

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): August 6, 2001

Kadant Inc.

(Exact Name of Registrant as Specified in Charter)

Delaware

1-11406

52-1762325

(State or Other Jurisdiction
of Incorporation)

(Commission
File Number)

(I.R.S. Employer
Identification No.)

245 Winter Street
Waltham, Massachusetts

02451

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (781) 622-1000

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Item 5. Other Events.

On July 9, 2001, the Board of Directors of Thermo Electron Corporation ("Thermo Electron") approved a distribution (the "Distribution") to the holders of record of the common stock of Thermo Electron on July 30, 2001 (the "Record Holders") of all of the shares of common stock of Kadant Inc. (the "Company") held by Thermo Electron. The Distribution is scheduled to occur on August 8, 2001 (the "Distribution Date"). The Company has filed herewith (1) a definitive information statement providing details of the Distribution and information about the Company and (2) a form of letter to shareholders of Thermo Electron regarding the same. Thermo Electron expects that its distribution agent, American Stock Transfer & Trust Company, will distribute to the Record Holders on the Distribution Date the definitive information statement, the letter to shareholders and certificates representing the shares of the Company's common stock to be distributed in the Distribution.

The Company's definitive information statement dated August 6, 2001 is filed as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

The form of letter to shareholders of Thermo Electron is filed as Exhibit 99.2 to this Current Report on Form 8-K and is incorporated herein by reference.

Also filed herewith in connection with the Distribution are a Plan and Agreement of Distribution dated August 3, 2001 between Thermo Electron Corporation and the Company, a Tax Matters Agreement effective as of August 8, 2001 by and among Thermo Electron Corporation and the Company, and a Transition Services Agreement dated August 3, 2001 between Thermo Electron Corporation and the Company.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Business Acquired: Not Applicable

(b) Pro Forma Financial Information: Not Applicable

(c) Exhibits:

Exhibit No. -----	Description -----
4.1	Certificate of Amendment to Certificate of Incorporation of Kadant Inc.
23	Consent of Independent Public Accountants
99.1	Definitive Information Statement of Kadant Inc. dated August 6, 2001
99.2	Form of Letter to Shareholders of Thermo Electron Corporation

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99.3	Plan and Agreement of Distribution dated August 3, 2001 between Thermo Electron Corporation and Kadant Inc.
99.4	Tax Matters Agreement effective as of August 8, 2001 by and among Thermo Electron Corporation and Kadant Inc.
99.5	Transition Services Agreement dated August 3, 2001 between Thermo Electron Corporation and Kadant Inc.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 6th day of August, 2001.

KADANT INC.

By: /s/ Sandra L. Lambert

Sandra L. Lambert
Secretary

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Exhibit Index

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CERTIFICATE OF AMENDMENT

TO

CERTIFICATE OF INCORPORATION

OF

KADANT INC.

KADANT INC. (the "Corporation"), organized and existing under and by virtue of the General Law of the State of Delaware, does hereby certify as follows:

At a meeting of the Board of Directors of the Corporation held on September 28, 2000, the Board of Directors duly adopted resolutions pursuant to Section 242 of the General Corporation Law of the State of Delaware setting forth amendments to the Certificate of Incorporation of the Corporation, as amended (the "Certificate of Incorporation"), and declaring said amendments to be advisable. The stockholders of the Corporation duly approved, pursuant to said Section 242, said proposed amendments at the Corporation's Annual Meeting of Stockholders held on May 15, 2001. The resolutions setting forth the amendments to the Certificate of Incorporation are as follows:

RESOLVED: That, subject to stockholder approval, Section B(1) of Article

NINTH of the Certificate of Incorporation be deleted in its entirety and replaced with the following paragraph:

"NINTH. In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board of Directors shall have the power to adopt, amend, alter or repeal the Corporation's By-laws. The affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present shall be required to adopt, amend, alter or repeal the Corporation's By-laws. In addition to any other vote of the holders of any class or series required by law or this certificate of incorporation, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required for the stockholders to adopt, amend, alter or repeal the Corporation's By-laws.

RESOLVED: That, subject to stockholder approval, the introduction to Article

NINTH and Section (A) (1) of Article NINTH of the Certificate of Incorporation be deleted in their entirety and replaced by the following introduction and paragraphs:

This Article NINTH is inserted for the management of the business and for the conduct of the affairs of the Corporation.

"1. Number of Directors; Election of Directors. Subject to the

rights of holders of any series of Preferred Stock to elect directors, the number of directors of the Corporation shall not be less than three. The exact number of directors within the limitations specified in the preceding sentence shall be determined from time to time by, or in the manner provided in, the By-laws of the Corporation. Election of directors need not be by written ballot, except as and to the extent provided in the By-laws of the Corporation.

2. Classes of Directors. Subject to the rights of holders of any

series of Preferred Stock to elect directors, the Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than

any other class. If a fraction is contained in the quotient arrived at by dividing the authorized number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class I, and if such fraction is two-thirds, one of the extra directors shall be a member of Class I and one of the extra directors shall be a member of Class II, unless otherwise provided by resolution of the Board of Directors.

3. Terms of Office. Subject to the rights of holders of any series

of Preferred Stock to elect directors, each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided,

however, that each director initially appointed to Class I shall

serve for a term expiring at the Corporation's annual meeting of stockholders held in 2002; each director initially appointed to Class II shall serve for a term expiring at the Corporation's annual meeting of stockholders held in 2003; and each director initially appointed to Class III shall serve for a term expiring at the Corporation's annual meeting of stockholders held in 2004; provided

further, that the term of each director shall continue until the

election and qualification of such director's successor and be subject to such director's earlier death, resignation or removal.

4. Allocation of Directors Among Classes in the Event of Increases

or Decreases in the Authorized Number of Directors. In the event of

any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which such director is a member until the expiration of such director's current term, subject to such director's earlier death, resignation or removal and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors in accordance with the provisions of Section 2 of this Article NINTH. To the extent possible, consistent with the provisions of Section 2 of this Article NINTH, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates

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following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution of the Board of Directors.

5. Removal. Subject to the rights of holders of any series of

Preferred Stock to elect directors, directors of the Corporation may be removed only for cause by the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors.

6. Vacancies. Subject to the rights of holders of any series of

Preferred Stock to elect directors, any vacancy or newly-created directorship in the Board of Directors, however occurring, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director and shall not be filled by stockholders. A director elected to fill a vacancy shall be elected to hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of such director's successor and subject to such director's earlier death, resignation or removal.

7. Stockholder Nominations and Introduction of Business, Etc.

Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders shall be given in the manner provided by the By-laws of the Corporation.

8. Amendments to Article. Notwithstanding any other provisions of

law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article NINTH."

RESOLVED: That, subject to stockholder approval, the following new Article

FOURTEENTH be added to the Certificate of Incorporation:

"FOURTEENTH. Stockholders of the Corporation may not take any action by written consent in lieu of a meeting. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article FOURTEENTH."

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RESOLVED: That, subject to stockholder approval, the following new Article

FIFTEENTH be added to the Certificate of Incorporation:

"FIFTEENTH. Special meetings of stockholders for any purpose or purposes may be called at any time by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or, if the Corporation does not have a Chief Executive Officer, the President, but such special meetings may not be called by any other person or persons. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting. Notwithstanding any other provision of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article FIFTEENTH."

This Certificate of Amendment to Certificate of Incorporation is to be effective at 9:00 a.m. on Monday, August 6, 2001.

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IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be executed by its President and Chief Executive Officer this 3rd day of August, 2001.

KADANT INC.

By: /s/ Sandra L. Lambert

Sandra L. Lambert
Secretary

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the inclusion of our report dated February 12, 2001 (except for the matters discussed in Note 18, as to which the date is July 12, 2001), and to all references to our Firm included in Kadant Inc.'s Current Report on Form 8-K dated August 6, 2001, and the incorporation by reference of said report into the Company's previously filed Registration Statements as follows: Registration Statement No. 333-67190 on Form S-8, Registration Statement No. 333-67192 on Form S-8, Registration Statement No. 333-67194 on Form S-8, Registration Statement No. 333-67196 on Form S-8, Registration Statement No. 333-83718 on Form S-8, Registration Statement No. 333-80751 on Form S-8, Registration Statement No. 333-80509 on Form S-8 and Registration Statement 333-48498 on Form S-8.

/s/ Arthur Andersen LLP

Boston, Massachusetts
August 3, 2001

[KADANT LOGO]

INFORMATION STATEMENT

Distribution of 11,125,496 Shares of Common Stock
and Associated Preferred Stock Purchase Rights

Thermo Electron Corporation is furnishing this information statement to its stockholders in connection with the distribution by Thermo Electron of approximately 11,125,496 shares of our common stock, together with associated preferred stock purchase rights, to the holders of record of shares of Thermo Electron's common stock on July 30, 2001, the record date. As of the date of this information statement, Thermo Electron owned approximately 91% of the outstanding shares of our common stock. Upon completion of the distribution Thermo Electron will not own any shares of our common stock.

We expect Thermo Electron to effect the distribution on August 8, 2001, at which time Thermo Electron will distribute .0612 of a share of our common stock, together with the associated preferred stock purchase rights, as a dividend on each share of Thermo Electron common stock outstanding on the record date. The principal terms of our preferred stock purchase rights are described below under the caption "Description of Capital Stock--Stockholder Rights Plan." Where appropriate, references in this information statement to our common stock include the associated preferred stock purchase rights.

You will not be required to pay for the shares of our common stock that you receive in the distribution, nor will you be required to surrender or exchange any of your shares of Thermo Electron common stock therefor. In February 2001, Thermo Electron received a ruling from the Internal Revenue Service to the effect that you will not recognize income, gain or loss for federal income tax purposes in connection with the distribution, except with respect to cash you receive in lieu of fractional shares of our common stock in the distribution and shares of our common stock that you receive in the distribution that were acquired by Thermo Electron in the past five years in transactions in which any gain or loss was recognized. See "The Distribution--Material United States Federal Income Tax Consequences of the Distribution." Neither we nor Thermo Electron will receive any cash or other proceeds from the distribution.

Our common stock is traded on The American Stock Exchange under the symbol "KAI." On August 2, 2001, the last reported sale price for our common stock was \$13.89 per share. Initially, our preferred stock purchase rights will attach to and trade with our common stock.

In reviewing this information statement, you should carefully consider the matters described under the caption "Risk Factors" beginning on page 8.

The distribution does not require the vote of Thermo Electron stockholders. Thermo Electron is not asking you for a proxy.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities or passed upon the adequacy or accuracy of this information statement. Any representation to the contrary is a criminal offense.

The date of this information statement is August 6, 2001.

You should rely only on the information contained in this information statement. Neither we nor Thermo Electron has authorized anyone to provide you with information different from that contained in this information statement. Neither we nor Thermo Electron is offering to sell, or soliciting offers to buy, any securities. The information contained in this information statement may only be accurate as of the date set forth on the cover, regardless of the time of delivery of this information statement. This information statement also presents information concerning Thermo Electron that Thermo Electron believes to be accurate as of the date set forth on the cover. Neither we nor Thermo Electron intend to update the information set forth in this information

statement, except in the course of fulfilling our respective normal public reporting and disclosure obligations.

