, including the conversion price of the Company's subordinated convertible debentures, has been restated to reflect a one-for-five reverse stock split of the Company's common stock, effective July 12, 2001.

CASH AND CASH EQUIVALENTS

At year-end 2002 and 2001, the Company's cash equivalents included investments in commercial paper and money market funds, and other marketable securities of its domestic and foreign subsidiaries, which had maturities of three months or less at the date of purchase. Cash equivalents are carried at cost, which approximates market value.

INVENTORIES

Inventories are stated at the lower of cost (on a first-in, first-out, or weighted average basis) or market value and include materials, labor, and manufacturing overhead. The components of inventories are as follows:

(In thousands)	2002	2001
Raw Materials and Supplies	$ 12,937	$ 13,625
Work in Process	6,126	6,962
Finished Goods (includes $954 and $1,917 at customer locations)	10,423	12,947
	$ 29,486	$ 33,534

The Company periodically reviews its quantities of inventories on hand and compares these amounts to expected usage of each particular product or product line. The Company records as a charge to cost of revenues any amounts required to reduce the carrying value of inventories to net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

PROPERTY, PLANT, AND EQUIPMENT

The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: buildings, 10 to 40 years; machinery and equipment, 2 to 10 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. Property, plant, and equipment consists of the following:

(In thousands)	2002	2001
Land	$ 2,851	$ 2,784
Buildings	19,684	19,562
Machinery, Equipment, and Leasehold Improvements	47,685	49,364
	70,220	71,710
Less: Accumulated Depreciation and Amortization	44,759	43,225
	$ 25,461	$ 28,485

OTHER ASSETS

Other assets in the accompanying balance sheet includes intangible assets, deferred charges, notes receivable (Note 4), and deferred debt expense. Intangible assets includes the costs of patents, acquired intellectual property, and noncompete agreements entered into in connection with acquisitions, which are amortized using the straight-line method over periods of up to 15, 7, and 10 years, respectively. Acquired intangible assets are as follows:

(In thousands)	Gross	Accumulated Amortization	Net
December 28, 2002			
Patents	$ 1,000	$ (542)	$ 458
Noncompete agreements	3,079	(1,720)	1,359
Acquired intellectual property	6,410	(2,302)	4,108
	$ 10,489	$ (4,564)	$ 5,925
December 29, 2001			
Patents	$ 1,000	$ (458)	$ 542
Noncompete agreements	3,079	(1,404)	1,675
Acquired intellectual property	6,410	(1,747)	4,663
	$ 10,489	$ (3,609)	$ 6,880

Amortization of acquired intangible assets was $955,000, $1,067,000, and $1,214,000 in 2002, 2001, and 2000, respectively. The estimated future amortization expense of acquired intangible assets is: $904,000 in 2003 through 2005, $865,000 in 2006, $452,000 in 2007, and $1,896,000 in 2008 and thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

GOODWILL

Goodwill represents the excess of acquisition costs over the estimated fair value of the net assets acquired and was amortized through year-end 2001 using the straight-line method principally over 40 years. Accumulated amortization was $19,552,000 at year-end 2001. In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." The Company adopted SFAS No. 142, effective December 30, 2001. SFAS No. 142 requires that amortization of goodwill cease and that the Company evaluate the recoverability of goodwill and other intangible assets annually, or more frequently if events or changes in circumstances, such as a decline in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are established using a discounted cash flow methodology (specifically, the income approach). The determination of discounted cash flows is based on the Company's strategic plans and long-range forecasts. The revenue growth rates included in the forecasts are the Company's best estimates based on current and anticipated market conditions, and the profit margin assumptions are projected based on the current and anticipated cost structures. In accordance with the SFAS No. 142 transition procedures, the Company recorded a goodwill impairment charge for the cumulative effect of change in accounting principle of $32,756,000, net of income tax benefit of $12,420,000, upon the adoption of SFAS No. 142, as further described in Note 17.

Through year-end 2001, the Company assessed the future useful life and recoverability of goodwill and other noncurrent assets whenever events or changes in circumstances indicated that the current useful life had diminished, or the carrying value had been impaired. Such events or circumstances generally would have included the occurrence of operating losses or a significant decline in earnings associated with the acquired business or asset. The Company considered the future undiscounted cash flows of the acquired companies in assessing the recoverability of this asset. The Company assessed cash flows before interest charges and if impairment were indicated, would write the asset down to fair value. If quoted market values were not available, the Company estimated fair value by calculating the present value of future cash flows. If impairment had occurred, any excess of carrying value over fair value would have been recorded as a loss. At December 29, 2001, no goodwill impairment existed under this method.

FOREIGN CURRENCY

All assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year in accordance with SFAS No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected in the accumulated other comprehensive items component of shareholders' investment (Note 16). Foreign currency transaction gains and losses are included in the accompanying statement of income and are not material for the three years presented.

FORWARD CONTRACTS

Effective in the first quarter of 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, requires that all derivatives, including forward currency exchange contracts, be recognized on the balance sheet at fair value. Derivatives that are not hedges must be recorded at fair value to earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged item through earnings or are recognized in other comprehensive income until the hedged item is recognized in earnings. The Company records to earnings immediately the extent to which a hedge is not effective in achieving offsetting changes in fair value. Adoption of SFAS No. 133 in the first quarter of 2001 did not have a material effect on the Company's financial position and results of operations.

The Company uses forward currency exchange contracts primarily to hedge certain operational ("cash flow" hedges) and balance sheet ("fair value" hedges) exposures resulting from fluctuations in currency exchange rates. Such exposures primarily result from portions of the Company's operations and assets that are denominated in currencies other than the functional currencies of the businesses conducting the operations or holding the assets. The Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

enters into currency exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business, and accordingly, the hedges are not speculative in nature. The Company does not hold or transact in financial instruments for purposes other than risk management.

The Company records its currency exchange contracts at fair value in its consolidated balance sheet as other current assets or other current liabilities and, for cash flow hedges, the related gains or losses on these contracts are deferred as a component of other comprehensive items. These deferred gains and losses are recognized in the period in which the underlying anticipated transaction occurs. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposure being hedged. The fair value of these contracts at year-end 2002 and the net impact of the related gains and losses on selling, general, and administrative expense, including the effect of the underlying hedged items, were not material in 2002.

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143, effective in 2003, addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements.

Accounting for the Impairment or Disposal of Long-lived Assets

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Adoption of the standard during the first quarter of 2002 did not have an effect on the Company's consolidated financial statements.

Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Adoption of the standard is generally required in 2003. Under the standard, transactions currently classified by the Company as extraordinary items, such as gains and losses from the Company's early extinguishment of its convertible debentures (Note 8), will no longer be treated as such, but instead will be reported as other nonoperating income or expense. Prior periods will be restated to conform to this presentation.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes Emerging Issues Task Force (EITF) Pronouncement No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The standard affects the accounting for recognition of restructuring charges and related activities. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

provisions of this statement are required to be adopted for exit or disposal activities that are initiated after 2002. The provisions of EITF No. 94-3 will continue to apply with regard to the Company's previously announced restructuring plans. The adoption of this statement is not expected to have a material effect on the Company's results of operations.

Accounting for Revenue Arrangements with Multiple Deliverables

In November 2002, the EITF reached a final consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The provisions of EITF No. 00-21 are required to be adopted for revenue arrangements entered into by the Company after June 28, 2003, although early adoption is permitted. EITF No. 00-21 addresses arrangements with customers that have multiple deliverables, such as equipment and installation, and provides guidance as to when recognition of revenue for each deliverable is appropriate. The Company is currently evaluating the impact of the adoption of EITF No. 00-21 on its consolidated financial statements.

Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, while the disclosure requirements are applicable in 2002. The Company is complying with the disclosure requirements of FIN No. 45 and is evaluating the effect the other requirements may have on its consolidated financial statements.

Accounting for Stock-Based Compensation - Transition and Disclosure

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has elected not to adopt the fair-value recognition provisions as provided for in SFAS No. 123, but to continue to apply APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based compensation plans. APB No. 25 does not require options to be expensed when granted with an exercise price equal to fair market value. The Company has adopted the disclosure provisions of SFAS No. 148 as of December 28, 2002 (Note 1).

2. Available-for-Sale Investments

Debt securities owned by the Company are considered available-for-sale investments in the accompanying balance sheet and are carried at market value, with the difference between cost and market value, net of related tax effects, recorded in the accumulated other comprehensive items component of shareholders' investment. At year-end 2001, the cost basis of the Company's available-for-sale investments approximated market value. Therefore, there were no unrealized gains or losses on these investments at December 29, 2001.

Available-for-sale investments, which consist of corporate bonds in the accompanying 2001 balance sheet, have contractual maturities of one year or less.

The cost of available-for-sale investments that were sold was based on specific identification in determining the gross realized gains and losses in the accompanying statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Composites Venture

In October 1999, the Company created a subsidiary, Kadant Composites Inc., to develop, produce, and market fiber-based composite products primarily for the building industry. The Company capitalized Kadant Composites with $3,200,000 in cash. Kadant Composites then purchased capital equipment and technology related to the development of fiber-based composites, valued at $5,275,000, in exchange for shares of its common stock equal to 49% of its equity and $1,700,000 in cash, payable in installments, if certain conditions were met. The Company paid $1,200,000 and $500,000 of the purchase price in 2000 and 1999, respectively.

The Company constructed a composites manufacturing facility in Green Bay, Wisconsin, and began production at the facility in 2000.

In January 2001, the Company acquired the remaining 49% minority equity interest in Kadant Composites from the minority investor (the Seller). In exchange for the 49% equity interest, the Company agreed to forgive $2,053,000 due from the Seller related to its investment in Kadant Composites prior to the purchase of the remaining 49% equity interest. The excess of assigned fair value of net assets acquired from the buyout over the acquisition cost resulted in a reduction in the intangible asset recorded at the time of the Company's initial investment in Kadant Composites.

4. Acquisitions and Dispositions

ACQUISITIONS

In June 2000, the Company acquired Cyclotech AB - Stockholm, a Swedish manufacturer of stock-preparation equipment, for $540,000 in cash. Of the total purchase price, $478,000 was paid at closing and the remaining $62,000 was paid in 2001. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by $541,000.

In February 2000, the Company acquired the assets of Gauld Equipment Manufacturing Company, Inc., a manufacturer of stock-preparation equipment, for $3,411,000 in cash and a $923,000 noninterest bearing contract with a controlling shareholder of Gauld, payable in equal annual installments over four years. The liability was initially recorded at its net present value of $795,000. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by $2,128,000.

These acquisitions have been accounted for using the purchase method of accounting, and their results of operations have been included in the accompanying financial statements from their respective dates of acquisition. Allocation of the purchase price for these acquisitions was based on estimates of the fair value of the net assets acquired. Pro forma results have not been presented, as the results of the acquired businesses were not material to the Company's results of operations.

DISPOSITIONS

In September 2000, the Company sold substantially all of the assets of its fiber-recovery and water-clarification services plant to the host mill for $3,600,000. The purchase price consisted of an initial payment of $200,000 at the date of closing and a note receivable to be paid in 17 monthly payments of $200,000, plus interest at 9.5%, beginning September 28, 2000. The note receivable was secured by an irrevocable letter of credit. The Company recognized a pretax gain of $729,000 on the sale during 2000.

In June 2000, the Company sold its interest in a tissue mill in Maine for $3,909,000 in cash, resulting in a pretax gain of $971,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Employee Benefit Plans

STOCK-BASED COMPENSATION PLANS

General

The Company maintains stock-based compensation plans primarily for its key employees and directors, although the plans permit awards to others expected to make a significant contribution to the future of the Company. The plans authorize the human resources committee of the Company's board of directors (the board committee) to award a variety of stock and stock-based incentives, such as restricted stock, nonqualified and incentive stock options, stock bonus shares, or performance-based shares. The award recipients and the terms of awards, including price, granted under these plans are determined by the board committee. Options granted under these plans prior to 2001 were nonqualified options that are exercisable immediately, but are subject to provisions similar to vesting that restrict transfer and afford the Company the right to repurchase the shares at the exercise price upon certain events. The restrictions and repurchase rights for these options generally lapse over five to ten years and the term of the option may range from five to twelve years. Options granted under these plans in 2001 and after are nonqualified options that vest over three years and are not exercisable until vested. To date, all options have been granted at an exercise price equal to the fair market value of the Company's common stock on the date of grant. Upon a change of control, as defined in the plans, all options or other awards become fully vested and all restrictions lapse.

The Company also had a separate stock option plan for directors that provided for the annual grant of stock options to outside directors on the date of the Company's annual meeting of shareholders, which was terminated in April 2002. Options outstanding under this plan are immediately exercisable and expire three years after the date of grant.

Restricted Stock

In April 2002, the Company awarded 7,500 shares of its restricted common stock to its outside directors. The shares had an aggregate value of $106,000 and are restricted from resale for five years.

The Company has recorded the fair value of the restricted stock awards as deferred compensation in the accompanying consolidated balance sheet, and amortizes these amounts over their respective vesting periods.