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This information statement contains registered trademarks and trade names of Thermo Electron and Kadant. This information statement also contains registered trademarks and trade names of other companies.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This information statement and the documents that we incorporate by reference in this information statement 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 "Summary," "Risk Factors," "The Distribution--Background and Reasons for the Distribution," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Relationship and Potential Conflicts of Interest with Thermo Electron and Related Parties" and the consolidated financial statements that we have included in this information statement.

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. 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 this information statement captioned "Risk Factors" that starts on page 8.

ADDITIONAL INFORMATION

We are subject to the informational and reporting requirements of Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. Our Commission filings are also available to the public at the Commission's Web site at www.sec.gov.

The following documents, which are on file with the Commission, are incorporated in this information statement by reference:

- (1) Our Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
- (2) Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- (3) Our Proxy Statement dated April 18, 2001, containing a description of our common stock and preferred stock purchase rights.
- (4) Our Current Reports on Form 8-K dated June 19, 2001, July 12, 2001, July 17, 2001, July 20, 2001 and August 6, 2001.

All reports or proxy statements that we file pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act subsequent to the date of this information statement shall also be deemed to be incorporated by reference in this information statement and to be a part hereof from the respective dates of filing of such documents.

(ii)

SUMMARY

This summary highlights selected information from this information statement and may not contain all of the information concerning our company and the distribution of our common stock to Thermo Electron stockholders. To better understand our company and the distribution of our common stock to Thermo Electron stockholders, you should read this entire information statement carefully, including the documents that we have incorporated by reference in this information statement and the documents to which we have referred you. All share and per share data in this information statement give effect to the reverse split of our common stock that we effected on July 12, 2001, pursuant to which each five shares of our common stock then outstanding were converted into one share of common stock. This information statement also reflects the distribution to holders of our common stock of one preferred stock purchase right for each share of common stock held, which occurred on August 6, 2001, pursuant to our rights plan. Our fiscal year ends the Saturday nearest December 31. Unless the context suggests otherwise, references in this information

statement to 2000, 1999, 1998, 1997 and 1996 are to our fiscal years ended December 30, 2000, January 1, 2000, January 2, 1999, January 3, 1998 and December 28, 1996, respectively.

The Company

We are a leading designer and manufacturer of stock-preparation systems and equipment, papermaking machine accessories and water-management systems for the pulp and paper industry. Our principal products for the pulp and paper industry include:

- . custom-engineered systems and equipment for the conversion of waste paper into recycled paper;
- . accessory equipment and related consumables for the efficient operation of papermaking machines; and
- . water-management systems for the continuous cleaning of papermaking machine fabrics and the draining, purifying and recycling of process water for paper sheet and web formation.

We have been in operation for more than 100 years and have a large, stable customer base that includes most paper manufacturers in the world. 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 stable high margin spare parts and consumables business. 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.

In addition, we manufacture and market composite and fiber-based products, including composite building products. Composite building products, which are made of papermaking byproducts and reclaimed plastic, are sold into the emerging alternative lumber products market. We have established an approximately 90,000 square foot manufacturing facility in Green Bay, Wisconsin to produce our composite building products and have begun selling them for such applications as soundwalls, privacy fencing, decking and roof tiles. Composite building products have an attractive appearance and offer significant advantages over traditional pressure-treated wood products. Our composite building products are resistant to moisture and do not possess many of the functional and practical disadvantages common to pressure-treated wood products such as susceptibility to splitting, warping, rotting and insect infestation. In addition, our composite building products do not require the ongoing maintenance typically associated with traditional pressure-treated wood products.

We pioneered many of the technical advances in the pulp and paper industry over the last 50 years, including the first pressure screen, the first counter current washer, the first doctor blades manufactured with synthetic material and the first double doctor system. Some of our more recent product innovations include:

- . Screen One, a three-in-one screening system that saves significant floor space, reduces installation cost and increases output and pulp cleanliness;

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- . Fibernet, a high efficiency screen that facilitates the recovery of usable fiber from the waste stream of the paper mill; and
- . V.I.D.(R), our patented formation system, which greatly increases sheet properties.

Strategy

Our objective is to strengthen our position as a leading designer and manufacturer of pulp and papermaking equipment and systems and to increase our presence in the growing composite building products industry. To achieve these goals, we intend to implement the following strategy:

Develop innovative products and technologies. With a reputation as an innovator within the pulp and paper industry, we intend to use our state-of-the-art research facilities to develop new products and technologies. For

example, we have developed screening and forming technologies that provide innovative solutions for the papermaking process. In addition, we intend to leverage on our technical expertise to develop applications and products for high-growth markets such as composite building products.

Leverage our installed base. We have one of the largest installed bases in the industry, having supplied the pulp and paper industry for over 100 years. We intend to continue to leverage this base by:

- . increasing our spare parts and consumables business by providing superior service and reliable products; and
- . developing retrofit products to improve the performance of equipment we have already installed in the field.

Leverage our reputation as a reliable worldwide distributor. Because of its high asset intensity, the pulp and paper industry is generally risk averse and favors well-established companies with reputations for quality products and service. Consequently, it is very difficult for a new supplier or technology to gain acceptance from the industry. We view our longstanding reputation as a dependable supplier of quality products and our ability to effectively distribute products to the pulp and paper industry worldwide as a competitive advantage. We intend to leverage our distribution network to sell new products and technology throughout the world.

Build on our strong international presence. We intend to continue to build on our strong international position to capitalize on the increasing demand for paper products in developing nations such as China and Brazil.

Grow our business through targeted acquisitions. We have a history of completing successful acquisitions. Through our strong cash position, we intend to continue to make targeted acquisitions of complementary technologies and businesses. See "Business--Acquisitions."

Recent Developments

On July 19, 2001, we announced:

- . our results for the second quarter of 2001;
- . our estimated revenues and earnings for the third quarter of 2001, the full year 2001 and the full year 2002; and
- . the estimated revenues for our composite building products business for the third quarter of 2001, the fourth quarter of 2001, the full year 2001 and the full year 2002.

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We reported net income of \$2.4 million, or \$.20 per diluted share, for the second quarter of 2001, compared with \$3.9 million, or \$.32 per diluted share, for the second quarter of 2000. We reported revenues for the second quarter of 2001 of \$56.7 million, compared with \$60.6 million for the second quarter of 2000. Financial results for the second quarters of 2001 and 2000 are unaudited.

For the third quarter of 2001, we announced that we expect our earnings to be in the range of \$.15 to \$.20 per share, and our revenues to be between \$55 and \$60 million. We also announced that we expect revenues from our composite building products business for each of the third and fourth quarters of 2001 to be between \$300,000 and \$500,000.

For 2001, we announced that we expect our earnings to be in the range of \$.80 to \$.90 per share, and our revenues to be between \$225 and \$230 million, including just below \$2 million from sales of our composite building products.

For 2002, we announced that we expect our earnings to be in the range of \$.90 to \$1.05 per share, and our revenues to be between \$225 and \$230 million, including between \$4 and \$6 million from sales of our composite building products.

Corporate information

Prior to our incorporation, we operated as a division of Thermo Electron. We were incorporated in Delaware in November 1991 as a wholly owned subsidiary of Thermo Electron. We conducted an initial public offering of our common stock in November 1992 and became a majority-owned subsidiary of Thermo Electron. In July 2001, we changed our name from Thermo Fibertek Inc. to Kadant Inc. Our principal executive offices are located at 245 Winter Street, Suite 300, Waltham, Massachusetts 02451, and our telephone number is (781) 370-1650.

Summary Consolidated and Pro Forma Financial Data

The following table sets forth summary consolidated and certain unaudited pro forma financial data for our company. The consolidated financial data set forth below for each of the fiscal years in the three-year period ended December 30, 2000 are derived from our audited consolidated financial statements, which are included elsewhere in this information statement. The consolidated financial data set forth below for the three months ended April 1, 2000 and March 31, 2001 have been derived from our unaudited consolidated financial statements included elsewhere in this information statement. The unaudited pro forma financial data set forth below are based on our consolidated financial statements, which are included elsewhere in this information statement.

Fiscal year			Three months ended	
1998	1999	2000	April 1, 2000	March 31, 2001
-----	-----	-----	-----	-----
(In thousands, except percentages and per share amounts)				

Statement of Income Data:

(1)					
Revenues.....	\$247,426	\$228,036	\$234,913	\$ 57,922	\$ 58,900
Gross profit margin.....	40%	41%	38%	40%	39%
Operating income.....	30,348	29,522	23,420	5,621	5,056
Net income (2).....	17,995	17,778	15,142	2,690	3,129
Diluted earnings per share					
(2) (3).....	1.44	1.44	1.23	0.22	0.25
Other Financial Data:					
Adjusted EBITDA (4).....	\$ 38,304	\$ 33,448	\$ 30,754	\$ 8,021	\$ 7,437
Balance Sheet and Cash Flow Data:					
Cash and cash equivalents, advance to affiliates and available-for-sale investments.....	\$163,678	\$179,439	\$154,302	\$173,214	\$156,491 (5)
Total assets.....	427,100	442,577	414,215	436,680	416,557
Net debt (6).....	43,123	24,451	17,936	32,337	15,566
Cash flow provided by (used in) operations.....	31,937	17,205	18,438	(380)	2,111
Certain Unaudited Pro Forma Data: (7)					
Revenues.....	\$227,913	\$226,234	\$234,913	\$ 57,922	\$ 58,900
Adjusted EBITDA (4).....	35,571	32,991	30,754	8,021	7,437
Net income.....	16,126	14,512	14,804	3,560	3,129
Diluted earnings per share					
(3).....	1.29	1.18	1.20	0.29	0.25

(1) Amounts include the results of our composite building products business, NEXT Fiber Products Inc., which was organized in October 1999 and is still in the startup phase. NEXT Fiber Products had operating losses of \$0.2 million, \$2.4 million, \$0.4 million and \$0.6 million in 1999, 2000, the three months ended April 1, 2000 and the three months ended March 31, 2001, respectively. NEXT Fiber Products had net losses of \$41,000, \$1.0 million, \$0.1 million and \$0.3 million in 1999, 2000, the three months ended April 1, 2000 and the three months ended March 31, 2001, respectively.

(2) Includes the cumulative effect of a change in accounting principle of \$0.9

million, net of income taxes of \$0.6 million (\$.07 per share) in 2000 and the three months ended April 1, 2000.

- (3) Restated to reflect our one-for-five reverse stock split, effective July 12, 2001.
- (4) Adjusted EBITDA, or earnings before interest, income taxes, depreciation, amortization, restructuring and unusual items, and gain on the sale of business and property, is presented because it is a widely accepted indicator used by certain investors and analysts to compare and analyze companies on the basis of operating performance. We believe a presentation of earnings before these items may enhance an investor's comparison of competitor companies that have historically used different methods of accounting for business combinations. Adjusted EBITDA is not intended to represent cash flows for the period, nor is it presented as an alternative to operating income or an indicator of operating performance. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with

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accounting principles generally accepted in the United States (GAAP). Disclosure regarding cash flows from operating, investing and financing transactions is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Further, Adjusted EBITDA is not indicative of operating income or cash flow from operations as determined under GAAP. Items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Our method of computation may or may not be comparable to other similarly titled measures of other companies.

- (5) At March 31, 2001, cash and cash equivalents, advance to affiliates and available-for-sale investments consisted of \$133.6 million in cash and cash equivalents, \$3.8 million in advance to affiliates and \$19.1 million in available-for-sale investments.
- (6) Calculated as total common stock of subsidiary subject to redemption, and long- and short-term debt, net of cash and cash equivalents, advances to affiliates, and available-for-sale investments.
- (7) This unaudited financial data has been presented on a pro forma basis to exclude the results of our Thermo Wisconsin, Inc. subsidiary, which was sold in February 1999, restructuring and unusual items, gain on sale of business and property, and the cumulative effect of Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," which became effective as of January 2, 2000.

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The Distribution

Distributing company.....	Thermo Electron Corporation, a Delaware corporation. As used in this information statement, the term "Thermo Electron" includes Thermo Electron Corporation and its wholly owned and majority-owned subsidiaries, other than our company and our subsidiaries, as of the relevant date, unless the context otherwise requires.
Distributed company.....	Kadant Inc., a Delaware corporation. As used in this information statement, the terms "Kadant," "we," "our," "us" and similar terms include Kadant Inc. and our wholly owned and majority-owned subsidiaries, as of the relevant date, unless the context otherwise requires.
Distributed shares.....	Approximately 11,125,496 shares of our common stock, which constituted approximately 91% of our common stock outstanding on the date of this information statement. This number of shares will be reduced to the extent that cash payments are made in lieu of the issuance of fractional

shares of our common stock.

Record date..... July 30, 2001.

Distribution date..... August 8, 2001.

Distribution..... On the distribution date, the distribution agent identified below will begin distributing certificates representing our common stock to Thermo Electron stockholders. You will not be required to make any payment or take any other action to receive shares of our common stock. The shares of our common stock distributed to you will be freely transferable unless you are one of our affiliates.

Distribution ratio..... .0612 of a share of our common stock for each share of Thermo Electron common stock.

Distribution agent..... American Stock Transfer & Trust Company

Fractional shares of our common stock..... Thermo Electron will not distribute any fractional shares of our common stock. In lieu of distributing a fraction of a share of our common stock to any Thermo Electron stockholder, the distribution agent will sell the aggregate number of fractional shares within five days after the distribution date and distribute the proceeds pro rata to each stockholder who otherwise would be entitled to receive a fractional share. You will not be entitled to interest on the amount of any payment made in lieu of a fractional share.

Trading market..... Our common stock is traded on The American Stock Exchange under the symbol "KAI."

Dividend policy..... We currently do not intend to pay cash dividends on our common stock.

Risk factors..... The distribution and ownership of our common stock involve various risks. You should read carefully the factors discussed under "Risk Factors."

Reasons for the distribution..... The Thermo Electron board of directors believes that the distribution is in the best interests of Thermo Electron, our company and the Thermo Electron stockholders. The Thermo Electron board expects that, as a result of the distribution, each company will have improved access to

capital, a more focused team of management and employees, and management incentives linked more directly to the objective performance of that company's stock in the public markets.

Federal income tax consequences..... Thermo Electron has received a favorable private letter ruling from the IRS to the effect that the distribution generally will qualify as a tax-free distribution under Section 355 of the Internal Revenue Code of 1986. As a result, Thermo Electron, our company and the Thermo Electron stockholders will not recognize gain or loss upon the distribution of our common stock, except that you will recognize gain or loss as result of receiving cash in lieu of fractional shares of our common stock and will realize dividend income to the extent of the fair market value of any of our common stock that you receive in the distribution that was acquired by Thermo Electron during the past five years in a transaction in which any gain or loss was recognized. We believe that approximately eight percent of our shares of common stock distributed in the distribution will be considered "taxable" shares. The favorable tax

treatment is subject to our compliance with various facts and representations, including a representation that we will conduct a public offering of 10 to 20 percent of our common stock within one year of the distribution date.

Our relationship with Thermo
Electron after the
distribution.....

After the distribution, Thermo Electron and our company will be separate, independent, publicly owned companies. We have entered into several agreements with Thermo Electron to define our companies' ongoing relationship after the distribution. These agreements allocate responsibility for obligations both before and after the distribution date.

Treatment of Thermo Electron
options.....

On the distribution date, all options for Thermo Electron common stock held by our employees will cease to vest, and all such options that are not vested will be cancelled on the distribution date. All vested Thermo Electron options held by our employees on the distribution date will expire on January 31, 2002, unless exercised prior to that date. Alternatively, our employees may elect prior to the distribution to receive options for Kadant common stock in exchange for their Thermo Electron options. We will determine the number of shares and the exercise price of these options using a conversion formula based on the opening per share price of our common stock on The American Stock Exchange on the first trading day after the distribution relative to the closing per share price of Thermo Electron common stock on The New York Stock Exchange on the distribution date. The resulting Kadant options will maintain the original vesting provisions and option periods. Thermo Electron will adjust all options for Thermo Electron common stock held by its employees on the distribution date to reflect the distribution.

Stockholder inquiries.....

Thermo Electron stockholders with inquiries relating to the distribution should contact the distribution agent by telephone at (877) 777-0800 or Thermo Electron in writing at Thermo Electron Corporation, 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02454-9046, Attention: Investor Relations.

RISK FACTORS

The distribution and ownership of our common stock involve a number of risks and uncertainties, including those described below. These risks and uncertainties could negatively impact our business, financial condition, operating results or the market value of our common stock as discussed below. Neither we nor Thermo Electron are making any representation as to the future market value of our common stock.

Risks Related to Our Business

Our business is dependent on the condition of the pulp and paper industry, which is currently in a down cycle.

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 a number of other factors, including pulp and paper production capacity relative to demand. The global pulp and paper industry is currently in a relatively severe down cycle, with falling pulp and paper prices and decreased spending. The North American pulp and paper industry has been particularly adversely affected by higher energy prices, a strong U.S. dollar and a slowing domestic economy. This cyclical

downturn has adversely affected our business. The financial condition of the pulp and paper industry may not improve in the near future.

Our business is subject to economic, currency, political and other risks associated with international sales and operations.

During 2000, approximately 49% of our sales were to customers outside the United States, principally in Europe. 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 as our operating costs, fluctuations in currency exchange rates may affect product demand and adversely affect the profitability in U.S. dollars of products we provide in foreign markets where payment for the products and services is made in the local currency. 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. An increase in revenues from China will expose us to increased risk in the event of changes in the policies of the Chinese government, political unrest or unstable economic conditions in China or 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 specific customer's requirements, involve increased risk of cancellation prior to shipment due to applicable payment terms.

We are subject to intense competition in all of our markets.

We encounter significant competition in each of our principal 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 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, products under development and ability to develop new technologies may not be sufficient to enable us to compete effectively.

Our composite building products business is a new entrant into a new market. Our success will depend on our ability to manufacture and commercialize our composite building products.

We recently began to develop, produce, market and sell fiber-based composite products primarily for the building industry. Development and commercialization of our composite building products will require significant development and testing of the products and manufacturing process, and our development efforts may not be successful. Further, our composite building products may not gain market acceptance. Our ability to market these products successfully will depend on the willingness of consumers to purchase fiber-based composites in lieu of wood-based building products. To penetrate the market and gain market share, we will need to educate consumers, including wood suppliers, contractors and homebuilders, regarding the benefits of our fiber-based products over

products made of wood and other traditional materials. This strategy may not be successful. We have no 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.

We may not be successful in identifying and completing acquisitions or successfully integrating any acquisitions.

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 completed by us 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 or make such businesses profitable.

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 to 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 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. We have filed for a patent relating to our composite building products business. Patents may not issue from 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. 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 in defending 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.

We also rely on trade secrets and proprietary know-how, which we seek to protect, in part, by 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 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 101), which became effective as of 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 sales, 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:

- . failures to pass contractually agreed upon acceptance tests, which will delay or prohibit recognition of revenues under SAB 101;
- . demand for and market acceptance of our products;
- . competitive pressures resulting in lower selling prices;
- . adverse changes in the pulp and paper industry;
- . delays or problems in the introduction of new products;
- . our competitors' announcements of new products, services or technological innovations;
- . contractual liabilities related to guarantees of our equipment performance;
- . increased costs of raw materials or supplies, including the cost of energy; and
- . changes in the timing of product orders.

Anti-takeover provisions in our charter documents and under Delaware law and the potential tax effects of the distribution could prevent or delay transactions that our stockholders may favor.

Provisions of our charter and by-laws may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. For example, these provisions:

- . authorize the issuance of "blank check" preferred stock without any need for action by stockholders;
- . provide for a classified board of directors with staggered three-year terms;
- . require supermajority stockholder voting to effect various amendments to our charter and by-laws;
- . eliminate the ability of stockholders to call special meetings of stockholders;
- . prohibit stockholder action by written consent; and

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- . establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, our board of directors has adopted a stockholder rights plan intended to protect stockholders 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 stockholders 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 the best interests of us and our stockholders and may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which you might

otherwise receive a premium for your shares.

The tax treatment of the distribution under the Internal Revenue Code and regulations thereunder could also serve to discourage an acquisition of our company following the distribution. An acquisition of our company within two years following the distribution could result in federal tax liability being imposed on Thermo Electron and, in more limited circumstances, on stockholders of Thermo Electron who receive shares of our common stock in the distribution. In addition, even acquisitions 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 will indemnify Thermo Electron, but not the stockholders 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.

Risks Related to the Distribution

A number of actions following the distribution of our common stock, including our failure to conduct a public offering of our common stock within one year of the distribution, could cause the distribution to be fully taxable to stockholders of Thermo Electron who receive shares of our common stock in the distribution and/or to Thermo Electron and us.

The IRS has issued a ruling that no gain or loss will be recognized by us, Thermo Electron or its stockholders 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 stockholders of Thermo Electron who receive shares of our common stock in the distribution take any of a number of actions following the distribution. As part of the distribution, we will enter into a tax matters agreement with Thermo Electron that will restrict our ability to engage in these types of actions. The IRS ruling is based, in part, on our representation that we will conduct a public offering of 10 to 20 percent of our common stock within one year of the distribution. We may be unable to complete a public offering for a number of reasons, including adverse market conditions or adverse developments in our business following the distribution. If we do not conduct a public offering within one year of the distribution, or if any of the other conditions of the IRS ruling are not satisfied, the distribution could become taxable to the stockholders of Thermo Electron who receive shares of our common stock in the distribution and/or Thermo Electron. As part of the distribution, we will indemnify Thermo Electron, but not the stockholders of Thermo Electron, for any resulting tax liability if the tax liability is attributable to certain acts by us, including our inability to complete a public offering of 10 to 20 percent of our common stock within one year after the distribution date. Other actions that could render the distribution taxable are discussed below under the caption "The Distribution--Material United States Federal Income Tax Consequences of the Distribution."