Spinoff Option Exchange

On the Spinoff Date, options to purchase shares of Thermo Electron common stock held by the Company's employees were exchanged for options to purchase 582,509 shares of the Company's common stock. The price and share adjustments to the exchanged options were determined in accordance with FASB Interpretation No. 44 and accordingly, no compensation expense resulted from this transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Employee Benefit Plans (continued)

Stock Options

The Company had 178,000 options available for grant under these plans at December 28, 2002. A summary of the Company's stock option activity is as follows:

(Shares in thousands)	2002 Number of Shares	2002 Weighted Average Exercise Price	2001 Number of Shares	2001 Weighted Average Exercise Price	2000 Number of Shares	2000 Weighted Average Exercise Price
Options Outstanding, Beginning of Year	2,299	$ 16.87	535	$ 33.85	611	$ 32.85
Granted	595	15.26	1,245	13.05	1	33.30
Exercised	(4)	12.66	-	-	(30)	18.90
Forfeited	(154)	21.62	(64)	38.78	(47)	30.65
Issued in Exchange	-	-	583	11.84	-	-
Options Outstanding, End of Year	2,736	$ 16.26	2,299	$ 16.87	535	$ 33.85
Options Exercisable	1,327	$ 18.67	1,054	$ 21.38	535	$ 33.85

A summary of the status of the Company's stock options at December 28, 2002, is as follows:

Range of Exercise Prices	Options Outstanding: Number of Shares (In thousands)	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number of Shares (In thousands)	Options Exercisable: Weighted Average Remaining Contractual Life	Options Exercisable: Weighted Average Exercise Price
$ 4.38 - $ 16.00	2,366	5.5 years	$ 13.13	957	4.6 years	$ 11.87
18.05 - 29.15	140	3.5 years	25.09	140	3.5 years	25.09
30.75 - 57.25	228	2.9 years	42.60	228	2.9 years	42.60
93.33 - 110.80	2	5.1 years	103.68	2	5.1 years	103.68
$ 4.38 - $ 110.80	2,736	5.2 years	$ 16.26	1,327	4.2 years	$ 18.67

Employee Stock Purchase Plan

Substantially all of the Company's full-time U.S. employees are eligible to participate in its employee stock purchase plan. Under the plan, shares of the Company's common stock may be purchased at a 15% discount from the fair market value at the beginning or end of the purchase period, whichever is lower. Shares purchased under the plan are subject to a one-year resale restriction and are purchased through payroll deductions of up to 10% of each participating employee's gross wages. For the 2002, 2001, and 2000 plan years, the Company issued 20,006 shares (issued in January 2003), 12,872 shares, and 6,304 shares, respectively, of its common stock under this plan.

401(k) SAVINGS PLAN

Effective November 2000, the majority of the Company's U.S. subsidiaries participate in the Company's 401(k) retirement savings plan and, prior to November 2000, participated in Thermo Electron's 401(k) savings plan. Contributions to the plan are made by both the employee and the Company. Company contributions are based upon the level of employee contributions. The Company contributed and charged to expense $674,000, $835,000, and $803,000 related to the 401(k) plans in 2002, 2001, and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Employee Benefit Plans (continued)

PROFIT-SHARING PLAN

One of the Company's U.S. subsidiaries has adopted a profit-sharing plan under which the Company annually contributes approximately 10% of the subsidiary's net income before profit-sharing expense. All contributions are immediately vested. In addition, one of the Company's foreign subsidiaries maintains a state-mandated profit sharing plan. Under this plan, the Company contributes up to 11% of the subsidiary's net profit after taxes, reduced by 5% of its shareholders' investment. For these plans, the Company contributed and charged to expense $487,000, $880,000, and $812,000 in 2002, 2001, and 2000, respectively.

DEFINED BENEFIT PENSION PLAN

One of the Company's U.S. subsidiaries has a noncontributory defined benefit retirement plan. Benefits under the plan are based on years of service and employee compensation. Funds are contributed to a trustee as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period.

Net periodic benefit (income) expense includes:

(In thousands)	2002	2001	2000
Interest Cost	$ 1,013	$ 957	$ 902
Service Cost	623	483	496
Expected Return on Plan Assets	(1,584)	(1,771)	(1,884)
Amortization of Unrecognized (Gain) Loss	45	(203)	(380)
	$ 97	$ (534)	$ (866)

The Company's defined benefit pension plan activity is:

(In thousands)	2002	2001
Change in Benefit Obligation:		
Benefit obligation, beginning of year	$ 13,973	$ 12,538
Interest cost	1,013	957
Service cost	623	483
Benefits paid	(616)	(547)
Actuarial gain	347	542
Benefit obligation, end of year	15,340	13,973
Change in Plan Assets:		
Fair value of plan assets, beginning of year	17,382	19,404
Actual return on plan assets	(1,962)	(1,475)
Benefits paid	(616)	(547)
Fair value of plan assets, end of year	14,804	17,382
Funded (Unfunded) Status	(536)	3,409
Unrecognized Net (Gain) Loss	2,830	(1,018)
Prepaid Benefit Costs	$ 2,294	$ 2,391

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Employee Benefit Plans (continued)

Plan assets are primarily invested in equity securities, fixed-income securities, cash, and cash equivalents. Prepaid benefit costs are included in other assets in the accompanying balance sheet.

The weighted average actuarial assumptions used by the plan as of the end of each of the following years were:

	2002	2001	2000
Discount rate	6.75%	7.25%	7.50%
Expected return on plan assets	8.75%	9.25%	9.25%
Rate of salary increases	5.00%	5.50%	5.50%

OTHER RETIREMENT PLANS

Certain of the Company's subsidiaries offer other retirement plans. The majority of these subsidiaries offer defined contribution plans. Company contributions to these plans are based on formulas determined by the Company. For these plans, the Company contributed and charged to expense $1,709,000, $1,406,000, and $1,195,000 in 2002, 2001, and 2000, respectively. Other long-term liabilities in the accompanying balance sheet represent liabilities related to two of these plans at year end 2002 and 2001.

6. Preferred and Common Stock

PREFERRED STOCK

In May 2001, the Company's shareholders approved an amendment to its Certificate of Incorporation to authorize 5,000,000 shares of preferred stock, $.01 par value per share, for issuance by the Company's board of directors without further shareholder approval. Subsequently, the board of directors designated 15,000 shares of such preferred stock as Series A junior participating preferred stock for issuance under the Company's Shareholder Rights Plan (see below). No such preferred stock has been issued by the Company.

COMMON STOCK

In June 2002, the Company sold 1,300,000 shares of its common stock in a public offering at $14.62 per share, for net proceeds of $17,655,000. The Company sold approximately 10% of its outstanding common stock, which satisfied an IRS ruling related to the spinoff of the Company from Thermo Electron (Note 1).

In 2001, the Company's board of directors adopted a shareholder rights plan. Under the plan, one right was distributed at the close of business on August 6, 2001, for each share of the Company's common stock outstanding at that time. The rights plan is designed to provide shareholders with fair and equal treatment in the event of an unsolicited attempt to acquire the Company. The rights were attached to the Company's outstanding common stock at the time of distribution and are not separately transferable or exercisable. The rights will become exercisable if a person acquires 15 percent or more of the Company's common stock, or a tender or exchange offer is commenced for 15 percent or more of the Company's common stock, unless, in either case, the transaction was approved by the Company's board of directors. If the rights become exercisable, each right will initially entitle the Company's shareholders to purchase .0001 of a share of the Company's Series A junior participating preferred stock, $.01 par value, at an exercise price of $75. In addition, except with respect to transactions approved by the Company's board of directors, if the Company is involved in a merger or other transaction with another company in which it is not the surviving corporation, or the Company sells or transfers 50 percent or more of its assets or earning power to another company, each right (other than rights owned by the acquirer) will entitle its holder to purchase $75 worth of the common stock of the acquirer at half the market value at that time. The Company is entitled to redeem the rights at $.001 per right at any time prior to the tenth business day (or later, if so determined by the board of directors) after the acquisition of 15 percent or more of the Company's common stock. Unless the rights are redeemed or exchanged earlier, they will expire on July 16, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Preferred and Common Stock (continued)

At December 28, 2002, the Company had reserved 3,255,486 unissued shares of its common stock for possible issuance under stock-based compensation plans.

7. Income Taxes

The components of income before provision for income taxes, minority interest, extraordinary item, and cumulative effect of change in accounting principles are as follows:

(In thousands)	2002	2001	2000
Domestic	$ 196	$ 3,482	$ 13,914
Foreign	9,350	12,288	12,469
	$ 9,546	$ 15,770	$ 26,383

The components of the provision for income taxes are as follows:

(In thousands)	2002	2001	2000
Current Provision:			
Federal	$ 550	$ 352	$ 5,594
Foreign	3,696	4,810	4,299
State	392	452	946
	4,638	5,614	10,839
Net Deferred Provision (Benefit):			
Federal	(822)	923	569
Foreign	(389)	(233)	(177)
State	192	338	(284)
	(1,019)	1,028	108
	$ 3,619	$ 6,642	$ 10,947

The Company receives a tax deduction upon the exercise of nonqualified stock options by employees equal to the difference between the market price and the exercise price of the Company's common stock on the date of exercise. The current provision for income taxes does not reflect $1,058,000 and $512,000 of such benefits from the exercise of stock options that have been allocated to capital in excess of par value in 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income Tax (continued)

The provision for income taxes in the accompanying statement of operations differs from the provision calculated by applying the statutory federal income tax rate of 35% to income before provision for income taxes, minority interest, extraordinary item, and cumulative effect of change in accounting principles due to the following:

(In thousands)	2002	2001	2000
Provision for Income Taxes at Statutory Rate	$ 3,341	$ 5,520	$ 9,234
Increases (Decreases) Resulting From:			
State income taxes, net of federal tax	58	514	577
Foreign tax rate and tax regulation differential	(406)	188	(242)
Nondeductible expenses	220	306	497
Change in valuation allowance	400	50	174
Other	6	64	707
	$ 3,619	$ 6,642	$ 10,947

Net deferred tax asset (liability) in the accompanying balance sheet consists of the following:

(In thousands)	2002	2001
Deferred Tax Asset (Liability):		
Foreign and alternative minimum tax credits	$ 3,952	$ -
Inventory basis difference	2,956	2,674
Reserves and accruals	2,410	1,327
Amortization of intangible assets	941	(8,155)
Operating loss carryforwards	496	2,298
Allowance for doubtful accounts	457	510
Accrued compensation	193	146
Depreciation	(940)	(827)
Other	1,148	512
	11,613	(1,515)
Less: Valuation allowance	877	477
	$ 10,736	$ (1,992)

The long-term portion of the deferred tax asset of $5,008,000 is included in other assets in the accompanying 2002 balance sheet.

The valuation allowance relates to uncertainty surrounding the realization of state operating loss carryforwards of $6,500,000 and $4,400,000 at year-end 2002 and 2001, respectively, which begin to expire in 2003, and foreign tax credits of $3,392,000 that expire in 2007. In addition, the Company had federal operating loss carryforwards of $5,500,000 at year-end 2001, which were fully utilized during 2002.

The Company has not recognized a deferred tax liability for the difference between the book basis and the tax basis of its investment in the stock of its domestic subsidiaries (this difference relates primarily to unremitted earnings by subsidiaries) because it does not expect this basis difference to become subject to tax at the parent level. The Company believes it can implement certain tax strategies to recover its investment in its domestic subsidiaries tax free.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income Taxes (continued)

The Company's practice is to reinvest indefinitely the earnings of certain international subsidiaries. Accordingly, no U.S. income taxes have been provided for approximately $53,200,000 of unremitted earnings of international subsidiaries. The Company believes that any U.S. tax liability due upon remittance of such earnings would be immaterial due to available U.S. foreign tax credits. The related foreign tax withholding would be approximately $2,800,000.

8. Long-Term Obligations

The Company's annual requirements for its long-term obligations are $585,000 in 2003 and $580,000 in 2004, resulting from liabilities recorded in connection with the two acquisitions described below.

In connection with the February 2000 acquisition of Gauld Equipment, the Company agreed to pay $923,000 in equal annual installments over four years. The liability was initially recorded at its net present value of $795,000 (Note 4).

In connection with the May 1999 acquisition of Arcline Products, the Company agreed to pay $2,000,000 in equal annual installments over five years. The liability was initially recorded at its net present value of $1,730,000.

In July 1997, the Company issued and sold at par $153,000,000 principal amount of 4 1/2% subordinated convertible debentures, due 2004, for net proceeds of approximately $149,800,000. The debentures were convertible into shares of the Company's common stock at a conversion price of $60.50 per share, and were guaranteed on a subordinated basis by Thermo Electron. During 2001, the Company repurchased $34,862,000 principal amount of the debentures for $33,506,000 in cash, resulting in an extraordinary gain of $620,000, net of deferred debt charges and net of income tax provision of $440,000. From January through September 2002, the Company repurchased $31,962,000 principal amount of the debentures for $31,270,000 in cash, resulting in an extraordinary gain of $291,000, net of deferred debt charges, and net of income tax provision of $178,000. In December 2002, the Company redeemed the remaining $86,176,000 outstanding principal amount of the debentures for 100% par value, resulting in an extraordinary loss of $260,000 from the writeoff of the remaining deferred debt charges, net of income tax benefit of $159,000.

See Note 13 for fair value information pertaining to the Company's long-term obligations.

9. Related-Party Transactions

STOCK HOLDING ASSISTANCE PLAN

Prior to 2002, Company had a stock holding policy that required certain executive officers to hold a minimum number of shares of Company common stock, and a stock holding assistance plan under which the Company could make interest-free loans to executive officers to enable them to purchase Company common stock in the open market to comply with the policy. Two executive officers received loans in 1996 and 1997 under this plan. In December 2001, the board of directors terminated the policy and the plan, and authorized the Company to forgive the remaining outstanding balances of the loans, which totaled $163,000, and to reimburse the executive officers for federal and state income taxes due as a consequence of the loan forgiveness, effective January 2002. In connection with these actions, the Company recorded compensation expense of $299,000 in 2001 to reflect the forgiveness of the notes and tax reimbursements granted to the officers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Related-Party Transactions (continued)

CORPORATE SERVICES AND TRANSITION SERVICES AGREEMENTS

Prior to the spinoff, the Company and Thermo Electron were parties to a corporate services agreement under which Thermo Electron's corporate staff provided certain administrative services, including certain legal advice and services, risk management, certain employee benefit administration, tax advice and preparation of tax returns, centralized cash management, and certain financial and other services, for which the Company paid Thermo Electron annually an amount equal to 0.8% of the Company's consolidated revenues. In 2001, the fee under this agreement was reduced to 0.6% and 0.4% of the Company's consolidated revenues for the fiscal quarters ending June 30, 2001, and September 29, 2001, respectively. The corporate services agreement terminated as of the Spinoff Date and was replaced by a transition services agreement.

The transition services agreement provided that Thermo Electron would continue to provide the Company with certain administrative services until December 29, 2001. The Company paid a fee under this agreement equal to 0.4% and 0.2% of the Company's consolidated revenues for the fiscal quarters ending September 29, 2001, and December 29, 2001, respectively, plus out-of-pocket and third-party expenses.

For services under these agreements, the Company was charged $1,135,000 and $1,879,000 in 2001 and 2000, respectively. The Company believed the charges under these agreements were reasonable and the terms of the agreements were fair to the Company.