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Sales of substantial amounts of our common stock may occur in connection with the distribution, which could cause our stock price to decline.

Substantially all of the shares of our common stock to be distributed by Thermo Electron will be eligible for immediate resale in the public market. We are unable to predict whether significant amounts of our common stock will be sold in the public market in anticipation of or immediately following the distribution or whether a sufficient number of buyers will be in the public market at that time. It is likely that some stockholders of Thermo Electron that receive shares of our common stock in the distribution will decide to sell these shares in the public market for various reasons, including the fact that our business profile or market capitalization may not fit their investment requirements or objectives. Moreover, a portion of Thermo Electron's common stock is held by index funds tied to the Standard & Poor's 500 Index or other similar stock indices. Because we will not be in these indices at the time of Thermo Electron's distribution of our common stock, these index funds will be required to sell our stock. In addition, we represented to the IRS that we will complete an offering of our common stock within one year from the date of the distribution. See "The Distribution--Material United States Federal Income Tax Consequences of the Distribution." 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 this distribution or otherwise, could cause the market price of our common stock to decline.

Provisions of the agreements that we enter into with Thermo Electron in connection with the distribution will limit our ability to take certain actions in the future.

Our tax matters agreement with Thermo Electron restricts our ability to engage in the types of actions that could render the distribution taxable, as discussed below under the caption "The Distribution--Material United States Federal Income Tax Consequences of the Distribution." In addition, we have agreed to restrict our use of cash and our ability to incur debt in connection with Thermo Electron's continuing obligations under its guarantees of our subordinated convertible debentures and of our obligation with respect to the redemption of outstanding shares of common stock of our Thermo Fibergen subsidiary that are not held by us. See "The Distribution--Our Relationship with Thermo Electron After the Distribution--Distribution Agreement." These restrictions could prevent us from engaging in transactions following the distribution that might otherwise benefit our business.

The transitional services and sublease of our corporate headquarters space being provided to us by Thermo Electron may not be sufficient to meet our needs, the sublease may be terminated by Thermo Electron and we may not be able to supplement and eventually replace these services or this sublease in a timely manner or on terms and conditions as favorable.

Thermo Electron has agreed to provide certain transitional administrative services to us until December 29, 2001 and to continue to sublease to us our existing office space at our corporate headquarters on a month-to-month basis. See "The Distribution--Our Relationship with Thermo Electron After the Distribution." Thermo Electron has agreed to provide us with these services and this sublease at a level, on terms and in a manner consistent with the services and sublease provided to us by Thermo Electron prior to the distribution. Thermo Electron may terminate this sublease on three months prior written notice to us. These services and this sublease may not be sufficient to meet our needs, and we may not be able to supplement and eventually replace them in a timely manner or on terms and conditions as favorable as those we will receive from Thermo Electron. In addition, after the distribution of our stock, we will no longer be entitled to benefit from group or volume discounts negotiated by Thermo Electron for items such as employee benefits, insurance and travel.

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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;
- . the nature, quality and pricing of the transition services Thermo Electron has agreed to provide us; and
- . restrictions related to our use of cash and our ability to incur indebtedness in connection with Thermo Electron's continuing obligations under its guarantees of our subordinated convertible debentures and of our obligation with respect to the redemption of outstanding shares of common stock of our Thermo Fibergen subsidiary that are not held by us.

We may not be able to resolve any potential conflicts.

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BUSINESS

General

We operate in two segments: the Pulp and Papermaking Equipment and Systems

("Papermaking Equipment") segment and the Composite and Fiber-based Products segment. We are a leading designer and manufacturer of stock-preparation systems and equipment, papermaking machine accessories and water-management systems for the pulp and paper industry. Our principal products for the pulp and paper industry include:

- . custom-engineered systems and equipment for the conversion of waste paper into recycled paper;
- . accessory equipment and related consumables for the efficient operation of papermaking machines; and
- . water-management systems for the continuous cleaning of papermaking machine fabrics and the draining, purifying and recycling of process water for paper sheet and web formation.

We have been in operation for more than 100 years and have a large, stable customer base that includes most paper manufacturers in the world. 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 stable high margin spare parts and consumables business. 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.

In addition, we manufacture and market composite and fiber-based products, including composite building products. Composite building products, which are made of papermaking byproducts, reclaimed plastic and other materials, are sold into the emerging alternative lumber products market. We have established an approximately 90,000 square foot manufacturing facility in Green Bay, Wisconsin to produce our composite building products and have begun selling them for such applications as soundwalls, privacy fencing, decking and roof tiles. Composite building products have an attractive appearance and offer significant advantages over traditional pressure-treated wood products. Our composite building products are resistant to moisture and do not have many of the functional and practical disadvantages common to pressure-treated wood products such as susceptibility to splitting, warping, rotting and insect infestation. In addition, our composite building products do not require the ongoing maintenance typically associated with traditional pressure-treated wood products.

Strategy

Our objective is to strengthen our position as a leading designer and manufacturer of pulp and papermaking equipment and systems and to increase our presence in the growing composite building products industry. To achieve these goals, we intend to implement the following strategy:

Develop innovative products and technologies. With a reputation as an innovator within the pulp and paper industry, we intend to use our state-of-the-art research facilities to develop new products and technologies. Some of our more recent product innovations include:

- . Screen One, a three-in-one screening system that saves significant floor space, reduces installation cost and increases output and pulp cleanliness;
- . Fibernet, a high efficiency screen that facilitates the recovery of usable fiber from the waste stream of the paper mill; and
- . V.I.D., our patented formation system, which greatly increases sheet properties.

In addition, we intend to leverage our technical expertise to develop applications and products for high-growth markets such as composite building products.

Leverage our installed base. We have one of the largest installed bases in the industry, having supplied the pulp and paper industry for over 100 years. We intend to continue to leverage this base by:

- . increasing our spare parts and consumables business by providing

superior service and reliable products; and

- . developing retrofit products to improve the performance of equipment we have already installed in the field. See "--New Products and Research and Development."

Leverage our reputation as a reliable worldwide distributor. Because of its high asset intensity, the pulp and paper industry is generally risk averse and favors well-established companies with reputations for quality products and services. Consequently it is very difficult for a new supplier or technology to gain acceptance from the industry. We view our longstanding reputation as a dependable supplier of quality products and our ability to effectively distribute products to the pulp and paper industry worldwide as a competitive advantage. We intend to leverage our distribution network to sell new products and technology throughout the world.

Build on our strong international presence. We intend to continue to build on our strong international position to capitalize on the increasing demand for paper products in developing nations such as China and Brazil.

Grow our business through targeted acquisitions. We have a history of completing successful acquisitions. Through our strong cash position, we intend to continue to make targeted acquisitions of complementary technologies and businesses. See "--Acquisitions."

Pulp and Papermaking Equipment and Systems

Industry Overview

The pulp and paper industry is comprised of over 7,000 papermaking machines worldwide that generate approximately 300 million tons of paper products per year. The United States pulp and paper industry was expected to generate over \$170 billion in revenues in 2000. Historically, the volume of paper production has tended to grow at approximately the same rate as the general economy.

The pulp and paper industry is characterized by high asset intensity and a highly fragmented market, with no one company having more than 10% of the world market, although a supplier may have higher market share in a particular paper grade or geographic region. With the notable exception of branded products such as tissue, most paper products are commodities that compete in a global market. As a result, the industry is highly cyclical, with periods of high capacity additions followed by over supply and resulting lower product prices and vice versa. The pulp and paper industry is currently in a relatively severe down cycle, with falling pulp and paper prices and decreased capital spending. The pulp and paper industry in North America has been particularly adversely affected by higher energy costs, a strong U.S. dollar and a slowing domestic economy.

The pulp and paper industry has gone through a major consolidation phase recently, accompanied by the closure of many outdated mills and other actions designed to better match capacity with demand. Industry consolidation has also resulted in delayed capital spending as capital is used for acquisitions and production capacity is rationalized. In general, producers are spending less on capital expenditures than they expense for depreciation. Producers have also self-imposed mill downtime to reduce production in an effort to balance supply with demand. In addition, the pulp and paper industry has become more sophisticated in managing its capital expenditures, including implementing highly disciplined return on investment criteria.

We expect that much of the future growth in papermaking capacity will come from developing nations, due to advantages in climate, increasing domestic demand and growing exports.

- . Developing markets with temperate climates, such as South America and Southeast Asia, have advantages in fiber cost, because plantation grown trees such as eucalyptus can grow up to seven times faster than hardwood trees in colder climates.
- . We expect domestic demand for paper products in developing regions to grow as their economies develop. For example, the per capita paper usage in China is approximately 62 lbs. per year, or only half the global per

capita amount. By comparison, in the United States the per capita consumption is approximately 764 lbs. per year.

- . An additional source of demand for paper products in these regions is their growing export businesses. Exports require boxes for shipment and are consequently a stimulus for secondary packaging.

The Papermaking Process

Paper is generally made from timber, waste paper or a combination of both. The primary differences in processing timber and waste paper occur in the stock-preparation phase of the process; when waste paper is being processed, contaminants such as sand, ink and glue must be removed at this phase.

As illustrated in the diagram below, the papermaking process generally consists of the following steps:

- . Stock Preparation. Waste paper or wood chips are refined and converted into a pulp mixture. If waste paper is being processed, contaminants such as sand, ink and glue are removed.
- . Forming. A dilute mixture of 99% water and 1% fiber is poured onto a forming fabric to form the paper sheet or web.
- . Pressing. Water is pressed out of the paper sheet or web.
- . Drying. Any remaining water is removed from the paper sheet or web by passing it through a series of large diameter heated cylinders.

[An image depicts the papermaking process in a linear format that is read from left to right. Blocks of wastepaper travel along a conveyer belt and are deposited into a large vat labeled "Pulping" where they are converted into a pulp mixture. The pulp mixture exits the vat through a horizontal pipe that splits into two parallel pipes which are each connected to six small cylinders and two large cylinders. Another pipe connects the two large cylinders which are labeled "Deinking." The pulp mixture exits the two large cylinders through two horizontal pipes that sit atop two series of closely spaced vertical bars supported by rectangular bases. This part of the image is labeled "Cleaning." The pulp mixture flows through the bars into a device that pours the pulp mixture onto a horizontal forming fabric to form a sheet of paper. The sheet of paper moves through several presses where water is pressed out of the sheet. The sheet is then wrapped around a series of large diameter heated cylinders to remove any remaining water.]