10. Commitments and Contingencies

OPERATING LEASES

The Company occupies office and operating facilities under various operating leases. The accompanying statement of income includes expenses from operating leases of $2,544,000, $2,439,000, and $2,257,000 in 2002, 2001, and 2000, respectively. The future minimum payments due under noncancelable operating leases as of December 28, 2002, are $2,386,000 in 2003; $1,752,000 in 2004; $1,289,000 in 2005; $780,000 in 2006; $273,000 in 2007; and $55,000 in 2008 and thereafter. Total future minimum lease payments are $6,535,000.

LETTERS OF CREDIT

Outstanding letters of credit, principally relating to performance bonds and customer deposit guarantees, totaled $8,832,000 at December 28, 2002.

CONTINGENCIES

In the ordinary course of business, the Company is at times required to issue limited performance guarantees, some of which do not require the issuance of letters of credit to customers in support of these guarantees, relating to its equipment and systems. The Company typically limits its liability under these guarantees to amounts that would not exceed the value of the contract. The Company believes that it has adequate reserves for any potential liability in connection with such guarantees.

INDEMNIFICATION

The Company is required to indemnify Thermo Electron, but not its shareholders, against liability for taxes arising from the Company's conduct of business after the spinoff, or the failure of certain distributions to continue to qualify as a tax free spinoff, as described in Note 1 "Income Taxes."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Redemption of Common Stock and Merger of Subsidiary

The Company's subsidiary, Kadant Fibergen, sold 4,715,000 units, each consisting of one share of Kadant Fibergen common stock and one redemption right, in an initial public offering in September 1996 at $12.75 per unit for net proceeds of $55,781,000. The common stock and redemption rights subsequently began trading separately. A holder of a redemption right had the option to require Kadant Fibergen to redeem one share of Kadant Fibergen's common stock at $12.75 per share in September 2000 (the initial redemption period) or September 2001 (the final redemption period). A redemption right could only be exercised if the holder owned a share of Kadant Fibergen's common stock at the time of the redemption.

In 2000, during the initial redemption period, holders of Kadant Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Kadant Fibergen's common stock at a redemption price of $12.75 per share, for a total of $34,603,000. Kadant Fibergen used available working capital to fund the redemption payment and retired these shares immediately following the redemption.

In 2001, during the final redemption period, holders of Kadant Fibergen's common stock and common stock redemption rights surrendered 1,030,562 shares of Kadant Fibergen's common stock at a redemption price of $12.75 per share, for a total of $13,140,000. Kadant Fibergen used a combination of available working capital and a $6,000,000 loan from the Company to fund the redemption payment and retired these shares immediately following the redemption. Common stock redemption rights amounting to 970,487 were not surrendered for redemption by the end of the final redemption period and expired.

On December 27, 2001, the Company completed a short-form merger with Kadant Fibergen, pursuant to which the Company acquired 359,587 shares of Kadant Fibergen's common stock, representing all the outstanding shares of Kadant Fibergen's common stock not already owned by the Company, for $12.75 per share in cash. As a result, Kadant Fibergen's common stock ceased to be publicly traded. The Company expended $4,585,000 in cash for the shares, with $1,761,000 paid in 2001, and $2,824,000 paid in 2002. The shares acquired included 114,487 shares not already owned by the Company that remained outstanding immediately following the final redemption period, and 245,100 additional shares of Kadant Fibergen's common stock issued after the final redemption period upon the exercise of employee stock options. The Company had previously accelerated the vesting provisions related to the unvested portion of these stock options. To the extent an employee terminates employment before all the options would have become fully vested under the original vesting provisions, the Company will record a compensation charge for such options based on the intrinsic value at the time of the acceleration of the vesting provisions. The Company recorded goodwill of $783,000 in the Kadant Fibergen merger transaction.

12. Restructuring and Unusual Items

During 2002, the Company recorded restructuring and unusual costs of $3,590,000. Restructuring costs of $1,129,000, which were accounted for in accordance with EITF No. 94-3, related to severance costs for 68 employees across all functions primarily at the Company's Papermaking Equipment segment, all of whom were terminated as of December 28, 2002. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment and reduced demand for our products. Unusual costs of $2,461,000 include noncash charges of $2,399,000 for asset writedowns, consisting of $953,000 for the impairment of a laboratory in Ohio held for sale at the Papermaking Equipment segment, and $1,446,000 for the writedown of fixed assets held for sale at the Composite and Fiber-based Products segment; and $62,000 for related disposal and facility-closure costs.

During 2001, the Company recorded restructuring costs of $673,000, which were accounted for in accordance with EITF No. 94-3, for severance costs relating to 63 employees primarily in manufacturing and sales functions at the Papermaking Equipment segment's domestic subsidiaries, all of whom were terminated by December 29, 2001. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Restructuring and Unusual Items (continued)

A summary of the changes in accrued restructuring costs, which are included in other accrued expenses in the accompanying consolidated balance sheet, follows:

(In thousands)	Severance
2001 RESTRUCTURING PLAN	
Provision	$ 673
Usage	(617)
Balance at December 29, 2001	56
Provision	-
Usage	(56)
Balance at December 28, 2002	$ -
2002 RESTRUCTURING PLAN	
Provision	$ 1,129
Usage	(1,107)
Currency translation	6
Balance at December 28, 2002	$ 28

The specific restructuring measures and associated estimated costs are based on the Company's best judgments under prevailing circumstances. The Company believes that the restructuring reserve balance is adequate to carry out the restructuring activities formally identified and committed to as of December 28, 2002, and anticipates that all actions related to these liabilities will be completed within a 12-month period.

13. Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, available-for-sale investments, accounts receivable, current maturities of long-term obligations, accounts payable, subordinated convertible debentures, notes payable, and forward foreign exchange contracts. The carrying amounts of accounts receivable, current maturities of long-term obligations, and accounts payable, approximate fair value due to their short-term nature.

Available-for-sale investments in 2001 are carried at fair value in the accompanying balance sheet. The fair values were determined based on quoted market prices. See Note 2 for fair value information pertaining to these financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Fair Value of Financial Instruments (continued)

The carrying amount and fair value of the Company's subordinated convertible debentures and other financial instruments are as follows:

(In thousands)	2002 Carrying Amount	2002 Fair Value	2001 Carrying Amount	2001 Fair Value
Subordinated Convertible Debentures	$ -	$ -	$ 118,138	$ 111,640
Financial Instruments				
Forward foreign exchange contracts receivable	$ 385	$ 385	$ -	$ -
Forward foreign exchange contracts payable	$ 285	$ 285	$ 32	$ 32

The fair value of the Company's subordinated convertible debentures was determined based on quoted market prices in 2001.

The notional amounts of forward foreign exchange contracts outstanding totaled $21,344,000 and $3,248,000 at year-end 2002 and 2001, respectively. The fair value of such contracts is the estimated amount that the Company would pay upon termination of the contracts, taking into account the change in foreign exchange rates, which is recorded in the accompanying balance sheet in accordance with SFAS No. 133 (Note 1).

14. Business Segment and Geographical Information

The Company has combined its operating entities into two segments: Pulp and Papermaking Equipment and Systems, and Composite and Fiber-based Products. In classifying operational entities into a particular segment, the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

The Company's Pulp and Papermaking Equipment and Systems segment develops, manufactures, and markets stock-preparation systems and equipment, papermaking machine accessory equipment, and water-management systems for paper and paper recycling industries worldwide. Principal products manufactured by this segment include: custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. Revenues from the stock-preparation systems and equipment product line were $81,995,000, $111,096,000, and $112,976,000 in 2002, 2001, and 2000, respectively. Revenues from the papermaking machine accessory equipment product line were $58,751,000, $63,444,000, and $70,306,000 in 2002, 2001, and 2000, respectively. Revenues from the water-management systems product line were $28,885,000, $37,789,000, and $42,447,000 in 2002, 2001, and 2000, respectively.

The Composite and Fiber-based Products segment develops, manufactures, and markets composite building products made from recycled fiber and plastic used for applications such as decking and roofing. In addition, the Company produces biodegradable absorbing granules from papermaking byproducts. These granules are primarily used as agricultural carriers and for home lawn and garden applications. Revenues from the composite building products business were $8,561,000, $1,940,000, and $231,000 in 2002, 2001, and 2000, respectively. Revenues from the fiber-based granular products business were $5,991,000, $5,760,000, and $6,608,000 in 2002, 2001, and 2000, respectively. Prior to September 2000, the Company owned and operated a plant that provided fiber-recovery and water-clarification services to a host mill on a long-term contract basis. The plant, which the Company began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. The Company sold this plant to the host mill in September 2000 (Note 4).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Business Segment and Geographical Information (continued)

(In thousands)	2002	2001	2000
BUSINESS SEGMENT INFORMATION			
Revenues:			
Pulp and Papermaking Equipment and Systems	$ 171,122	$ 213,466	$ 227,133
Composite and Fiber-based Products (a)	14,552	7,700	7,794
Intersegment sales elimination (b)	-	-	(14)
	$ 185,674	$ 221,166	$ 234,913
Income Before Provision for Income Taxes, Minority Interest, Extraordinary Item, and Cumulative Effect of Change in Accounting Principles:			
Pulp and Papermaking Equipment and Systems (c)	$ 18,156	$ 26,139	$ 29,209
Composite and Fiber-based Products (a)(d)	(2,933)	(5,968)	(3,116)
Corporate (e)	(3,515)	(3,675)	(2,673)
Total operating income	11,708	16,496	23,420
Interest income (expense), net	(2,162)	(726)	2,963
	$ 9,546	$ 15,770	$ 26,383
Total Assets:			
Pulp and Papermaking Equipment and Systems	$ 198,839	$ 281,522	$ 280,655
Composite and Fiber-based Products (f)	17,239	25,632	38,465
Corporate (g)	15,439	60,500	95,095
	$ 231,517	$ 367,654	$ 414,215
Depreciation and Amortization:			
Pulp and Papermaking Equipment and Systems	$ 3,749	$ 7,480	$ 7,314
Composite and Fiber-based Products (a)	1,396	1,816	2,226
Corporate	32	-	-
	$ 5,177	$ 9,296	$ 9,540
Capital Expenditures:			
Pulp and Papermaking Equipment and Systems	$ 1,433	$ 1,564	$ 2,550
Composite and Fiber-based Products	1,759	3,025	3,805
Corporate	152	-	-
	$ 3,344	$ 4,589	$ 6,355

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Business Segment and Geographical Information (continued)

(In thousands)	2002	2001	2000
GEOGRAPHICAL INFORMATION			
Revenues (h):			
United States	$ 115,408	$ 142,425	$ 157,904
France	50,259	55,291	52,895
Other	27,814	33,845	33,427
Transfers among geographic areas (b)	(7,807)	(10,395)	(9,313)
	$ 185,674	$ 221,166	$ 234,913
Long-lived Assets (i):			
United States	$ 18,816	$ 21,722	$ 22,213
France	3,131	2,933	3,291
Other	3,676	3,963	4,422
	$ 25,623	$ 28,618	$ 29,926
Export Revenues Included in United States Revenues Above (j)	$ 19,377	$ 36,876	$ 37,926

(a) Reflects the sale of the Company's fiber-recovery and water-clarification services plant in September 2000.
(b) Intersegment sales and transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.
(c) Includes $2.1 million and $0.6 million of restructuring and unusual costs in 2002 and 2001, respectively, and $0.5 million of income related to restructuring and unusual items in 2000.
(d) Includes $1.5 million and $0.1 million of restructuring and unusual costs in 2002 and 2001, respectively, and a $0.7 million gain on sale of a plant in 2000. Includes operating losses from the composite building products business of $3.7 million, $4.1 million, and $2.4 million in 2002, 2001, and 2000, respectively.
(e) Includes gain on sale of property of $1.0 million in 2000.
(f) Reflects Kadant Fibergen's 2001 and 2000 redemptions of common stock for $13.1 million and $34.6 million, respectively.
(g) Primarily cash, cash equivalents, and available-for-sale investments. Reflects the repurchase of $32.0 million and $34.9 million principal amount of our 4 1/2% subordinated convertible debentures for $31.3 million and $33.5 million in cash in 2002 and 2001, respectively, and the December 2002 redemption of the remaining $86.2 million outstanding principal amount of the debentures for 100% par value.
(h) Revenues are attributed to countries based on selling location.
(i) Includes property, plant, and equipment, net, and other long-term tangible assets.
(j) In general, export revenues are denominated in U.S. dollars.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Earnings (Loss) per Share

Basic and diluted earnings (loss) per share were calculated as follows:

(In thousands except per share amounts)	2002	2001	2000
BASIC			
Income Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles	$ 5,923	$ 9,362	$ 16,012
Extraordinary Item (net of income taxes of $19 and $440)	31	620	-
Cumulative Effect of Change in Accounting Principles (net of income tax benefit of $12,420 and $580)	(32,756)	-	(870)
Net Income (Loss)	$ (26,802)	$ 9,982	$ 15,142
Weighted Average Shares	12,945	12,266	12,260
Basic Earnings (Loss) per Share:			
Income before extraordinary item and cumulative effect of change in accounting principles	$ .46	$ .76	$ 1.31
Extraordinary item	-	.05	-
Change in accounting principles	(2.53)	-	(.07)
	$ (2.07)	$ .81	$ 1.24
DILUTED			
Income Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles	$ 5,923	$ 9,362	$ 16,012
Extraordinary Item (net of income taxes of $19 and $440)	31	620	-
Cumulative Effect of Change in Accounting Principles (net of income tax benefit of $12,420 and $580)	(32,756)	-	(870)
Net Income (Loss)	(26,802)	9,982	15,142
Effect of Majority-Owned Subsidiary's Dilutive Securities	-	-	(7)
Income (Loss) Available to Common Shareholders, as Adjusted	$ (26,802)	$ 9,982	$ 15,135
Weighted Average Shares	12,945	12,266	12,260
Effect of Stock Options	164	47	38
Weighted Average Shares, as Adjusted	13,109	12,313	12,298
Diluted Earnings (Loss) per Share:			
Income before extraordinary item and cumulative effect of change in accounting principles	$ .45	$ .76	$ 1.30
Extraordinary item	-	.05	-
Change in accounting principles	(2.49)	-	(.07)
	$ (2.04)	$ .81	$ 1.23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Earnings per Share (continued)

Options to purchase 480,800 shares, 462,200 shares, and 435,800 shares of common stock were not included in the computation of diluted earnings per share for 2002, 2001, and 2000, respectively, because the options' exercise prices were greater than the average market price for the common stock, and the effect would have been antidilutive.