Our stock-preparation systems and equipment are primarily directed at the recycled paper market. The stock preparation of waste paper is the process of converting waste paper into a pulp mixture that can be used in a conventional papermaking machine. The primary objective of stock preparation of waste paper is to remove debris and impurities as early in the process as possible. This process begins with the pulper, which blends the waste paper with large amounts of water and certain chemicals. This pulp mixture then passes through a detashing system, which removes larger debris from the mixture. Once the larger debris is removed in the detrasher, the pulp mixture passes through a high-density cleaner, which removes heavyweight contaminants such as metals and sand. Other impurities are removed through a series of pressure screens that the pulp mixture passes through. Ink from the waste paper is removed by a flotation de-inking cell. After

de-inking and further screening, the pulp mixture passes through a low-density cleaner or fine screen, which removes lightweight contaminants such as glue and plastic particles that can clog the papermaking machine. The pulp mixture then passes through a disperser, which breaks down any remaining ink into microscopic particles. At the end of the stock-preparation process, the pulp mixture is ready for introduction into a standard papermaking machine.

Most paper is made on a fourdrinier papermaking machine using a wet forming process. The pulp mixture resulting from the stock-preparation process is evenly deposited onto a continuously moving forming fabric, which forms the paper sheet. Water is removed from the paper sheet through a series of pressing and drying stages. Throughout the forming, pressing and drying stages, the forming fabrics and rolls are continuously cleaned by specifically designed doctor blades and showers. If glossy paper is being manufactured, the dry paper

sheets pass through a coater that applies a coating, a dryer that dries the coating and a profiling system and super calendar that shine the coating.

Papermaking machines are large computer controlled systems that cost up to \$200 million and produce paper in widths of up to 33 feet at speeds as high as 67 miles per hour. The profitability of a paper mill is largely dependent on its ability to maintain a high operating rate. Due to their high capital cost and difficulties with start-up, papermaking machines generally run 24 hours a day, seven days a week with only brief shutdown periods for scheduled maintenance. Consequently, it is critical to the efficient operation and life expectancy of papermaking machines that debris be thoroughly removed from the pulp mixture.

Our Competitive Advantages

We believe that our primary competitive advantages are the following:

- . Technically advanced products.
- . A well established reputation for quality products and service.
- . A large installed equipment base.
- . A worldwide distribution network and presence.

Our Papermaking Equipment and Systems

General

Our papermaking equipment business is comprised of the following product lines: stock-preparation systems for the manufacture of recycled paper, accessory systems for continuous cleaning of rolls used in papermaking machines and water-management systems for continuous cleaning of papermaking machine fabrics as well as formation and drainage systems critical to sheet formation.

We believe that through our long service to the pulp and paper industry, we have earned a reputation for the following:

- . Technical Innovation. We pioneered many of the technical advances in the pulp and paper industry over the last 50 years, including the first pressure screen, the first doctor blades manufactured with synthetic material and the first double doctor system.
- . Dependable Products. Reliability is important to our customers because our products are critical to the continuous and efficient operation of the papermaking machine and recycle mill. If these products were to fail, they could shut down the entire papermaking machine, which could result in lost revenues to our customers of up to approximately \$20,000 per hour. Our products enjoy a reputation for durability and reliability.
- . Superior Service. Service is a priority to our customers due to the paper and paper recycling industry's high asset intensity. We have a reputation for superior service.

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- . Process Knowledge. We have a broad knowledge of the pulp and papermaking process, which, for example, enables us to provide our customers a complete stock-preparation design for their recycle mill.

Our Stock-Preparation Equipment and Systems

We develop, design, manufacture and sell complete custom-engineered systems, as well as individual pieces of equipment, for the stock preparation of recycled fibers. We offer over 80 products relating to all aspects of the stock-preparation process. Equipment for a complete stock-preparation system ranges in price from \$1 million to \$24 million. Revenues from our stock-preparation product line were \$107.5 million, \$98.9 million and \$113.0 million in 1998, 1999 and 2000, respectively. 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 from the pulp mixture. In late 2000, we introduced a patented new screening technology that can produce up to 40% cleaner pulp without decreasing capacity. As a result, we believe our new screening systems are the most technologically advanced currently on the market. Our screening systems range in price from \$50,000 to \$1,000,000. We also offer screen baskets, which are essentially the consumable portion of the screen. Screen baskets typically are replaced every nine to 12 months. Our screen baskets range in price from \$8,000 to \$200,000.

De-inking Systems. We offer de-inking systems that inject small air bubbles into the bottom of the pulp mixture. The inks in the pulp mixture bond to the air bubbles and rise 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 the de-inking systems offered by our competitors. Our de-inking systems range in price from \$200,000 to \$1,200,000.

Pulpers. We offer both high- and low-consistency pulpers that blend waste paper with water and certain chemicals to form pulp mixtures without contaminant breakdown, thus allowing easier contaminant removal in later stages of the 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. Our pulpers range in price from \$70,000 to \$600,000.

Cleaning Systems. We offer both forward and reverse cleaners. Forward cleaners remove heavyweight contaminants such as metal and sand from the pulp mixture, and reverse cleaners remove lightweight contaminants such as glue and plastic from the pulp mixture. Our cleaning systems range in price from \$50,000 to \$1,000,000.

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. Our DNT(TM) washing systems range in price from \$110,000 to \$2,000,000.

Trash Removal Systems. We offer trash removal systems that remove larger debris and impurities by screening them from the pulp mixture. Our trash removal systems range in price from \$50,000 to \$200,000.

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. Our thickeners range in price from \$30,000 to \$200,000.

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 sizes that can be removed in subsequent processing. Our hot dispersing system operates at less than 100 degrees centigrade, which reduces damage to the fibers. Our dispersing systems range in price from \$200,000 to \$1,000,000.

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

Chemi-Washers(R). We offer Chemi-Washers, horizontal counter current belt washers that are used to remove lignin and process chemicals in the virgin pulping process. Chemi-Washers consume less energy than other washing systems and significantly decrease the amount of water used and discharged.

Evaporators, Recausticizing and Condensate-Treatment Systems. We offer evaporators, recausticizing and condensate treatment systems that are used in the virgin pulping process 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.

Our Papermaking Machine Accessories

We develop, design, manufacture and sell a wide range of accessories that continuously clean the rolls of a papermaking machine, remove the paper sheets and webs from the rolls, automatically cut the paper sheets and webs at sheetbreaks and remove 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. Revenues from our accessories product line were \$77.8 million, \$74.8 million and \$70.3 million in 1998, 1999 and 2000, respectively. 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. A large paper machine may have as many as 100 doctors. Our doctor systems range in price from \$13,000 to \$200,000.

Doctor Holders. A doctor holder is the part of a doctor system that holds the doctor blade to ensure a constant pressure against the roll. It is critical that the entire length of the roll is doctored consistently, and the holder is designed to ensure the force of the blade is evenly applied. Our doctor holders range in price from \$500 to \$17,000.

Doctor Blades. We offer doctor blades made of metal or synthetic materials, which have superior performance characteristics and a longer life than blades made from metal. 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 sheetbreaks and start-ups. In addition, we offer creping doctor blades, which are instrumental in the production of tissue and toweling, and coater blades, which evenly spread 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. Our doctor blades range in price from \$15 to \$1,300.

Our Water-Management Systems

We design, 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. Revenues from our water-management product line were \$36.9 million, \$42.6 million and \$42.4 million in 1998, 1999 and 2000, respectively. 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 three 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 water and lower 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. Our showers range in price from \$5,000 for a stationary low pressure shower to \$60,000 for a sophisticated single nozzle ultra-high pressure traversing shower. We also design and manufacture vacuum augmented dewatering boxes for removing shower water and contaminants from the fabrics. Our dewatering boxes range in price from \$6,000 to \$40,000.

Formation Systems. A sheet of paper is formed on the fourdrinier section of a paper machine. We supply all of the structures located under the forming fabric to dewater the pulp mixture. These structures consist of the forming board, gravity foils, low vacuum and high vacuum structures and vacuum control systems. In 1997, we introduced our patented VID formation system, which 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. Our forming products range in price from \$10,000 for a single structure on a small machine to \$700,000 or more for an entire system on a large machine.

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 their fresh water usage. The newest addition to our water-filtration system product line is the Petax fine filtration system. The Petax system can remove particles as small as 1 to 20 microns in size. Our filtration systems range in price from \$1,000 to \$350,000.

New Products and Research and Development

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 research relationships with several of our pulp and paper industry customers.

For recycling equipment, we maintain stock-preparation pilot laboratories adjacent to our manufacturing facilities in France and Ohio, both of which contain all the equipment necessary to replicate a commercial stock-preparation system. A customer's wastepaper can be tested to determine the exact system configuration that would be recommended for its future facility. The testing laboratories are 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. In the United States, one facility houses an operation for continued development of accessory products while another is devoted to the development of new water-management products.

Recently introduced products include the following:

ID2 Technology. In late 2000 we introduced our patented ID2 technology, which greatly increases the capacity and efficiency of our pressure screens. This technology is incorporated into a family of new products including:

- . Ultra Tek Screen. The Ultra Tek screen is a pressure screen that can produce 40% cleaner pulp than traditional screens without a loss in production.
- . Screen One. Screen One is a single screen that achieves the functionality of up to three traditional screens, which saves a paper manufacturer valuable floor space and reduces installation costs and power consumption.
- . Fibernet. Fibernet is a screen that recovers fiber from the reject stream of a paper mill. Reject streams have been difficult to clean with screens up to now due to their high level of contaminants. The ID2 technology incorporated into the Fibernet screen allows effective screening of this waste stream.

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V.I.D. Our patented V.I.D. forming technology allows the paper manufacturer to control the turbulence of the fiber and water mixture as it is released onto the forming fabric. This allows the fibers to more tightly intertwine, creating a stronger sheet while using less fiber. We introduced this product in 1997, and it has gained increasing acceptance, particularly in the brown grades of paper.

Petax Filter. The Petax(TM) fine filter system consists of a submerged rotary disc filter, which efficiently removes suspended materials from process water in the pulp and paper and other industry applications. The filter handles inlet solids concentrations of up to 2000 mg/l and flows up to 5000 l/min and removes particles as fine as 1 to 20 microns. This new filter product complements our other filtration products. We are the exclusive worldwide licensee of this product.

Synthetic Blades

We are continually developing application-specific composite doctor blades. The composite materials incorporated into these blades are specifically tailored to particular applications. Although they are more expensive than our metal blade products, they provide superior performance and wear characteristics. Examples of recently introduced composite blades include:

- . Softek: a patented carbon/plastic composite blade used in positions near the drainage table of the paper machine, including for water removal.
- . HT Softek: a carbon/plastic, heat-resistant composite blade used in wet end positions and high-temperature applications.
- . Abrasitek-8: an abrasive glass/composite blade used in press positions, dryers and some calendars.
- . Procrepe: a patented creping blade which incorporates an unique wear resistant alloy edge providing five times longer blade life.
- . Proclean: a long-life, wear resistant bi-metal blade used in scraping and cleaning applications on dryer cans and press rolls.

Retrofit Products

We also develop retrofit products, which improve the performance of our equipment installed in the field. These retrofit products can be as small as an improved mechanical seal to larger packages such as the retrofit of a pressure screen. In general, these products can generate a quick return on investment for our customers through reduced power, reduced fiber usage or enhanced paper properties. Because these products work within the existing installed equipment, the customer does not have a large installation expense, which can typically be two or three times the cost of the equipment. For example, our recently introduced ID2 rotor and screen cylinder retrofit operates within the existing pressure screen, thereby eliminating the need for new piping and other installation expenses. The new ID2 system, however, can produce up to 40% cleaner pulp without a loss of production.

Composite and Fiber-based Products

Our Composite and Fiber-based Products segment consists of two product lines: fiber-based products and composite building products. Our fiber-based products contributed revenues of \$4.7 million, \$7.2 million and \$6.6 million in 1998, 1999 and 2000, respectively. Our composite building products contributed \$0.2 million to revenues in 2000, the first year that we recognized revenues from this product line.

Prior to September 2000, this segment also 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. The services provided by the plant contributed revenues of \$0.6 million, \$1.4 million and \$1.0 million in 1998, 1999 and 2000, respectively. We sold this plant to the host mill in September 2000.

Composite Building Products

We develop, design and manufacture engineered composite building products made from papermaking byproducts, reclaimed plastic and other material. As an alternative to traditional wood products such as pressure treated lumber, cedar and rainforest hardwoods, composite building products have numerous applications such as soundwalls, privacy fencing and decking. We have also developed a composite roof tile product that is lighter and stronger than traditional materials.

Wooden fences and decks are typically constructed from yellow pine, which is pressure-treated with insecticides and other chemicals to resist insect infestation and decay. Yellow pine is used primarily because it is inexpensive and porous, which allows it to absorb the chemicals easily. The wood's porosity also allows it to absorb moisture easily, thereby making it susceptible to splitting, warping and rotting without continued maintenance. In addition, there is increasing concern regarding insect infestation in, and splinters from, chemically infused, pressure-treated decks. Other woods used

for the construction of wooden fences and decks include redwood, cedar and rainforest hardwoods such as teak and mahogany. These less porous woods can be expensive and are not immune to rot.

Composite building products have an attractive appearance and are resistant to moisture. As such, they do not possess the functional and practical disadvantages of traditional wood products and do not require ongoing maintenance such as painting, sealing or chemical treatment.

Industry Overview

The market for soundwall and privacy fencing products in the United States is estimated to be approximately \$2.3 billion in 2001 and is growing at 7% a year. The market for decking products in the United States is approximately \$3.6 billion and is growing at 1% per year. The market for roofing products in North America is approximately \$9 billion per year. Composite building products were introduced into the decking market within the last 10 years and currently represent approximately 4% of that market volume. The market for composite decking products is projected to grow at over 15% per year between 2000 and 2005. We estimate that composite lumber products currently represent less than 1% of the total soundwall, privacy fencing and roof tile markets. 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.

Advantages of Composite Building Products

Composite building products, such as ours, have the following advantages over traditional wood products:

Moisture Resistance. Composite building products are more resistant to absorbing moisture because they are comprised of 30-50% plastic, which coats the fiber in the board, thereby making them less susceptible to splitting, warping or rotting.

Resistance to Insect Infestation. Because the fiber in composite building products is coated with plastic, they are less susceptible to infestation by insects such as termites.

Annual Maintenance. Composite building products do not require ongoing maintenance such as painting, staining and sealing to protect them from the degrading effects of exposure to moisture. The costs and time associated with such maintenance can be considerable over the lifetime of a deck or fence, thereby making composite building products less expensive to own.

Chemical Treatment. Unlike composite building products, pressure-treated decks and fences must be infused with chemicals such as copper, chromium and arsenic to create an initial resistance to insect infestation and decay.

Our Composite Building Products

We offer the following composite building products:

Soundwalls. Our soundwall system includes upright posts, top and bottom rails and tongue and groove boards that slide into rails and posts for easy installation and features an attractive brushed appearance. We have completed internal testing and determined that our soundwall products meet the applicable government-mandated sound dampening standards.

Privacy Fences. Our privacy fencing system includes the same elements as our soundwall system and features an attractive brushed appearance that is maintenance-free.

Decking. Our decking system includes deck boards as well as railings, which we believe offers a more attractive alternative to the homeowner than comparable products that do not offer railings.

Roof Tiles. Our composite roof tile products are made to resemble traditional clay tiles. In addition, we are currently developing slate and cedar shake roof tile products. Traditional clay and slate tiles are heavy, brittle and susceptible to breakage. Our composite tile products are

lighter and less susceptible to breakage than traditional clay and slate tiles, which provides significant savings in labor and other costs. Based on internal testing, we believe that our composite roof tile products will achieve a Class A fire resistance rating. In spring 2001, we began manufacturing double Roman roof tiles similar in appearance to those found on homes in Europe and the southern part of the United States and have successfully tested them in Europe.

Our composite building products offer a number of advantages over the composite building products offered by our competitors. Due to our proprietary formula, our composite building products are stronger than the leading composite building product. In addition, because our composite building products have a hollow core, they are lighter than the leading composite deck boards.

Composite Building Product Development and Commercialization

To attain our goal of becoming a leading supplier of composite soundwalls, privacy fencing, decking and roof tile products, we have made significant progress in the following areas:

Manufacturing Capacity. We have established an approximately 90,000 square foot plant in Green Bay, Wisconsin. We have ordered additional extruding capacity that, upon installation, will bring our annual capacity to approximately \$18 million. We have begun limited production at this facility but expect that it will not reach commercial operating rates for several months. The facility can accommodate additional extrusion lines. Once we have reached capacity at our plant in Green Bay, we will seek to establish manufacturing in other facilities on the east and west coasts of the United States.

Distribution. We have appointed a Canadian soundwall supplier as the exclusive worldwide distributor of our soundwall products. In addition, this distributor has exclusive rights to sell our railing and decking products in the Canadian market. We intend to develop additional channels of national and international distribution, including distributors serving high-end lumber stores as well as mass-market merchandisers.

Research and Development. We have developed a composite formula that we believe has superior performance characteristics and utilizes lower cost material. Most of our composite lumber products are made of 60% granulated papermaking byproducts and other fibers, 35% recycled polyethylene and 5% other additives. We believe that this composition gives our products several competitive advantages, including a lower plastic content, which is beneficial because plastic is several times more expensive than wood or paper fiber. Our hollow core composite board is stronger and lighter than the leading composite product.

Regulatory Approval. We have successfully completed the necessary testing and have submitted the required filings in order for our decking and soundwall fence products to receive Building Officials and

Code Administrators (BOCA) listing. We are also in the process of conducting testing to qualify our composite building products for use as highway noise barriers in various states.

Raw Materials. Our products use papermaking residue and other fibers as a source of raw material. Papermaking residue is typically comprised of 50% cellulose and 50% calcium carbonate, clays and other materials. We process this material into absorbent granules at our Green Bay, Wisconsin plant. This material has several advantages. First, the combination of the absorbent cellulose and minerals increases the strength and stiffness of the product. Second, this material is readily available as a byproduct of nearly all paper mills. A large recycle mill, for example, may produce up to 300 tons per day of this material. Most paper companies landfill this material and consequently may be willing to pay a tipping fee to us to remove it. This can create a low cost, widely available raw material source for us. We intend to leverage our extensive relationships within the pulp and paper industry to secure long term access to this material at low prices. We have filed a patent covering the use of our proprietary granule made of papermaking byproducts in composite products.

Fiber-based Products

We also employ patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are primarily used as agricultural carriers. Agricultural carriers are used to deliver agricultural chemicals for professional turf, home lawn and garden, agricultural row-crop and mosquito-control applications. Our agricultural carriers are virtually dust-free and are more uniform in absorption and particle-size distribution than clay- and corncob-based granular carriers. In addition, these products are chemically neutral, requiring little or no chemical deactivation. Our primary patent for this technology expires in 2004. We also use these biodegradable absorbing granules in our composite building products.

Acquisitions

As part of our growth strategy, we consider strategic acquisitions of technology and products that complement our businesses. We believe that there are opportunities for acquisitions in the markets in which we compete. We have a history of making successful acquisitions. Significant acquisitions include:

1990 E. & M. Lamort, S.A. This company was a leading European manufacturer of recycling systems.

E. & M. Lamort's strength was in white grade papers, such as tissue and printing and writing paper. This business had revenues of \$36.3 million in the fiscal year preceding the acquisition.

1992 Vickerys. This company's primary business was developing, designing, manufacturing and selling doctor systems and blades. Vickerys was a leader in the development and use of composite doctor blades. Vickerys' doctoring business had revenues of \$11.5 million in the fiscal year preceding the acquisition.

1993 Engineered Systems Division ("AES") of Albany International Corp. This business was a leading supplier of water-management systems used to clean papermaking machine fabrics, drain water from pulp mixtures, form the sheet or web and filter process water for reuse. This business had revenues of \$36.6 million in the fiscal year preceding the acquisition.

1997 Black Clawson Company. This company was a leading supplier of recycling systems. Black Clawson's strength in brown grade papers, such as boxes and paper bags, complemented our strength in white grade papers, such as tissue and printing and writing paper. This business had revenues of \$98.4 million in the fiscal year preceding the acquisition.

Our ability to use our cash and to incur additional debt to pay for acquisitions will be limited by financial covenants in our post-distribution agreements with Thermo Electron. See "The Distribution--Our Relationship with Thermo Electron--Distribution Agreement."

Marketing and Sales

We principally market our products to customers in the pulp and paper industry and, to a lesser extent, in the building products industries. Our stock-preparation, accessory and water management products are custom engineered for specific applications depending on the type, size and speed of the paper-making machine, the grade of paper being produced and the type of pulp stock used. Judgment and process knowledge are critical in determining the design and application of our products for a particular customer. Consequently, we employ a highly skilled sales and service force to work closely with paper mill operators. Our customers typically rely on the expertise of our sales representatives to improve the efficiency of their papermaking operations.

Our pulp and papermaking products are marketed worldwide through a combination of sales representatives, sales agencies, distributors and a network of manufacturing licensees. Our licensees and sales representatives are supported by our technical staff. Due to the highly specialized nature of each of the markets served, each of our product groups maintains its own sales, engineering and technical staffs.

Raw Materials

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. The raw material used in the manufacture of our fiber-based products is obtained from a single paper 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 2001, 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 termination. To date, we have experienced no difficulties in obtaining papermaking byproducts for our products.

Competition

We face significant competition in each of our principal markets. We compete principally on the basis of quality, price, service, technical expertise and product innovation. We believe the reputation we and our predecessors have established over the last 100 years for quality products and in-depth process knowledge provides us with a significant competitive advantage. In addition, a significant portion of our business is generated from our existing customer base. To maintain this base, we have emphasized service and a problem-solving relationship with our customers.