In addition, the computation of diluted earnings per share for all periods excludes the effect of assuming the conversion of the Company's 4 1/2% subordinated convertible debentures, convertible at $60.50 per share, because the effect would be antidilutive. The convertible debentures are no longer outstanding as of December 28, 2002 (Note 8).

16. Comprehensive Income

Comprehensive income combines net income and other comprehensive items, which represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments, unrealized net of tax gains and losses on available-for-sale investments, and deferred gains and losses on foreign currency contracts.

Accumulated other comprehensive items in the accompanying consolidated balance sheet consist of the following:

(In thousands)	2002	2001	2000
Cumulative Translation Adjustment	$ (13,406)	$ (19,934)	$ (19,474)
Net Unrealized Gain on Available-for-sale Investments	-	-	21
Deferred Gain (Loss) on Foreign Currency Contracts	182	(19)	-
	$ (13,224)	$ (19,953)	$ (19,453)

17. Cumulative Effect of Change in Accounting Principles

ADOPTION OF SFAS NO. 142

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective December 30, 2001. SFAS No. 142 requires that amortization of goodwill cease and that the Company evaluate the recoverability of goodwill and other intangible assets annually, or more frequently if events or changes in circumstances indicate that the carrying value of an asset might be impaired.

Under SFAS No. 142, the Company was required to test all existing goodwill for impairment (using a two-step method) as of December 30, 2001, on a "reporting unit" basis. The Company's reporting units are as follows: (1) stock preparation (2) accessories and water management (3) fiber-based granules and (4) composite building products. In step 1, goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. The fair values of the reporting units were determined utilizing a discounted cash flow methodology and considered such assumptions as weighted average cost of capital, revenue growth, profitability, capital expenditures, and premium for control. For reporting units that failed step 1, the Company proceeded to step 2. In step 2, the Company calculated the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit as determined in step 1. The Company then compared the implied fair value of goodwill as determined in step 2 above to the carrying value of goodwill.

As a result of the impairment review, the Company recorded an after-tax goodwill impairment charge of $32,756,000 ($45,176,000 pre-tax), which was recorded as a cumulative effect of change in accounting principle in its restated results in the first quarter of 2002. This after-tax charge consists of $29,869,000 at the Papermaking Equipment segment (specifically at the stock-preparation reporting unit) and $2,887,000 at the Composites and Fiber-based Products segment (specifically at the fiber-based granules reporting unit). The impairment charge recorded in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Cumulative Effect of Change in Accounting Principles (continued)

2002 was primarily due to the change in the methodology from the undiscounted cash flow method used in 2001 under the Company's previous accounting policy, to the discounted cash flow method used in accordance with SFAS No. 142. Under the Company's previous accounting policy, no goodwill impairment existed at December 29, 2001 (Note 1).

The unaudited quarterly results reflecting the adoption of SFAS No. 142 have been restated as follows:

(In thousands except per share amounts)	Three Months Ended March 30, 2002
Net Loss	
As previously reported	(1,359)
As adjusted	(34,115)
Basic and Diluted Loss per Share	
As previously reported	(.11)
As adjusted	(2.79)

Pro forma results as if SFAS No. 142 had been adopted at the beginning of 2000 are as follows:

(In thousands except per share amounts)	2001	2000
Net Income, as Reported	$ 9,982	$ 15,142
Add back: Goodwill Amortization	2,340	2,359
Net Income, as Adjusted	$ 12,322	$ 17,501
Earnings per Share:		
Basic, as Reported	$ .81	$ 1.24
Add back: Goodwill Amortization	.19	.19
Basic, as Adjusted	$ 1.00	$ 1.43
Diluted, as Reported	$ .81	$ 1.23
Add back: Goodwill Amortization	.19	.19
Diluted, as Adjusted	$ 1.00	$ 1.42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Cumulative Effect of Change in Accounting Principles (continued)

Changes in goodwill are summarized below:

(In thousands)	Papermaking Equipment Segment	Composite and Fiber-Based Products Segment	Total
Balance at December 30, 2000	$ 115,473	$ 3,627	$ 119,100
Acquisitions	(98)	783	685
Amortization	(3,213)	(234)	(3,447)
Currency translation	(69)	-	(69)
Balance at December 29, 2001	112,093	4,176	116,269
Transitional impairment charge	(41,000)	(4,176)	(45,176)
Acquisitions	61	-	61
Currency translation	1,067	-	1,067
Balance at December 28, 2002	$ 72,221	$ -	$ 72,221

ADOPTION OF SAB NO. 101

In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements," which establishes criteria for recording revenue when the terms of the sale include customer acceptance provisions or an obligation of the seller to install the product. In instances where these terms exist and the Company is unable to demonstrate that the customer's acceptance criteria has been met prior to customer use, or when the installation is essential to functionality or is not deemed inconsequential or perfunctory, SAB No. 101 requires that revenue recognition occur at completion of installation and/or upon customer acceptance. In accordance with the requirements of SAB No. 101, the Company adopted the pronouncement as of January 2, 2000, and recorded the cumulative effect of the change in accounting principle on periods prior to 2000 in the restated results for the first quarter of 2000. The cumulative effect on net income for 2000 totaled $870,000, net of income tax benefit of $580,000. Revenues of $3,004,000 in 2000 (as restated for the adoption of SAB No. 101) and $846,000 in 2001, relate to shipments that occurred in 1999 but for which installation and/or acceptance did not occur until 2000 or 2001. These revenues were recorded in 1999 prior to the adoption of SAB No. 101 and thus, were a component in the determination of the cumulative effect of change in accounting principle for periods prior to 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Unaudited Quarterly Information

(In thousands except per share amounts)

2002	First (a,b)	Second	Third	Fourth (b)
Revenues	$ 43,340	$ 46,378	$ 50,084	$ 45,872
Gross Profit	16,153	18,000	18,508	17,779
Income (Loss) Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles	(1,388)	2,292	2,702	2,317
Net Income (Loss) (c)	(34,115)	2,549	2,707	2,057
Basic and Diluted Earnings (Loss) per Share Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles	(.11)	.18	.20	.17
Basic and Diluted Earnings (Loss) per Share (c)	(2.79)	.20	.20	.15

2001	First	Second	Third (d)	Fourth (d,e)
Revenues	$ 58,900	$ 56,732	$ 56,085	$ 49,449
Gross Profit	22,704	20,648	20,627	18,762
Income Before Extraordinary Item	3,129	2,447	2,045	1,741
Net Income	3,129	2,447	2,045	2,361
Basic and Diluted Earnings per Share Before Extraordinary Item	.25	.20	.17	.14
Basic and Diluted Earnings per Share	.25	.20	.17	.19

(a) Restated to reflect the adoption of SFAS No. 142. The first quarter of 2002 reflects a charge for the cumulative effect of change in accounting principle of $32.8 million, net of income tax benefit of $12.4 million (Note 17).

(b) Includes $3.6 million of pretax charges and $0.1 million of pretax income for restructuring and unusual items in the first and fourth quarters of 2002, respectively (Note 12).

(c) Includes extraordinary gains of $29, $257, and $5, net of taxes, in the first, second, and third quarters of 2002, respectively, and an extraordinary loss of $260, net of taxes, in the fourth quarter of 2002, resulting from the repurchases and redemption of the Company's 4 1/2% subordinated convertible debentures (Note 8).

(d) Includes pretax charges of $0.6 million and $0.1 million related to restructuring costs in the third and fourth quarters of 2001, respectively (Note 12).

(e) Includes extraordinary gain on repurchases of the Company's convertible debentures of $0.6 million, net of taxes (Note 8).

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Kadant Inc.:

We have audited the accompanying consolidated balance sheet of Kadant Inc. as of December 28, 2002 and the related consolidated statements of operations, comprehensive income (loss) and shareholders' investment, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Kadant Inc. as of December 29, 2001 and December 30, 2000, and for the years then ended, were audited by other auditors who have ceased operations and whose report dated February 8, 2002, expressed an unqualified opinion on those statements before the restatement adjustments described in Note 17, and included an explanatory paragraph that disclosed the change in the Company's method of accounting for revenue recognition discussed in Note 17 to these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kadant Inc. at December 28, 2002, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 17 to the financial statements, effective December 30, 2001, the Company adopted Statement of Financial Accounting Standards (Statement) No. 142, "Goodwill and Other Intangible Assets." As discussed above, the consolidated financial statements of Kadant Inc. as of December 29, 2001 and December 30, 2000, and for the years then ended, were audited by other auditors who have ceased operations. As described in Note 17, these consolidated financial statements have been revised to include the transitional disclosures required by Statement No. 142, which was adopted as of December 30, 2001. Our audit procedures with respect to the disclosures in Note 17 related to 2001 and 2000 included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill as a result of initially applying Statement No. 142 (including any related tax effects) to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings per share amounts. In our opinion, the disclosures for 2001 and 2000 in Note 17 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements of Kadant Inc. as of December 29, 2001 and December 30, 2000, and for the years then ended, other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as of December 29, 2001 and December 30, 2000, and for the years then ended, taken as a whole.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 7, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

THE FOLLOWING REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23.2 TO THE ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 28, 2002 FOR FURTHER DISCUSSION.

AS DISCUSSED IN NOTE 17, KADANT INC. REVISED ITS FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 29, 2001, AND DECEMBER 30, 2000, TO INCLUDE THE TRANSITIONAL DISCLOSURES REQUIRED BY STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS." THE REVISIONS TO THE 2001 AND 2000 FINANCIAL STATEMENTS RELATED TO THESE TRANSITIONAL DISCLOSURES WERE REPORTED ON BY ERNST & YOUNG LLP, AS STATED IN THEIR REPORT APPEARING HEREIN.

To the Shareholders and Board of Directors of Kadant Inc.:

We have audited the accompanying consolidated balance sheet of Kadant Inc. (formerly named Thermo Fibertek Inc., a Delaware corporation) and subsidiaries as of December 29, 2001, and December 30, 2000*, and the related consolidated statements of income, cash flows, and comprehensive income and shareholders' investment for each of the three years in the period ended December 29, 2001.* These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kadant Inc. and subsidiaries as of December 29, 2001, and December 30, 2000,* and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2001,* in conformity with accounting principles generally accepted in the United States.

As explained in Notes 1 and 17 to the consolidated financial statements, effective January 2, 2000, the Company changed its method of accounting for revenue recognition.

Arthur Andersen LLP

Boston, Massachusetts
February 8, 2002

* The Company's consolidated balance sheet as of December 30, 2000, and the consolidated statements of income, cash flows, and comprehensive income and shareholders' investment for the year ended January 1, 2000, are not included in this Form 10-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, we make forward-looking statements, which include statements concerning possible or assumed future results of operations. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "likely," "will," or similar expressions, we are making forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions and are based on the beliefs and assumptions of our management, using information currently available to our management. Our future results of operations may differ materially from those expressed in the forward-looking statements. Many of the important factors that will determine these results and values are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. For a discussion of important factors that may cause our actual results to differ materially from those suggested by the forward-looking statements, you should read carefully the section captioned "Risk Factors" immediately following this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

INDUSTRY BACKGROUND

We operate in two segments: the Pulp and Papermaking Equipment and Systems (Papermaking Equipment) segment and the Composite and Fiber-based Products segment. Through our Papermaking Equipment segment, we develop, manufacture, and market a range of equipment and products for the domestic and international papermaking and paper recycling industries. We have a large, stable customer base that includes most of the world's major paper manufacturers. As a result, we have one of the largest installed bases of equipment in the pulp and paper industry, which provides us with a higher-margin spare parts and consumables business that we believe is less susceptible to the cyclical trends in the paper industry.

Through our Composite and Fiber-based Products segment, we develop, manufacture, and market composite products made from recycled fiber and plastic, primarily for the building industry, and manufacture and sell granules derived from pulp fiber for use as agricultural carriers and for home lawn and garden applications.

Prior to our incorporation, we operated as a division of Thermo Electron Corporation. We were incorporated in Delaware in November 1991 as a wholly owned subsidiary of Thermo Electron, and as the successor-in-interest to several of its subsidiaries. In November 1992, we conducted an initial public offering of our common stock and became a majority-owned public subsidiary of Thermo Electron. On July 12, 2001, we changed our name to Kadant Inc. from Thermo Fibertek Inc., and on August 8, 2001, we were spun off from Thermo Electron and became a fully independent public company (Note 1).

PULP AND PAPERMAKING EQUIPMENT AND SYSTEMS SEGMENT

Our Papermaking Equipment segment designs and manufactures stock-preparation systems and equipment, papermaking machine accessories, and water-management systems for the paper and paper recycling industries. Principal products include:

- Stock-preparation systems and equipment: custom-engineered systems and equipment for pulping, de-inking, screening, cleaning, and refining waste fiber to prepare it for entry into the paper machine during production of recycled paper;
- Papermaking machine accessory equipment: doctoring systems and related consumables that clean papermaking rolls to keep paper machines running efficiently, and profiling systems that control moisture, web curl, and gloss during paper production; and
- Water-management systems: equipment that is essential for the continuous cleaning of paper machine fabrics and the draining, purifying, and recycling of process water for paper sheet and web formation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

COMPOSITE AND FIBER-BASED PRODUCTS SEGMENT

Our Composite and Fiber-based Products segment consists of two product lines: composite building products and fiber-based granular products. Our principal products include:

- Composite building products: decking and railing systems and roof tiles that we develop and produce from a combination of recycled fiber, plastic, and other materials, and market primarily to the building industry; and
- Fiber-based granular products: biodegradable, absorbing granules that we produce from papermaking byproducts for use as agricultural carriers and for home lawn and garden applications.

In January 2001, we acquired the remaining 49% equity interest that we did not already own in Kadant Composites Inc., which is responsible for our composite building products business (Note 3). We established a composite building products manufacturing facility in Green Bay, Wisconsin, and began production at the facility in 2000.