Pulp and Papermaking Equipment and Systems

We are a leading supplier of stock-preparation equipment for the preparation of waste paper to be used in the production of recycled paper. There are several major competitors that supply various pieces of equipment for this process. Our principal competitors in this market are Voith Paper GmbH, Groupe Laperriere & Verrault Inc., Ahlstrom Machine Company, Kvaerner Pulping Technologies, 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 ESCO Technologies 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, conditioning and cleaning systems, and filtration systems markets. Asten/Johnson Foils is a major supplier of formation tables, while a variety of smaller companies compete within the conditioning and cleaning 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

We expect to encounter intense competition in the sale of our composite building products. We expect that our principal competitors for our composite building products will be producers of traditional products such as pressure-treated lumber, and clay, slate and cedar shake tiles. Many of the suppliers of traditional products have established ties in the building and construction industry. In addition, we expect to compete with other manufacturers of composite building products. The leading provider of composite decking products is Trex Company, Inc. In addition to Trex, there are several other manufacturers of composite building products and many suppliers of traditional products that have announced plans to develop composite building products. We expect to compete in this market on the basis of product quality, brand awareness and price.

We believe that we are currently the only producer of paper-based agricultural carriers. In this market, our principal competitors in the United States 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 principal competitive advantages are that our agricultural carrier product

is virtually dust-free and is more uniform in absorption and particle-size distribution than are clay- and corncob-based granular carriers. In addition, it is also chemically neutral, requiring little or no chemical deactivation. We compete in this market on the basis of product quality and price.

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. We have over 300 U.S. and foreign patents, including foreign counterparts to our U.S. patents, that expire on various dates ranging from 2001 to 2018.

Third parties have certain rights in two of our patents that were jointly developed with such parties. We currently hold an exclusive long-term, worldwide license for a patent on technology that Centre Technique du Papier (CTP) developed. We have joint ownership with CTP 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 servicing 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.

We have granted another company nonexclusive licenses under two of our patents to sell cellulose-based granules produced at an existing site for sale in the oil and grease absorption and cat box filler markets. In addition, we currently hold several U.S. patents, expiring at various dates ranging from 2004 to 2016, relating to various aspects of the processing of cellulose-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 cat box filler markets. 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.

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

Facilities

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 30, 2000, are as follows:

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Pulp and Papermaking Equipment and Systems

We own approximately 1,000,000 square feet and lease approximately 100,000 square feet, under leases expiring at various dates ranging from 2001 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; Middletown, Ohio; Guadalajara, Mexico; Pointe Claire, Quebec, Canada; Bury, England; and Hindas, Sweden.

Composite and Fiber-based Products

We own approximately 26,000 square feet and lease approximately 94,000 square feet, under leases expiring at various dates ranging through 2004, of manufacturing, engineering, and office space located principally in Green Bay, Wisconsin; Columbus, Indiana; and Bedford, Massachusetts.

Personnel

As of June 30, 2001, we employed approximately 1,248 people. As of that date, approximately 25 employees at our Pointe Claire, Quebec, Canada operation were represented by a labor union under a collective bargaining agreement expiring August 31, 2002 and approximately 34 employees at our Guadalajara, Mexico operation were represented by a labor union under an annual collective

bargaining agreement. In addition, employees of our subsidiaries in France and England are represented by trade unions. We consider our relations with employees and unions to be good.

MANAGEMENT

Executive Officers and Directors

The following table provides information about our executive officers and directors immediately after completion of the distribution:

Name	Age	Position
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William A. Rainville.....	59	President, Chief Executive Officer and Chairman of the Board
Thomas M. O'Brien.....	49	Executive Vice President, Chief Financial Officer and Treasurer
Jonathan W. Painter.....	42	Executive Vice President
Edward J. Sindoni.....	56	Senior Vice President
Sandra L. Lambert.....	46	Vice President, General Counsel and Secretary
John M. Albertine (1) (2).....	57	Director
Francis L. McKone (1) (2).....	67	Director
Donald E. Noble (1) (2).....	86	Director

- (1) Member of the Audit Committee
(2) Member of the Human Resources Committee

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 will become chairman of our board on the distribution date. Mr. Rainville served as chief operating officer, recycling and resource recovery, of Thermo Electron from September 1998 until the distribution date. He served as senior vice president of Thermo Electron from 1993 until September 1998. Mr. Rainville joined Thermo Electron in 1972 and was named vice president and group executive of Thermo Electron in 1986. Prior to joining Thermo Electron, he held positions at Drott Manufacturing, Paper Industry Engineering and Sterling Pulp and Paper. Mr. Rainville is also a director of our majority-owned subsidiary, Thermo Fibergen.

Mr. O'Brien has been our executive vice president since September 1998 and will become our chief financial officer and treasurer on the distribution date. He also served as our vice president, finance from 1991 until September 1998. From 1990 to 1991, Mr. O'Brien was chief financial officer and vice president of finance of Racal Interlan, Inc. Prior to 1990, Mr. O'Brien held various finance positions at Prime Computer, Compugraphic Corporation and the General Electric Company.

Mr. Painter has been our executive vice president since September 1997 and has been chief executive officer of our composite building products business since May 2001. He served as our treasurer and treasurer of Thermo Electron from 1994 until 1997. Mr. Painter also served as our vice president, strategic planning from February 1993 until September 1994.

Mr. Sindoni was elected as our senior vice president in 2001 and has served as one of our vice presidents since 1992. He was president of our Thermo Web Systems subsidiary from 1993 to 2001 and senior vice president of Thermo Web Systems from 1987 to 1993. Prior to joining us, he had a 21-year career with the General Electric Company.

Ms. Lambert will become our vice president and general counsel on the distribution date and has been our secretary since our incorporation in 1991. Ms. Lambert served as vice president and secretary of Thermo Electron from March 1999 until the distribution date, secretary and senior counsel of Thermo Electron from 1990 until March 1999 and associate general counsel of Thermo Electron from 1984 until 1990.

Dr. Albertine has been a member of our board of directors since June 2001.

Dr. Albertine has been a managing partner in High Street Capital Management, L.L.C., a private equity fund, since March 2001 and the

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chief executive officer of Albertine Enterprises, Inc., a consulting and merchant-banking firm, since 1990. He is also the founder and has been the chief executive officer of Jam Shoe Concepts, which operates a chain of retail shoe stores, since January 2000. Dr. Albertine is a director of Intermagnetics General Corp. and Semco Energy, Inc. He served as president of the American Business Conference, founded by Arthur Levitt, Jr., from 1981 until 1986, executive director of the Congressional Joint Economic Committee under Chairman Senator Lloyd Bentsen from 1979 until 1980 and the head of a presidential committee on aviation safety under President Ronald Reagan from 1987 until 1988.

Mr. McKone has been a member of our board of directors since March 1998. Since 1998, Mr. McKone has been the chairman of the board and, from 1993 until October 2000, was the chief executive officer, of Albany International Corp., a worldwide supplier of paper-machine fabrics. From 1984 until 1998, he was also president of Albany International Corp. He is also a director of Albany International Corp. and Thermo Fibergen.

Mr. Noble has been a member of our board of directors since 1992. From 1992 until May 2000, he served as the chairman of our board. From 1959 until 1980, Mr. Noble served as the chief executive officer of Rubbermaid Incorporated, first with the title of president and then as the chairman of the board.

Committees of the Board of Directors

Our board of directors has established an audit committee and a human resources committee, each consisting of our independent directors. The audit committee reviews the scope of the audit of our financial statements with our independent public accountants and meets with them for the purposes of reviewing the results of the audit subsequent to its completion. Each member of the audit committee meets the independence guidelines set forth in the listing requirements of The American Stock Exchange. The human resources committee reviews the performance of senior members of management, approves executive compensation and administers our stock option and other stock-based compensation plans.

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SELECTED FINANCIAL DATA

The consolidated financial data set forth below for each of the years in the three-year period ended December 30, 2000 have been derived from our audited consolidated financial statements included elsewhere in this information statement. The consolidated financial data set forth below for the periods ended April 1, 2000 and March 31, 2001 have been derived from our unaudited consolidated financial statements included elsewhere in this information statement. The consolidated financial data for each of the years in the two-year period ended January 3, 1998 have been derived from our audited consolidated financial statements, which are not included in this information statement. We have prepared our consolidated financial statements in accordance with U.S. generally accepted accounting principles, and our financial statements for each of the years in the five year period ended December 30, 2000 have been audited by Arthur Andersen LLP, independent public accountants. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited consolidated financial statements and the related notes referred to above.

	Fiscal year					Three months ended	
	1996	1997 (1)	1998	1999 (2)	2000 (3)	April 1, 2000	March 31, 2001
(In thousands, except per share data)							
Statement of Income Data:							
Revenues.....	\$192,209	\$239,642	\$247,426	\$228,036	\$234,913	\$ 57,922	\$ 58,900
Income before cumulative effect of change in accounting principle.....	19,894	16,426	17,995	17,778	16,012	3,560	3,129

Net income.....	19,894	16,426	17,995	17,778	15,142	2,690	3,129
Earnings per share before cumulative effect of change in accounting principle (4):							
Basic.....	1.63	1.34	1.46	1.45	1.31	.29	.25
Diluted.....	1.57	1.30	1.44	1.44	1.30	.29	.25
Earnings per share (4):							
Basic.....	1.63	1.34	1.46	1.45	1.24	.22	.25
Diluted.....	1.57	1.30	1.44	1.44	1.23	.22	.25
Balance Sheet Data:							
Working capital (5).....	\$115,609	\$176,996	\$193,446	\$158,711	\$173,097	\$158,381	\$177,889
Total assets.....	257,232	418,938	427,100	442,577	414,215	436,680	416,557
Common stock of subsidiary subject to redemption.....	56,087	52,812	53,801	--	--	--	--
Long-term obligations.....	34	153,000	153,000	154,350	154,650	154,963	154,469
Stockholders' investment.....	130,850	138,095	150,948	164,070	170,633	165,311	174,692

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- (1) Reflects the May 1997 acquisition of Thermo Black Clawson, the issuance of \$153.0 million principal amount of 4 1/2% subordinated convertible debentures due 2004, and the conversion of a \$15.0 million principal amount subordinated convertible note by Thermo Electron.
 - (2) 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.
 - (3) Reflects a \$1.7 million pretax gain on the sale of property, \$0.5 million of pretax income related to restructuring and unusual items, the redemption of \$34.6 million of Thermo Fibergen's common stock and the cumulative effect of change in accounting principle of \$0.9 million, net of income taxes of \$0.6 million.
 - (4) Restated to reflect our one-for-five reverse stock split, effective July 12, 2001.
 - (5) Includes \$49.2 million, \$17.0 million, \$50.0 million and \$17.0 million reclassified from common stock of subsidiary subject to redemption to current liabilities in 1999, 2000, the three months ended April 1, 2000 and the three months ended March 31, 2001, respectively.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this information statement. See "Risk Factors" for trends and uncertainties known to us that could cause reported financial information to differ materially from future results.

Overview

We operate in two segments: the Pulp and Papermaking Equipment and Systems ("Papermaking Equipment") segment and the Composite and Fiber-based Products segment. We are a leading designer and manufacturer of stock-preparation systems and equipment, papermaking machine accessories and water-management systems for the pulp and paper industry. We have been in operation for more than 100 years and have a large, stable customer base that includes most paper manufacturers in the world. We also have one of the largest installed bases of equipment in the pulp and paper industry, which provides us with a stable high margin spare parts business. In addition, we manufacture and market composite and fiber-based products, including composite building products.