Prior to September 2000, this segment owned and operated a plant that provided water-clarification and fiber-recovery services to a host mill on a long-term contract basis. The plant, which we began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. We sold this plant to the host mill in September 2000 (Note 4).

INTERNATIONAL SALES

During 2002, approximately 50% of our sales were to customers outside the United States, principally in Europe. We generally seek to charge our customers in the same currency in which our operating costs are incurred. However, our financial performance and competitive position can be affected by currency exchange rate fluctuations affecting the relationship between the U.S. dollar and foreign currencies. We reduce our exposure to currency fluctuations through the use of forward currency exchange contracts. We may enter into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies. These contracts hedge transactions principally denominated in U.S. dollars.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that entail significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies upon which our financial condition depends, and which involve the most complex or subjective decisions or assessments, are those described below. For a discussion on the application of these and other accounting policies, see Note 1 in the notes to consolidated financial statements.

Revenue Recognition. Prior to 2000, we generally recognized revenues upon shipment of our products. During the fourth quarter of 2000, effective January 2, 2000, we adopted Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" (Note 17). In addition, we recognize revenues and profits on certain long-term contracts using the percentage-of-completion method of accounting.

- Percentage-of-Completion. Revenues recorded under the percentage-of-completion method of accounting were $35.4 million in 2002, $53.5 million in 2001, and $43.4 million in 2000. The percentage of completion is determined by comparing the actual costs incurred to date to an estimate of total costs to be incurred on each contract. If a loss is indicated on any contract in process, a provision is made currently for the entire

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

loss. Our contracts generally provide for billing of customers upon the attainment of certain milestones specified in each contract. Revenues earned on contracts in process in excess of billings are classified as unbilled contract costs and fees, and amounts billed in excess of revenues are classified as billings in excess of contract costs and fees. The complexity of the estimation process under the percentage-of-completion method affects the amounts reported in our financial statements. A number of internal and external factors affect our percentage-of-completion and cost of sales estimates, including labor rate and efficiency variances, estimates of warranty costs, estimated future material prices from vendors, and customer specification and testing requirement changes. In addition, we are exposed to the risk, primarily relating to our orders in China, that a customer will not comply with the order's contractual obligations or will not accept delivery of the order, causing such customer to forfeit its deposit on the order. The contractual obligations relating to the order may be difficult to enforce through a foreign country's legal system, which could result in a significant reversal of revenue in the period or periods that were affected by the breach of contract. Although we make every effort to ensure the accuracy of our estimates in the application of this accounting policy, if our business conditions were different, or if we used different assumptions, it is possible that materially different amounts could be reported as revenues in our financial statements.

- SAB No. 101. Under SAB No. 101, when the terms of sale include customer acceptance provisions, and compliance with those provisions cannot be demonstrated until customer acceptance, revenues are recognized upon such acceptance. Revenues for products sold that require installation where the installation is essential to functionality or is not deemed inconsequential or perfunctory are recognized upon completion of installation. Revenues for products sold where installation is not essential to functionality, and is deemed inconsequential or perfunctory, are recognized upon shipment with estimated installation costs accrued. We provide a reserve for the estimated warranty and installation costs at the time revenue is recognized. The complexity of all issues related to the assumptions, risks, and uncertainties inherent in the application of SAB No. 101 affect the amounts reported as revenues in our financial statements. Under SAB No. 101, we cannot reliably predict future revenues and profitability due to the difficulty of estimating when installation will be performed or when we will meet the contractually agreed upon performance tests, which can delay or prohibit recognition of revenues. The determination of when we install the equipment or fulfill the performance guarantees is largely dependent on the customer, their willingness to allow installation of the equipment or perform the appropriate tests in a timely manner, and their cooperation in addressing possible problems impeding achievement of the performance guarantee criteria. Unexpected changes in the timing related to the completion of installation or performance guarantees could possibly cause our revenues and earnings to be significantly affected.

Inventories. We value our inventory at the lower of the actual cost (on a first-in, first-out, or weighted average basis) or market value and include materials, labor, and manufacturing overhead. We regularly review inventory quantities on hand and compare these amounts to historical and forecasted usage of and demand for each particular product or product line. We record a charge to cost of revenues for excess and obsolete inventory to reduce the carrying value of the inventories to net realizable value. A significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand, resulting in a charge for the writedown of that inventory in that period. In addition, our estimates of future product usage or demand may prove to be inaccurate, resulting in an understated or overstated provision for excess and obsolete inventory. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product usage and demand, any significant unanticipated changes in demand or technological developments could possibly have a significant impact on the value of our inventory and our reported operating results.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

Valuation of Goodwill and Intangible Assets. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142,"Goodwill and Other Intangible Assets." We adopted SFAS No. 142 effective December 30, 2001. SFAS No. 142 requires that amortization of goodwill cease and that we evaluate the recoverability of goodwill and other intangible assets annually, or more frequently if events or changes in circumstances, such as a decline in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are primarily established using a discounted cash flow methodology (specifically, the income approach). The determination of discounted cash flows is based on our strategic plans and long-range forecasts. The revenue growth rates included in the forecasts are our best estimates based on current and anticipated market conditions, and the profit margin assumptions are projected based on the current and anticipated cost structures.

In accordance with the SFAS No. 142 transition procedures, we recorded a charge for the cumulative effect of change in accounting principle of $32.8 million, net of income tax benefit of $12.4 million, upon the adoption of SFAS No. 142, as further described in Note 17.

Our judgments and assumptions regarding the determination of the fair value of an intangible asset or goodwill associated with an acquired business could change as future events impact such fair values. Any future impairment loss could possibly have a material adverse impact on our long-term assets and operating expenses in the period in which impairment is determined to exist.

Accounts Receivable. Judgments are used in determining our allowance for bad debts and are based on our historical collection experience, current trends, credit policies, specific customer collection issues, and accounts receivable aging categories. In determining this allowance, we look at historical writeoffs of our receivables. We also look at current trends in the credit quality of our customer base as well as changes in our credit policies. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and each customer's current creditworthiness. We continuously monitor collections and payments from our customers. While actual bad debts have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same rate of bad debts that we have in the past, especially in light of the prolonged downcycle in the paper industry as evidenced by an increase in the amount of accounts receivable written off in 2002 and 2001. A significant change in the liquidity or financial position of any of our customers could result in the uncollectibility of the related accounts receivable and could adversely impact our operating cash flows in that period.

Warranties. In the Papermaking Equipment segment, we offer warranties of various durations to our customers depending upon the specific product and terms of the customer purchase agreement. We typically negotiate terms regarding warranty coverage and length of warranty depending on the products and applications. Our standard mechanical warranties require us to repair or replace a defective product during the warranty period at no cost to the customer. In the Composite and Fiber-based Products segment, we offer a standard limited warranty to the original owner of our decking and roofing products, limited to repair or replacement of the defective product or a refund of the original purchase price. We record an estimate for warranty-related costs at the time of sale based on our actual historical return rates and repair costs. While our warranty costs have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same warranty return rates or repair costs that we have in the past. A significant increase in warranty return rates or costs to repair our products could possibly have a material adverse impact on our operating results for the period or periods in which such returns or additional costs occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview (continued)

INDUSTRY AND BUSINESS OUTLOOK

Our products are primarily sold to the pulp and paper industry. The paper industry has been in a prolonged downcycle, characterized by weak pulp and paper prices, decreased capital spending, and consolidation of paper companies within the industry. As paper companies continue to consolidate in response to market weakness, they frequently reduce capacity and postpone or even cancel capacity addition or expansion projects. This trend, along with paper companies' actions to quickly reduce operating rates and restrict capital spending and maintenance programs, has adversely affected our business. Over the long term, as the markets recover, we expect that consolidation in the paper industry and improved capacity management will have a positive effect on paper companies' financial performance and, in return, will be favorable to both paper companies and their suppliers, such as Kadant.

There has been a significant amount of papermaking downtime in the pulp and paper industry in 2001 and 2002. This, coupled with weakened conditions in the world economy, has produced a difficult market environment resulting in deferrals of capital projects by paper companies and pricing pressure in some of our product lines. The combination of these factors has caused a reduction in our revenues throughout 2002, and resulted in lower operating results in 2002 versus 2001. To mitigate the effects of these difficult market conditions, we are concentrating our efforts on several initiatives to improve our operating results, including focusing on higher-margin parts and consumables businesses across all our product lines, sourcing the manufacture of non-proprietary components from third-party suppliers, shifting more production to our lower-cost manufacturing facilities, and lowering our manufacturing overhead costs throughout the business. In addition, we continue to focus our efforts on managing our operating costs (which were reduced by $10.4 million in 2002, including $3.4 million from the elimination of goodwill amortization), capital expenditures, and working capital. In the last several years, most capacity expansion has come from China, which has become a significant market for our products. Revenues from China are primarily characterized by large capital orders, the timing of which is often difficult to predict. To capitalize on this growing market, we are currently planning to establish an assembly facility in China for our stock-preparation equipment and related aftermarket products.

We have also continued to invest in our composite building products business, which provides us with a solid growth opportunity. We have begun a national marketing program for our composite building products and are expanding our distribution network, with numerous distribution centers carrying our products throughout the U.S. We believe that the market for composite building products will grow as consumer awareness of the advantages of these products increases their acceptance as an alternative to traditional wood products, especially in light of the phase-out of widely used pressure-treated lumber that contains chromated copper arsenate (CCA), a potentially harmful preservative.

With fourth quarter 2002 bookings in the composite building products business reaching a record high of $6.5 million, we expect operating income in 2003 to be between $1.0 and $1.5 million, on revenues of $14 to $16 million. For the first quarter of 2003, we expect operating income from this business to be between breakeven and $0.1 million, on revenues of $4 to $5 million. For 2003, we anticipate continued growth from our composite building products business, and little or no revenue growth in our Papermaking Equipment segment. As a result, we expect consolidated earnings in 2003 to be $.80 to $.90 per diluted share, on revenues of $185 to $195 million. For the first quarter of 2003, we expect consolidated earnings to be $.18 to $.20 per diluted share, on revenues of $48 to $50 million.

Results of Operations

2002 COMPARED WITH 2001

Revenues

Revenues decreased to $185.7 million in 2002 from $221.2 million in 2001, a decrease of $35.5 million, or 16%. Revenues in 2002 include the favorable effects of currency translation of $2.1 million due to a weaker U.S. dollar relative to the functional currencies in countries in which we operate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2002 COMPARED WITH 2001 (CONTINUED)

Pulp and Papermaking Equipment and Systems Segment. Revenues at the Papermaking Equipment segment decreased to $171.1 million in 2002 compared with $213.5 million in 2001, a decrease of $42.4 million, or 20%. Revenues in 2002 include the favorable effects of currency translation described above. Revenues from the Papermaking Equipment segment's stock-preparation equipment product line decreased by $29.1 million (or 26%) in 2002 primarily as a result of a decrease in export sales to China due to the timing of several large orders, as well as a decrease in sales in North America and Europe due to adverse market conditions. Revenues from the segment's water-management and accessories product lines decreased in 2002 by $8.9 million (or 24%) and $4.7 million (or 7%), respectively, primarily due to a decrease in demand in North America as a result of machine shutdowns and mill closures caused by industry consolidation and capacity rationalization, as well as pricing pressures.

Composite and Fiber-Based Products Segment. Revenues at the Composite and Fiber-based Products segment increased to $14.6 million in 2002 from $7.7 million in 2001, primarily as a result of an increase of $6.6 million in sales of our composite building products due to higher demand resulting from increased marketing efforts and expansion of our distribution channels. In addition, revenues from our fiber-based granular products increased by $0.2 million in 2002.

Gross Profit Margin

Gross profit margin increased to 38% in 2002 from 37% in 2001. The gross profit margin at the Papermaking Equipment segment was 39% in both periods. The gross profit margin at the Composite and Fiber-based Products segment increased to 25% in 2002 from negative gross margins of 7% in 2001 primarily due to positive gross profit margins from our composite building products resulting from increased revenues. In addition, gross profit margins from our fiber-based granular products increased primarily due to a decrease in 2002 in the cost of natural gas used in the production process. The price of natural gas and plastic used in the production process of our composite and fiber-based granular products has increased dramatically in the last several months. We do not expect such prices to remain at these levels throughout 2003, but if this were to occur, the gross profit margins at this segment would be adversely affected.

Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues were 27% in 2002 and 2001. Selling, general, and administrative expenses decreased to $50.3 million in 2002 from $59.0 million in 2001 primarily due to cost-reduction efforts at the Papermaking Equipment segment, as well as the absence in 2002 of $3.4 million of goodwill amortization that was recorded in 2001.

Research and development expenses as a percentage of revenues were 3% in 2002 and 2001. Research and development expenses decreased to $4.8 million in 2002 compared with $6.6 million in 2001, primarily at the Papermaking Equipment segment due to restructuring efforts taken in 2002 and the closure of a redundant laboratory (Note 12).

Restructuring and Unusual Costs

During 2002, we recorded restructuring and unusual costs of $3.6 million. Restructuring costs of $1.1 million, which were accounted for in accordance with Emerging Issues Task Force Pronouncement No. 94-3, related to severance costs for 68 employees across all functions primarily at the Papermaking Equipment segment, all of whom were terminated as of December 28, 2002. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment and reduced demand for our products. Unusual costs of $2.5 million include noncash charges of $2.4 million for asset writedowns, consisting of $1.0 million for the impairment of a laboratory in Ohio held for sale at the Papermaking Equipment segment, and $1.4 million for the writedown of fixed

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2002 COMPARED WITH 2001 (CONTINUED)

assets held for sale at the Composite and Fiber-based Products segment; and $0.1 million for related disposal and facility-closure costs (Note 12). We estimate annual savings of approximately $4.5 million ($1.7 million in cost of revenues, $2.3 million in selling, general, and administrative expenses, and $0.5 million in research and development expenses) from these actions beginning in the second quarter of 2002.

During 2001, we recorded restructuring costs of $0.7 million for severance costs relating to 63 employees primarily in the manufacturing and sales functions at the Papermaking Equipment segment's domestic subsidiaries, all of whom were terminated by December 29, 2001. Annual savings were approximately $3.5 million ($1.7 million in cost of revenues, $1.5 million in selling, general, and administrative expenses, and $0.3 million in research and development expenses) from these actions beginning in the fourth quarter of 2001.

Interest Income and Expense

Interest income decreased to $2.6 million in 2002 from $6.6 million in 2001. Of the total decrease in interest income in 2002, approximately $2.7 million was due to lower prevailing interest rates, and $1.3 million was due to lower average invested balances. The decrease in average invested balances primarily relates to repurchases of our subordinated convertible debentures (Note 8), the redemption in September 2001 of our Kadant Fibergen (formerly Thermo Fibergen) subsidiary's common stock and, to a lesser extent, consideration paid to Kadant Fibergen shareholders for the acquisition of their minority interest (Note 11).

Interest expense decreased to $4.7 million in 2002 from $7.3 million in 2001 as a result of the redemption and repurchases of our subordinated convertible debentures (Note 8). We expect interest expense to be significantly lower in 2003 due to the redemption of the convertible debentures.

Income Taxes

Our effective tax rate was 38% in 2002 and 42% in 2001. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses. The effective tax rate decreased in 2002 primarily as a result of the elimination of goodwill amortization, including nondeductible goodwill, under SFAS No. 142. We expect our effective tax rate to be approximately 38% in 2003.

Minority Interest

Minority interest (income) expense in 2002 and 2001 represents minority investors' share of earnings or losses in our majority-owned subsidiaries.

Extraordinary Item

From January through September 2002, we repurchased $32.0 million principal amount of our 4 1/2 % subordinated convertible debentures for $31.3 million in cash, plus accrued interest, resulting in an extraordinary gain of $0.3 million, net of deferred debt charges, and net of income tax provision of $0.2 million. In December 2002, we redeemed the remaining $86.2 million outstanding principal amount of the debentures for 100% par value, plus accrued interest, resulting in an extraordinary loss of $0.3 million from the writeoff of the remaining deferred debt charges, and net of income tax benefit of $0.2 million (Note 8).

During 2001, we repurchased $34.9 million principal amount of our convertible debentures for $33.5 million in cash, plus accrued interest, resulting in an extraordinary gain of $0.6 million, net of deferred debt charges and net of income tax provision of $0.4 million (Note 8).

Cumulative Effect of Change in Accounting Principles

In accordance with the requirements of SFAS No. 142, "Goodwill and Other Intangible Assets," we adopted the standard as of December 30, 2002, and recorded a transitional goodwill impairment charge in our restated results in the first quarter of 2002, representing the cumulative effect of change in accounting principle of $32.8 million (consisting of $29.9 million at the Papermaking Equipment segment and $2.9 million at the Composite and Fiber-based Products segment), net of income tax benefit of $12.4 million (Note 17).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2001 COMPARED WITH 2000

Revenues

Revenues decreased to $221.2 million in 2001 from $234.9 million in 2000, a decrease of $13.7 million, or 6%. Contributing to the decrease in revenues were the unfavorable effects of currency translation of $3.6 million in 2001 due to a stronger U.S. dollar relative to other currencies in countries in which we operate.

Pulp and Papermaking Equipment and Systems Segment. Revenues at the Papermaking Equipment segment decreased to $213.5 million in 2001 compared with $227.1 million in 2000, a decrease of $13.6 million, or 6%, of which $3.6 million related to the unfavorable effects of currency translation in 2001 discussed above. Revenues from the segment's accessories and water-management product lines decreased $6.9 million (or 10%) and $4.7 million (or 11%), respectively, primarily as a result of a decrease in demand in North America due to adverse market conditions. Revenues from the Papermaking Equipment segment's stock-preparation equipment product line decreased $1.9 million (or 2%) primarily as a result of a decrease in sales in North America, largely offset by increases in sales in Europe and export sales to China.

Composite and Fiber-Based Products Segment. Revenues at the Composite and Fiber-based Products segment decreased to $7.7 million in 2001 from $7.8 million in 2000. Revenues decreased $1.0 million as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000, and to a lesser extent, $0.8 million due to a decrease in revenues at our fiber-based granular products business primarily resulting from a decrease in demand from two large agricultural carrier customers. These decreases were largely offset by a $1.7 million increase in sales of composite building products.

Gross Profit Margin

Gross profit margin decreased to 37% in 2001 from 38% in 2000. The gross profit margin increased slightly to 39.0% in 2001 from 38.7% in 2000 at the Papermaking Equipment segment. The gross profit margin decreased at the Composite and Fiber-based Products segment due to an increase of approximately $0.7 million in the cost of natural gas used in the production of fiber-based granules and, to a lesser extent, underabsorbed manufacturing overhead as a result of lower revenues and production at the granules business in 2001. In addition, the gross margin decreased at this segment due to increased negative gross margins as a result of startup efforts at its composite building products business and the absence in 2001 of higher-margin revenues from the fiber-recovery and water-clarification services plant.

Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues increased slightly to 27% in 2001 from 26% in 2000 due to the decrease in revenues. Selling, general, and administrative expenses decreased to $59.0 million in 2001 from $60.9 million in 2000 primarily due to the effects of foreign currency translation and cost reduction efforts at the Papermaking Equipment segment.

Research and development expenses as a percentage of revenues remained constant at 3% in both periods. Research and development expenses decreased to $6.6 million in 2001 compared with $7.7 million in 2000, primarily at the Papermaking Equipment segment due to cost reduction efforts.

Restructuring Costs

During 2001, we recorded restructuring costs of $0.7 million for severance costs relating to 63 employees primarily in manufacturing and sales functions at the Papermaking Equipment segment's domestic subsidiaries, all of whom were terminated by December 29, 2001. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment (Note 12). Annual savings were approximately $3.5 million ($1.7 million in cost of revenues, $1.5 million in selling, general, and administrative expenses, and $0.3 million in research and development expenses) from these actions beginning in the fourth quarter of 2001.

Restructuring and unusual income of $0.5 million in 2000 represents the reversal of a charge taken in 1999 related to the termination of a distributor agreement, which we are no longer obligated to pay due to the breach of the agreement by the third-party distributor.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2001 COMPARED WITH 2000 (CONTINUED)

Gain on Sale of Business and Property

In September 2000, we sold our fiber-recovery and water-clarification services plant for $3.6 million, resulting in a pretax gain of $0.7 million (Note 4). In June 2000, we sold our interest in a tissue mill for $3.9 million in cash, resulting in a pretax gain of $1.0 million (Note 4).

Interest Income and Expense

Interest income decreased to $6.6 million in 2001 from $10.5 million in 2000. Of the total decrease in interest income in 2001, approximately $2.4 million was due to lower prevailing interest rates, and $1.4 million was due to lower average invested balances. The decrease in average invested balances primarily related to Kadant Fibergen's 2001 and 2000 common stock redemption payments (Note 11), and to a lesser extent, the repurchases of our subordinated convertible debentures in the fourth quarter of 2001 (Note 8).

Interest expense decreased slightly to $7.3 million in 2001 from $7.5 million in 2000, primarily as a result of the repurchases of our subordinated convertible debentures in 2001 (Note 8).

Income Taxes

Our effective tax rate was 42% in 2001 and 41% in 2000. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses.

Minority Interest

Minority interest income in 2001 primarily represents minority investors' share of losses in our Kadant Fibergen subsidiary. Minority interest income in 2000 primarily represents the minority investor's share of losses in our Kadant Composites subsidiary, offset in part by the accretion of Kadant Fibergen's common stock subject to redemption.

Extraordinary Item

During 2001, we repurchased $34.9 million principal amount of our 4 1/2% subordinated convertible debentures for $33.5 million in cash, plus accrued interest, resulting in an extraordinary gain of $0.6 million, net of deferred debt charges, and net of income tax provision of $0.4 million (Note 8).

Cumulative Effect of Change in Accounting Principles

In accordance with the requirements of SAB No. 101, "Revenue Recognition in Financial Statements," we adopted the pronouncement as of January 2, 2000, and recorded a charge in the first quarter of 2000 representing the cumulative effect of change in accounting principle of $0.9 million, net of income tax benefit of $0.6 million (Note 17).

Liquidity and Capital Resources

Consolidated working capital was $74.7 million at December 28, 2002, compared with $159.4 million at December 29, 2001. Included in working capital are cash, cash equivalents, and available-for-sale investments of $44.4 million at December 28, 2002, compared with $119.4 million at December 29, 2001. Of the total cash and cash equivalents at December 28, 2002, $7.6 million was held by a majority-owned subsidiary, and the remainder was held by us and our wholly owned subsidiaries. At December 28, 2002, $28.0 million of cash and cash equivalents was held by our foreign subsidiaries.

During 2002, cash of $27.0 million was provided by operating activities, compared with $12.8 million in 2001. A decrease in accounts receivable provided cash of $8.4 million in 2002 primarily at the Papermaking Equipment segment, largely due to a decrease in revenues and improved collection efforts. Cash of $4.8 million was provided

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

by a decrease in unbilled contract costs and fees due to the timing of progress billings on large contracts. A decrease in inventories provided cash of $5.3 million in 2002 primarily at the Papermaking Equipment segment as a result of our efforts to match inventory levels with demand. A decrease in accounts payable used cash of $1.6 million in 2002 primarily at the Papermaking Equipment segment due to the timing of payments. In addition, a use of $3.5 million in cash in 2002 resulted from a decrease in other accrued liabilities, primarily accrued interest, deferred revenues and, to a lesser extent, accrued income taxes.

Our investing activities, excluding available-for-sale investments and advances to former affiliates, used $4.4 million of cash in 2002, compared with $3.8 million in 2001. During 2002, we purchased property, plant, and equipment for $3.3 million, including $1.6 million at our composite building products business, the effects of which were partly offset by proceeds of $0.5 million from the sale of property, plant, and equipment, and by our collection of $0.2 million from a note receivable related to the September 2000 sale of our fiber-recovery and water-clarification services plant. In addition, we paid $1.4 million in 2002 in connection with the acquisition of the minority interest of our Kadant Fibergen subsidiary (Note 11).

Our financing activities used cash of $101.4 million in 2002, compared with $43.8 million in 2001. During 2002, we used $117.5 million to fund the redemption and repurchases of our subordinated convertible debentures (Note 8), as well as $0.5 million to fund the payment of other long-term obligations. In addition, we paid $1.5 million in connection with the acquisition of common stock of our Kadant Fibergen subsidiary (Note 11). These uses of cash were offset in part by $17.7 million of cash provided from the June 2002 issuance of 1.3 million shares of our common stock in a public offering (Note 6).

In September 2001, our board of directors authorized the repurchase, through September 24, 2002, of up to $50 million of our debt and equity securities in the open market or in negotiated transactions. This authorization has been fully utilized. In April 2002, our board of directors authorized the repurchase, through April 9, 2003, of up to an additional $50 million of our debt and equity securities in the open market or in negotiated transactions. As of December 28, 2002, we had $34.6 million remaining under this authorization.

At December 28, 2002, we had $53.2 million of unremitted foreign earnings that could be subject to tax if remitted to the U.S. Our practice is to reinvest indefinitely the earnings of certain of our international subsidiaries. We do not expect that this will have a material adverse effect on our current liquidity.

Our net cash (calculated as cash, cash equivalents, and available-for-sale investments less total short- and long- term debt) was $43.3 million at December 28, 2002, compared with net debt of $0.4 million at December 29, 2001.

Although we currently have no material commitments for capital expenditures in 2003, we plan to make expenditures for property, plant, and equipment of approximately $3.9 million, including $1.9 million at our composite building products business. In addition, we are exploring our options regarding significant capacity expansion for the composite building products business either at our existing facility in Green Bay, Wisconsin, or at a new location. We currently estimate that the cost of expansion of our Green Bay facility could range from $3 to $5 million, while the cost of equipping a new facility could range from $7 to $8 million (excluding land and building). In addition, we are currently planning to establish an assembly facility in China to support our stock-preparation equipment business. The establishment of this facility is still in its planning stages, with several factors remaining undecided, including structure and location. We estimate the costs to establish this new facility could range from $2 to $3 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

Contractual Obligations and Other Commercial Commitments

The table below is presented as of December 28, 2002, and as suggested by the SEC in accordance with Financial Reporting Release (FRR)-61. FRR-61 suggests that it may be beneficial to aggregate information about our contractual obligations and commercial commitments in a single location. Detailed information concerning these obligations and commitments can be found in Notes 8 and 10 of our consolidated financial statements.

	Payments Due by Period or Expiration of Commitment				
(In millions)	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Contractual Obligations and Other Commercial Commitments:					
Long-term debt obligations	$ 0.6	$ 0.6	$ -	$ -	$ 1.2
Operating lease obligations	2.4	3.8	0.3	-	6.5
Total contractual cash obligations*	3.0	4.4	0.3	-	7.7
Other Commitments:**					
Letters of credit	6.2	2.6	-	-	8.8
	$ 9.2	$ 7.0	$ 0.3	$ -	$ 16.5

* There are no unconditional purchase obligations of significance other than inventory and property, plant, and equipment purchases made in the ordinary course of business, which are excluded from this analysis.

** In the ordinary course of business, we are required to issue limited performance guarantees, which do not require letters of credit, relating to our equipment and systems. We typically limit our liability under these guarantees to amounts that would not exceed the value of the contract. We believe that we have adequate reserves for any potential liability in connection with such guarantees. Such guarantees are excluded from this analysis.

Provisions in financial guarantees or commitments, debt or lease agreements, or other arrangements could trigger a requirement for an early payment, additional collateral support, amended terms, or acceleration of maturity.

We do not have special-purpose entities or use off-balance-sheet financing techniques, except for the operating leases and other commitments disclosed in the above table.

In the future, our liquidity position will be primarily affected by the level of cash flows from operations and the amount of cash expended on capital expenditures, or on acquisitions, if any. We believe that our existing resources, together with the cash we expect to generate from operations, are sufficient to meet the capital requirements of our current operations for the foreseeable future.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Market Risk

We are exposed to market risk from changes in interest rates and foreign currency exchange rates, which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities. Additionally, we use short-term forward contracts to manage certain exposures to foreign currencies. We enter into forward foreign exchange contracts to hedge firm purchase and sale commitments denominated in currencies other than our subsidiaries' local currencies. We do not engage in extensive foreign currency hedging activities; however, the purpose of our foreign currency hedging activities is to protect our local currency cash flows related to these commitments from fluctuations in foreign exchange rates. Our forward foreign exchange contracts principally hedge transactions denominated in U.S. dollars. Gains and losses arising from forward contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. We do not enter into speculative foreign currency agreements.

Interest Rates

Our available-for-sale investments and subordinated convertible debentures in the 2001 balance sheet are sensitive to changes in interest rates. Interest rate changes would result in a change in the fair value of these financial instruments due to the difference between the market interest rate and the rate at the date of purchase or issuance of the financial instrument. A 10% decrease in year-end 2001 market interest rates would have resulted in a negative impact of $0.3 million on the net fair value of our interest-sensitive financial instruments.

Our cash, cash equivalents, and available-for-sale investments maturing within one year are sensitive to changes in interest rates. Interest rate changes would result in a change in interest income due to the difference between the current interest rates on cash and cash equivalents and the variable rates that these financial instruments may adjust to in the future. A 10% decrease in year-end interest rates would result in a negative impact on our net income of $0.1 million in 2002 and $0.4 million in 2001.

Foreign Currency Exchange Rates

We generally view our investment in foreign subsidiaries in a functional currency other than our reporting currency as long-term. Our investment in foreign subsidiaries is sensitive to fluctuations in foreign currency exchange rates. The functional currencies of our foreign subsidiaries are principally denominated in Euros, British pounds sterling, Mexican pesos, and Canadian dollars. The effect of changes in foreign exchange rates on our net investment in foreign subsidiaries is reflected in the accumulated other comprehensive items component of shareholders' investment. A 10% depreciation in year-end 2002 and 2001 functional currencies, relative to the U.S. dollar, would result in a reduction of shareholders' investment of $7.4 million and $8.4 million, respectively.

The fair value of forward foreign exchange contracts is sensitive to fluctuations in foreign currency exchange rates. The fair value of forward foreign exchange contracts is the estimated amount that we would pay or receive upon termination of the contracts, taking into account the change in foreign currency exchange rates. A 10% depreciation in year-end 2002 and 2001 foreign currency exchange rates related to our contracts would result in an increase in unrealized losses on forward foreign exchange contracts of $2.1 million and $0.3 million, respectively. Since we use forward foreign exchange contracts as hedges of firm purchase and sale commitments, the unrealized gain or loss on forward foreign currency exchange contracts resulting from changes in foreign currency exchange rates would be offset by corresponding changes in the fair value of the hedged items.

RISK FACTORS

RISKS RELATED TO OUR BUSINESS

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we wish to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual results in 2003 and beyond to differ materially from those expressed in any forward-looking statements made by us, or on our behalf.

Our business is dependent on the condition of the pulp and paper industry, which is currently in a downcycle. We sell products primarily to the pulp and paper industry. Generally, the financial condition of the global pulp and paper industry corresponds to the condition of the general economy, as well as to a number of other factors, including pulp and paper production capacity relative to demand. The global pulp and paper industry has been in a prolonged downcycle, resulting in depressed pulp and paper prices, decreased spending, mill closures, consolidations, and bankruptcies, all of which have adversely affected our business. The North American pulp and paper industry has been particularly adversely affected by higher energy prices and a slowing economy. As paper companies continue to consolidate in response to market weakness, they frequently reduce capacity and postpone or even cancel capacity addition or expansion projects. This cyclical downturn has caused our sales to decline and has adversely affected our profitability. The financial condition of the pulp and paper industry may not improve in the near future, and the severity of the downturn could expand to our European and Asian businesses.

Our business is subject to economic, currency, political, and other risks associated with international sales and operations. During 2002, approximately 50% of our sales were to customers outside the United States, principally in Europe and China. International revenues are subject to a number of risks, including the following:

- agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;
- foreign customers may have longer payment cycles;
- foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs, or adopt other restrictions on foreign trade; and
- the protection of intellectual property in foreign countries may be more difficult to enforce.

Although we seek to charge our customers in the same currency in which our operating costs are incurred, fluctuations in currency exchange rates may affect product demand and adversely affect the profitability in U.S. dollars of products we provide in international markets where payment for our products and services is made in their local currencies. Any of these factors could have a material adverse impact on our business and results of operations.

An increasing portion of our international sales has and may in the future come from China. We are currently planning to establish an assembly facility in China for our stock-preparation equipment and related aftermarket parts. An increase in revenues, as well as operation of an assembly facility in China, will expose us to increased risk in the event of changes in the policies of the Chinese government, political unrest, unstable economic conditions, or other developments in China or in U.S.-China relations that are adverse to trade, including enactment of protectionist legislation or trade restrictions. In addition, orders from customers in China, particularly for large systems that have been tailored to a customer's specific requirements, involve increased risk of cancellation prior to shipment due to payment terms that are applicable to doing business in China. The timing of these orders is often difficult to predict.

We are subject to intense competition in all our markets. We believe that the principal competitive factors affecting the markets for our products include quality, price, service, technical expertise, and product innovation. Our competitors include a number of large multinational corporations such as Voith Paper GmbH and Metso Corporation. Competition, especially in China, could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. Competitors' technologies may prove to be superior to ours. Many of these competitors may have substantially greater financial, marketing, and other resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their services and products. Our current products, those under development, and our ability to develop new technologies may not be sufficient to enable us to compete effectively. In addition, our composite building products business is subject to intense competition, particularly

RISK FACTORS

in the decking market, from traditional wood products and other composite lumber manufacturers, many of whom have greater financial, technical, and marketing resources than we do. As a result, we may be unable to compete successfully in this market.

Our composite building products business is a relatively new entrant into a new market. Our success will depend on our ability to manufacture and commercialize our composite building products. In 2000, we began to develop, produce, market, and sell composite products primarily for the building industry. Development, manufacturing, and commercialization of our composite building products require significant development and testing, and technical expertise in the formulation and manufacture of the products, and our efforts may not be successful. Further, growth of our composite building products business requires ongoing market acceptance. We expect to incur significant branding and distribution expenses to successfully market and distribute these products. Our ability to market these products successfully depends on the willingness of consumers to purchase fiber-based composite products as an alternative to traditional building products. To penetrate the market and gain market share, we need to educate consumers, including wood suppliers, distributors, contractors, and homebuilders, regarding the benefits of our fiber-based composite products over products made of wood, slate, and other traditional materials. This strategy may not be successful. We have little experience manufacturing these products at volume, cost, and quality levels sufficient to satisfy expected demand, and we may encounter difficulties in connection with any large-scale manufacturing or commercialization of these new products and our capacity may not be sufficient to meet demand without significant additional investment. In addition, the majority of our production is dependent upon a single piece of equipment. If that equipment were to fail for an extended period of time, it would have a material adverse effect on our revenues from this business in that period. If we were to exit this business, we would incur significant losses.

Our composite building products business may not be able to obtain effective distribution of its products. The composite building products business is subject to intense competition, and we rely on distributors in the building products industry to market, distribute, and sell our products. We may be unable to produce our products in sufficient quantity to interest or retain these distributors or to add new distributors. If we are unable to distribute our products effectively, our revenues will decline and we will have to incur additional expenses to market these products directly.

Higher interest rates could adversely affect demand for our composite building products. Demand for our composite building products is affected by several factors beyond our control, including weather conditions and economic conditions. Recent demand for our products has been driven, in part, by the availability of low-interest mortgage and home equity loans. An increase in interest rates or tightened credit could adversely affect demand for home remodeling projects, including demand for our products.

Seasonality and weather conditions could adversely affect our business. In general, the building products industry experiences seasonal fluctuations in sales, particularly in the fourth and first quarters, when holidays and adverse weather conditions in some regions usually reduce the level of home improvement and new construction activity. In addition, our composite building products are used or installed in outdoor construction applications, and our sales volume, bookings, gross margins, and operating income can be negatively affected by these adverse weather conditions. As our business grows, we would expect our performance to reflect these seasonal variations. Operating results will tend to be lower in quarters with lower sales, which are not entirely offset by a corresponding reduction in operating costs. In addition, we may also experience lower gross profit margins in the fourth and first quarters due to seasonal incentive discounts offered to our distributors. As a result of these factors, we believe sequential period-to-period comparisons of our operating results are not reliable indicators of future performance, and the operating results for any one quarterly period may not be indicative of operating results to be expected for a full year.

The failure of our composite building products to perform over long periods of time could result in potential liabilities. Our composite building products are new, have not been on the market for long periods of time, and may be used in applications for which we may have little knowledge or limited experience. Because we have limited historical experience, we may be unable to predict the potential liabilities related to product warranty or product liability issues. If our products fail to perform over their warranty periods, we may not have the ability to protect ourselves adequately against this potential liability, which could adversely affect our operating results.

RISK FACTORS

We are dependent on a single mill for the raw material used in our composite building products and fiber-based granules, and we may not be able to obtain raw material on commercially reasonable terms; and the manufacture of our fiber-based granules is subject to commodity price risks. We are dependent on a single paper mill for the fiber used in the manufacture of our composite building products and fiber-based granules. This mill has the exclusive right to supply the papermaking byproducts used in our process to manufacture the granules. Although we believe our relationship with the mill is good, the mill could decide not to renew its contract with us at the end of 2003, or may not renew on commercially reasonable terms, and we would be forced to find an alternative supply for this raw material. We may be unable to find an alternative supply on commercially reasonable terms or could incur excessive transportation costs if an alternative supplier were found, which would increase our manufacturing costs and may prevent our products from being competitive. Our composite building products also contain plastics, which are subject to wide fluctuations in pricing and availability. Due to higher energy costs, the price of plastic has significantly increased over the last several months. We may be unable to obtain sufficient quantities at reasonable prices, which would adversely affect our ability to produce a sufficient quantity of our products or produce our products at competitive prices.

In addition, we use natural gas in the production of our fiber-based granular products. We manage our exposure to natural gas price fluctuations by entering into short-term forward contracts to purchase specified quantities of natural gas from a supplier. There can be no assurance that we will be effective in managing our exposure to natural gas price fluctuations. Natural gas prices have recently increased dramatically. If these high prices are sustained throughout 2003, our results of operations will be adversely affected.

Our inability to successfully identify and complete acquisitions or successfully integrate any new or previous acquisitions could have a material adverse effect on our business. Our strategy includes the acquisition of technologies and businesses that complement or augment our existing products and services. Promising acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers and the need for regulatory, including antitrust, approvals. Any acquisition we may complete may be made at a substantial premium over the fair value of the net assets of the acquired company. We may not be able to complete future acquisitions, integrate any acquired businesses successfully into our existing businesses, make such businesses profitable, or realize anticipated cost savings or synergies, if any, from these acquisitions.

In addition, we have previously acquired several companies and businesses. As a result of these acquisitions, we have recorded significant goodwill on our balance sheet, which amounts to approximately $72.2 million as of December 28, 2002. In accordance with SFAS No. 142, we assess the carrying value of the goodwill that we have recorded at least annually or whenever events or changes in circumstances indicate that its current carrying value has diminished. These events or circumstances generally would include operating losses or a significant decline in earnings associated with the acquired business or asset. SFAS No. 142 transition procedures state that an impairment charge that is required to be recognized when adopting the standard will be reflected as the cumulative effect of a change in accounting principle in the restated results for the first quarter of 2002. We recorded a transitional, after-tax goodwill impairment charge upon the adoption of this standard of $32.8 million, consisting of $29.9 million at the Papermaking Equipment segment and $2.9 million at the Composite and Fiber-based Products segment. Any future impairment losses identified after this transition period will be recorded as a reduction to operating income, which could have a material adverse effect on our results of operations. Our ability to realize the value of the goodwill that we have recorded will depend on the future cash flows of these businesses. These cash flows in turn depend, in part, on how well we have integrated these businesses.

Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result. We place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and into the marketplace. Our success depends in part on our ability to develop patentable products and obtain and enforce patent protection for our products both in the United

RISK FACTORS

States and in other countries. We own numerous U.S. and foreign patents, and we intend to file additional applications, as appropriate, for patents covering our products. Patents may not be issued for any pending or future patent applications owned by or licensed to us, and the claims allowed under any issued patents may not be sufficiently broad to protect our technology. Any issued patents owned by or licensed to us may be challenged, invalidated, or circumvented, and the rights under these patents may not provide us with competitive advantages. A patent relating to our fiber-based granular products expires in 2004. After that date, we could be subject to competition in this market, which could have an adverse effect on this business. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market position. We could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome of any such litigation could materially adversely affect our business and results of operations. In addition, as our patents expire, we rely on trade secrets and proprietary know-how to protect our products. We cannot be sure the steps we have taken or will take in the future will be adequate to deter misappropriation of our proprietary information and intellectual property.

We seek to protect trade secrets and proprietary know-how, in part, through confidentiality agreements with our collaborators, employees, and consultants. These agreements may be breached, we may not have adequate remedies for any breach, and our trade secrets may otherwise become known or be independently developed by our competitors.

Third parties may assert claims against us to the effect that we are infringing on their intellectual property rights. We could incur substantial costs and diversion of management resources in defending these claims, which could have a material adverse effect on our business, financial condition, and results of operations. In addition, parties making these claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block our ability to make, use, sell, distribute, or market our products and services in the United States or abroad. In the event that a claim relating to intellectual property is asserted against us, or third parties not affiliated with us hold pending or issued patents that relate to our products or technology, we may seek licenses to such intellectual property or challenge those patents. However, we may be unable to obtain these licenses on commercially reasonable terms, if at all, and our challenge of the patents may be unsuccessful. Our failure to obtain the necessary licenses or other rights could prevent the sale, manufacture, or distribution of our products and, therefore, could have a material adverse effect on our business, financial condition, and results of operations.

Fluctuations in our quarterly operating results may cause our stock price to decline. Given the nature of the markets in which we participate and the effect of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB No. 101), which became effective in January 2000, we cannot reliably predict future revenues and profitability, and unexpected changes may cause us to adjust our operations. A significant proportion of our costs are fixed, due in part to our significant selling, research and development, and manufacturing costs. Thus, small declines in revenues could disproportionately affect our operating results. Other factors that could affect our quarterly operating results include:

- failure of our products to pass contractually agreed upon acceptance tests, which would delay or prohibit recognition of revenues under SAB No. 101;
- demand for and market acceptance of our products;
- competitive pressures resulting in lower sales prices of our products;
- adverse changes in the pulp and paper industry;
- delays or problems in our introduction of new products;
  our competitors' announcements of new products, services, or technological innovations;
- contractual liabilities incurred by us related to guarantees of our product performance;
- increased costs of raw materials or supplies, including the cost of energy; and
- changes in the timing of product orders.

RISK FACTORS

Anti-takeover provisions in our charter documents and under Delaware law, our shareholder rights plan, and the potential tax effects of our spinoff from Thermo Electron could prevent or delay transactions that our shareholders may favor. Provisions of our charter and by-laws may discourage, delay, or prevent a merger or acquisition that our shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares. For example, these provisions:

- authorize the issuance of "blank check" preferred stock without any need for action by shareholders;
- provide for a classified board of directors with staggered three-year terms;
- require supermajority shareholder voting to effect various amendments to our charter and by-laws;
- eliminate the ability of our shareholders to call special meetings of shareholders;
- prohibit shareholder action by written consent; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, our board of directors has adopted a shareholder rights plan intended to protect shareholders in the event of an unfair or coercive offer to acquire our company and to provide our board of directors with adequate time to evaluate unsolicited offers. Preferred stock purchase rights have been distributed to our common shareholders pursuant to the rights plan. This rights plan may have anti-takeover effects. The rights plan will cause substantial dilution to a person or group that attempts to acquire us on terms that our board of directors does not believe are in our best interests and those of our shareholders and may discourage, delay, or prevent a merger or acquisition that shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares.

The tax treatment of the distribution of our common stock by Thermo Electron under the Internal Revenue Code and regulations thereunder could also serve to discourage an acquisition of our company. An acquisition of our company within two years following the distribution, which took place in August 2001, could result in federal tax liability being imposed on Thermo Electron and, in more limited circumstances, on shareholders of Thermo Electron who received shares of our common stock in the distribution. In addition, even acquisitions occurring more than two years after the distribution could cause the distribution to be taxable to Thermo Electron if the acquisitions were determined to be pursuant to an overall plan that existed at the time of the distribution. As part of the distribution, we have agreed to indemnify Thermo Electron, but not the shareholders of Thermo Electron, for any resulting tax liability if the tax liability is attributable to certain acts by us, including an acquisition of our company. The prospect of that tax liability and our indemnification obligation may have anti-takeover effects.

A number of actions following our spinoff from Thermo Electron could cause the distribution to be fully taxable to shareholders of Thermo Electron who received shares of our common stock in the distribution and/or to Thermo Electron, and to us. The IRS has issued a ruling that no gain or loss will be recognized by us, Thermo Electron, or its shareholders upon the distribution of our common stock as of the date of the distribution, except with respect to cash received in lieu of fractional shares of our common stock and distributions of our common stock acquired by Thermo Electron within the past five years in taxable transactions. However, the distribution could become fully taxable if we, Thermo Electron, or the shareholders of Thermo Electron who received shares of our common stock in the distribution, take any of a number of actions following the distribution. We have entered into a tax matters agreement with Thermo Electron that restricts our ability to engage in these types of actions. If any conditions of the IRS ruling are not satisfied, the distribution could become taxable to the shareholders of Thermo Electron who received shares of our common stock in the distribution and/or Thermo Electron. As part of the distribution, we have agreed to indemnify Thermo Electron, but not the shareholders of Thermo Electron, for any resulting tax liability if the liability is attributable to certain acts by us.

RISK FACTORS

Sales of substantial amounts of our common stock may occur from time to time, which could cause our stock price to decline. Our shares were distributed pro rata to the shareholders of Thermo Electron, and from time to time, these shareholders have sold and may in the future sell substantial amounts of our common stock in the public market if our shares no longer meet their investment criteria or other objectives. Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, whether as a result of the distribution or otherwise, could cause the market price of our common stock to decline.

We may have potential business conflicts of interest with Thermo Electron with respect to our past and ongoing relationships that could harm our business operations. Conflicts of interest may arise between Thermo Electron and us in a number of areas relating to our past and ongoing relationships, including: labor, tax, employee benefit, indemnification, and other matters arising from our separation from Thermo Electron. We may not be able to resolve any of these potential conflicts.

SELECTED FINANCIAL INFORMATION

(In thousands except per share amounts)	2002 (a)	2001 (b)	2000 (c)	1999 (d)	1998
STATEMENT OF OPERATIONS DATA					
Revenues	$ 185,674	$ 221,166	$ 234,913	$ 228,036	$ 247,426
Income Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles	5,923	9,362	16,012	17,778	17,995
Net Income (Loss)	(26,802)	9,982	15,142	17,778	17,995
Earnings per Share Before Extraordinary Item and Cumulative Effect of Change in Accounting Principles (e):					
Basic	.46	.76	1.31	1.45	1.46
Diluted	.45	.76	1.30	1.44	1.44
Earnings (Loss) per Share (e):					
Basic	(2.07)	.81	1.24	1.45	1.46
Diluted	(2.04)	.81	1.23	1.44	1.44
BALANCE SHEET DATA					
Working Capital (f)	$ 74,701	$ 159,383	$ 173,097	$ 158,711	$ 193,446
Total Assets	231,517	367,654	414,215	442,577	427,100
Common Stock of Subsidiary Subject to Redemption	-	-	-	-	53,801
Long-term Obligations	580	119,267	154,650	154,350	153,000
Shareholders' Investment	181,257	183,557	170,633	164,070	150,948

(a) Reflects $3.6 million of pretax restructuring and unusual costs; the redemption and repurchase of $118.1 million of the Company's 4 1/2% subordinated convertible debentures, resulting in a net extraordinary gain of $31, net of income tax provision of $19; and a charge for the cumulative effect of a change in accounting principle of $32.8 million, net of income tax benefit of $12.4 million.

(b) Reflects $0.7 million of pretax restructuring costs and the repurchase of $34.9 million of the Company's debentures, resulting in an extraordinary gain of $0.6 million, net of income tax provision of $0.4 million.

(c) Reflects a $1.7 million pretax gain on sale of property, $0.5 million of pretax income related to restructuring and unusual items, and a charge for the cumulative effect of change in accounting principle of $0.9 million, net of income tax benefit of $0.6 million.

(d) Reflects an $11.2 million pretax gain on the February 1999 disposition of Thermo Wisconsin, Inc., pretax restructuring costs and unusual items of $6.2 million, and the reclassification of common stock of subsidiary subject to redemption to current liabilities.

(e) Restated to reflect a one-for-five reverse stock split of our common stock, effective July 12, 2001.

(f) Includes $17.0 million and $49.2 million reclassified from common stock of subsidiary subject to redemption to current liabilities in 2000 and 1999, respectively, and the 2001 and 2000 redemption of this common stock for $13.1 million and $34.6 million, respectively.

COMMON STOCK MARKET INFORMATION

On July 12, 2001, we changed our name to Kadant Inc. from Thermo Fibertek Inc., with our common stock now trading on the American Stock Exchange under the symbol KAI. Our common stock was previously traded under the symbol TFT. The following table sets forth the high and low sale prices of our common stock for 2002 and 2001, as reported in the consolidated transaction reporting system. Prices have been restated to reflect a one-for-five reverse stock split, effective July 12, 2001.

	2002		2001	
Quarter	High	Low	High	Low
First	$ 15.16	$ 12.55	$ 21.00	$ 15.31
Second	17.00	13.91	24.45	14.50
Third	16.30	12.51	18.50	11.10
Fourth	16.09	12.50	14.80	12.65

As of January 31, 2003, we had approximately 7,264 holders of record of our common stock. This does not include holdings in street or nominee names. The closing market price on the American Stock Exchange for our common stock on January 31, 2003, was $16.53 per share.

SHAREHOLDER SERVICES

Shareholders who desire information about Kadant Inc. are invited to contact us at One Acton Place, Suite 202, Acton, Massachusetts 01720, (978) 776-2000. We maintain an internal mailing list to enable shareholders whose stock is held in street name, and other interested individuals, to receive quarterly reports, annual reports, press releases, and other information as quickly as possible. Additional information is available on our Web site at www.kadant.com.

STOCK TRANSFER AGENT

American Stock Transfer & Trust Company is our stock transfer agent and maintains our shareholder activity records. The agent will respond to questions on issuance of stock certificates, change of ownership, lost stock certificates, and change of address. For these and similar matters, please direct inquiries to:

American Stock Transfer & Trust Company
Shareholder Services Department
59 Maiden Lane
New York, New York 10038
(718) 921-8200

DIVIDEND POLICY

We have never paid cash dividends and do not expect to pay cash dividends in the foreseeable future because our policy has been to use earnings to finance expansion and growth. Payment of dividends will rest within the discretion of the board of directors and will depend upon, among other factors, our earnings, capital requirements, and financial condition.

FORM 10-K REPORT

A copy of the Annual Report on Form 10-K for the fiscal year ended December 28, 2002, as filed with the Securities and Exchange Commission, may be obtained at no charge by contacting Kadant Inc., One Acton Place, Suite 202, Acton, Massachusetts 01720, (978) 776-2000. The Form 10-K is also available on our Web site at www.kadant.com, under "Investors."

ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, May 15, 2003, at 2:30 p.m. at the Boston Marriott Burlington, One Mall Road (at Routes 128 and 3A), Burlington, Massachusetts.

EXHIBIT 21

KADANT INC.
Subsidiaries of the Registrant

At March 20, 2003, the Registrant owned the following companies:

NAME	STATE OR JURISDICTION OF INCORPORATION	PERCENT OF OWNERSHIP
ArcLine Products, Inc.	New York	100
Fibertek U.K. Limited	England	100
Kadant U.K. Limited	England	100
D.S.T. Pattern Engineering Company Limited	England	100
Vickerys Limited	England	100
Winterburn Limited	England	100
Kadant AES Canada Inc.	Canada	100
Kadant AES Mexico, S.A. de C.V.	Mexico	100
Kadant Black Clawson Inc.	Delaware	100
Kadant International Holdings Inc.	Delaware	100
Kadant Lamort	France	100
Kadant Lamort Ltda.	Brazil	70
Kadant Lamort GmbH	Germany	100
Kadant Lamort S.A.	Spain	100
Kadant Lamort S.r.l.	Italy	100
Kadant Lamort AB	Sweden	100
Kadant BC Lamort UK	England	100
Kadant Cyclotech AB	Sweden	100
Kadant Web Systems Inc.	Massachusetts	100
Fiberprep Inc. (31.05% of which shares are owned directly by Kadant Lamort)	Delaware	95
Fiberprep Securities Corporation	Massachusetts	100
Kadant Fibergen Inc.	Delaware	100
Fibergen Securities Corporation	Massachusetts	100
Kadant GranTek Inc.	Wisconsin	100
Kadant Composites Inc.	Delaware	100

EXHIBIT 23.1

Consent of Independent Auditor

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Kadant Inc. of our report dated February 7, 2003, included in the Annual Report to Shareholders of Kadant Inc.

We also consent to the incorporation by reference in the Registration Statements (Forms S-8 Nos. 33-67190, 33-67192, 33-67194, 33-67196, 33-83718, 33-80751, 333-80509, 333-48498, 333-65206, 333-102223 and 333-102224) of Kadant Inc., of our reports dated February 7, 2003, with respect to the consolidated financial statements of Kadant Inc. incorporated by reference into this Annual Report (Form 10-K) and the financial statement schedule of Kadant Inc. listed in Item 15(a) included in this Annual Report (Form 10-K) for the year ended December 28, 2002.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 19, 2003

EXHIBIT 23.2

Information Concerning Consent of Arthur Andersen LLP

We have not been able to obtain, after reasonable efforts, the consent of Arthur Andersen LLP to the inclusion in this report on Form 10-K and incorporation by reference into certain of our registration statements on Form S-8 of their audit report related to the consolidated financial statements of the Company for the year ended December 29, 2001. Therefore, we have included a copy of their previously issued report and have reprinted below their consent, which was filed with the Company's Annual Report on Form 10-K for the year ended December 29, 2001.

Because we have been unable to obtain the above-referenced consent of Arthur Andersen LLP, we are required to disclose any resulting limitations on recovery by investors. Section 11(a) of the Securities Act of 1933 allows, under certain circumstances, a person acquiring a security to assert a claim against an accountant, among others, who has consented to be named as having prepared any report for use in connection with the registration statement if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Because Arthur Andersen LLP has not consented to being named in this Form 10-K, it will not be liable under Section 11(a) of the Securities Act for any untrue statements or omissions of material fact contained in the financial statements audited by Arthur Andersen LLP.

THE FOLLOWING CONSENT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN.

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated February 8, 2002, included in or incorporated by reference into Kadant Inc.'s (formerly named Thermo Fibertek Inc.) Annual Report on Form 10-K for the year ended December 29, 2001, into the Company's previously filed Registration Statements as follows: Registration Statement No. 33-67190 on Form S-8, Registration Statement No. 33-67192 on Form S-8, Registration Statement No. 33-67194 on Form S-8, Registration Statement No. 33-67196 on Form S-8, Registration Statement No. 33-83718 on Form S-8, Registration Statement No. 33-80751 on Form S-8, Registration Statement No. 333-80509 on Form S-8, Registration Statement No. 333-48498 on Form S-8, and Registration Statement No. 333-65206 on Form S-8.

Arthur Andersen LLP

Boston, Massachusetts
March 14, 2002

EXHIBIT 99.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, the undersigned, William A. Rainville, chief executive officer of Kadant Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 28, 2002 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 24, 2003

/s/ William A. Rainville

William A. Rainville
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Kadant Inc. and will be retained by Kadant Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, the undersigned, Thomas M. O'Brien, chief financial officer of Kadant Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 28, 2002 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 24, 2003

/s/ Thomas M. O'Brien

Thomas M. O'Brien
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Kadant Inc. and will be retained by Kadant Inc. and furnished to the Securities and Exchange Commission or its staff upon request.