Prior to our incorporation, we operated as a division of Thermo Electron. We were incorporated in Delaware in November 1991 as a wholly owned subsidiary of Thermo Electron. We conducted an initial public offering of our common stock in November 1992 and became a majority-owned subsidiary of Thermo Electron. In July 2001 we changed our name from Thermo Fibertek Inc. to Kadant Inc.

Pulp and Papermaking Equipment and Systems Segment

Our Papermaking Equipment segment designs and manufactures stock-preparation equipment, paper machine accessories and water-management systems for the paper and paper recycling industries. Our principal products for 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 the continuous cleaning of papermaking machine fabrics and the draining, purifying and recycling of process water for paper sheet and web formation.

Composite and Fiber-based Products Segment

Our Composite and Fiber-based Products segment consists of our composite building and fiber-based product lines. We develop, produce and market fiber-based composite products, primarily for the building industry, used for such applications as soundwalls, privacy fencing, decking and roof tiles. We also employ patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are primarily used as agricultural carriers.

In January 2001, we acquired the remaining 49% equity interest that we did not already own in NEXT Fiber Products, which is responsible for our composite building products line. We established a composite building products manufacturing facility in Green Bay, Wisconsin, and began limited 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. The services

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provided by the plant contributed revenues of \$0.6 million, \$1.4 million and \$1.0 million in 1998, 1999 and 2000, respectively. We sold this plant to the host mill in September 2000, although we intend to continue operating in this line of business and pursuing other fiber-recovery projects.

Dryers and Pollution-Control Equipment Segment

Prior to February 1999, we also operated in the Dryers and Pollution-Control Equipment segment, which consisted of our Thermo Wisconsin Inc. subsidiary. This segment manufactured and marketed dryers and pollution-control equipment for the printing, papermaking and converting industries. In February 1999, we sold our Thermo Wisconsin subsidiary for \$13.6 million in cash.

Selected Segment Financial Data

The following table sets forth selected financial data for each segment of our company. The financial data set forth below for each of the fiscal years in the three-year period ended December 30, 2000 are derived from our audited consolidated financial statements, which are included elsewhere in this information statement. The financial data set forth below for the three months ended April 1, 2000 and March 31, 2001 have been derived from our unaudited consolidated financial statements included elsewhere in this information statement.

	Fiscal year			Three months ended	
	1998	1999	2000	April 1, 2000	March 31, 2001
(In thousands)					
Revenues:					
Pulp and Papermaking					
Equipment and Systems.....	\$223,799	\$217,724	\$227,133	\$55,197	\$55,987
Dryers and Pollution-Control					
Equipment (1).....	19,513	1,802	--	--	--
Composite and Fiber-based					

Products.....	5,276	8,579	7,794	2,733	2,913
Intersegment sales elimination.....	(1,162)	(69)	(14)	(8)	0
	-----	-----	-----	-----	-----
	\$247,426	\$228,036	\$234,913	\$57,922	\$58,900
	=====	=====	=====	=====	=====
Operating Income:					
Pulp and Papermaking					
Equipment and Systems (2)...	\$ 33,937	\$ 27,061	\$ 29,209	\$ 6,885	\$ 6,979
Dryers and Pollution-Control					
Equipment (1).....	2,736	11,609	--	--	--
Composite and Fiber-based					
Products (3).....	(2,468)	(1,010)	(3,116)	(303)	(983)
Corporate (4).....	(3,857)	(8,138)	(2,673)	(961)	(940)
	-----	-----	-----	-----	-----
	\$ 30,348	\$ 29,522	\$ 23,420	\$ 5,621	\$ 5,056
	=====	=====	=====	=====	=====
Capital Expenditures:					
Pulp and Papermaking					
Equipment and Systems.....	\$ 3,442	\$ 2,964	\$ 2,550	\$ 369	\$ 384
Dryers and Pollution-Control					
Equipment (1).....	197	--	--	--	--
Composite and Fiber-based					
Products.....	4,134	939	3,805	1,000	794
	-----	-----	-----	-----	-----
	\$ 7,773	\$ 3,903	\$ 6,355	\$ 1,369	\$ 1,178
	=====	=====	=====	=====	=====

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- (1) We sold this segment in February 1999. Operating income in 1999 includes \$11.2 million of pretax gain on the sale of this business.
- (2) Includes \$3.1 million in 1999 of restructuring and unusual costs and \$0.5 million in 2000 of income related to restructuring and unusual items.
- (3) Includes \$0.7 million in 2000 of pretax gain on the sale of business.
- (4) Primary general and administrative expenses. Operating income in 1999 includes \$3.0 million of unusual items for the write down of a note receivable, as well as \$1.4 million of carrying costs of the note receivable and underlying security. Operating income in 2000 includes \$1.0 million pretax gain on sale of property.

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International Sales

During 2000, approximately 49% of our sales were to customers outside the United States, principally in Europe. We generally seek to charge our customers in the same currency as our operating costs. 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 principally hedge transactions denominated in U.S. dollars, French francs and Canadian dollars.

Industry Outlook

Our products are sold primarily to the pulp and paper industry. The paper industry is currently in a relatively severe down cycle, with falling pulp and paper prices and decreased capital spending. As a consequence, the industry has gone through a major consolidation. As paper companies continue to consolidate, they frequently reduce capacity. This trend, along with paper companies' actions to quickly reduce operating rates and restrict capital spending programs when they perceive weakness in their markets, has adversely affected our business. We expect that there will continue to be a significant amount of downtime in the pulp and paper industry in 2001. This, coupled with the strong U.S. dollar and high energy costs, will continue to produce a weak market environment that will further decrease demand for our products in the foreseeable future. Our results for 2001 and possibly 2002 will be affected by the ongoing weak market conditions in the pulp and paper industry. In the longer term, we expect the consolidation in the paper industry and improved

capacity management will be favorable both to paper companies and to their suppliers. In the Composite and Fiber-based Products segment, we expect our growth will primarily come from our recently introduced composite building products line, which consists of soundwall systems, decking, privacy fencing and roof tiles. 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.

Results of Operations

First Quarter 2001 Compared With First Quarter 2000

Revenues

Revenues increased to \$58.9 million in the first quarter of 2001 from \$57.9 million in the first quarter of 2000. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues of our Papermaking Equipment segment by \$2.0 million in the first quarter of 2001.

Pulp and Papermaking Equipment and Systems Segment. Excluding the results of acquisitions and the effect of currency translation, revenues in our Papermaking Equipment segment increased \$2.1 million, or 4%. Revenues from the segment's stock-preparation equipment product line increased \$3.3 million, primarily as a result of an increase in sales in Europe. We expect relatively little growth in 2001 in North America due to weak demand, while we expect Europe to be somewhat stronger. We expect to see stronger demand for our products and systems in developing markets, such as China. Revenues from the Papermaking Equipment segment's accessories product line decreased \$1.5 million, primarily as a result of a decrease in demand in North America due to adverse market conditions. Revenues from the Papermaking Equipment segment's water-management product line increased \$0.4 million due to increased demand in Europe, offset in part by a decrease in demand in North America due to adverse market conditions.

Composite and Fiber-based Products Segment. Our Composite and Fiber-based Products segment revenues increased \$0.2 million, primarily due to \$0.9 million of sales from its recently introduced composite

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building products. This increase was largely offset by decreased demand for fiber-based products from one of the segment's largest customers, offset in part by a net increase in demand from other customers, as well as a \$0.4 million decrease in revenues as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000.

Gross Profit Margin

Our gross profit margin decreased to 39% in the first quarter of 2001 from 40% in the first quarter of 2000. The gross profit margin decreased at the Composite and Fiber-based Products segment, primarily due to an increase of approximately \$0.5 million in the cost of natural gas at our fiber-based products business in the first quarter of 2001 and, to a lesser extent, low gross profit margins as a result of start-up efforts at our new composite building products business. The gross profit margin was relatively unchanged at 40% at the Papermaking Equipment segment in 2001 compared with 2000.

Other Operating Expenses

Selling, general and administrative expenses as a percentage of revenues remained unchanged at 27% in the first quarters of 2001 and 2000.

Research and development expenses decreased slightly to \$1.8 million in the first quarter of 2001 compared with \$1.9 million in the first quarter of 2000, or 3% of revenues in both periods. We expect to increase our research and development expenses as we develop new products for our composite building products business.

Interest Income and Expense

Interest income decreased to \$2.1 million in the first quarter of 2001 from \$2.5 million in the first quarter of 2000, due to lower average invested balances and lower prevailing interest rates. We expect interest income to

decrease in 2001 as a result of lower cash balances due to the September 2000 redemption and the anticipated September 2001 redemption of Thermo Fibergen's common stock, as well as lower prevailing interest rates. Interest expense was unchanged at \$1.9 million in the first quarters of 2001 and 2000.

Income Taxes

Our effective tax rate was 42% in the first quarter of 2001 compared with 41% in the first quarter of 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 the first quarter of 2001 primarily represents the minority investors' share of losses in our majority-owned subsidiaries. Minority interest expense in the first quarter of 2000 primarily represents accretion of Thermo Fibergen's common stock subject to redemption, offset in part by the minority investors' share of losses in Thermo Fibergen's NEXT Fiber Products subsidiary.

Contingency

Sequa Corporation has made a claim in arbitration against us for \$3.5 million for alleged breach of the contract pursuant to which Sequa purchased the stock of our Thermo Wisconsin Inc. subsidiary in February 1999. We have denied the allegations and are defending the matter vigorously. In the opinion of management, the ultimate resolution of this matter will not materially affect our financial statements.

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Year Ended 2000 Compared With Year Ended 1999

Revenues

Excluding the results of Thermo Wisconsin, which we sold in February 1999, revenues increased to \$234.9 million in 2000 from \$226.3 million in 1999. Thermo Wisconsin's revenues to external customers were \$1.8 million in 1999. Gauld Equipment and Cyclotech, which we acquired in 2000, added revenues of \$4.6 million during 2000. The inclusion for the full 2000 period of results from Arcline Products, which we acquired in May 1999, added incremental revenues of \$0.8 million. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues of our Papermaking Equipment segment by \$9.2 million in 2000.

Pulp and Papermaking Equipment and Systems Segment. Excluding the results of acquisitions and the effect of currency translation, revenues in our Papermaking Equipment segment increased \$13.2 million, or 6%. Revenues from the segment's stock-preparation equipment product line increased \$15.2 million as a result of a \$15.7 million increase in sales by our North American operations, due principally to greater demand, offset slightly by a decrease in sales in Europe, due to the general market weakness. Revenues from the Papermaking Equipment segment's accessories product line decreased \$1.9 million as a result of a decrease in demand in North America and Europe. Revenues from the segment's water-management product line increased \$0.3 million related to increased demand in Europe, largely offset by a decrease in demand in North America.

Composite and Fiber-based Products Segment. Our Composite and Fiber-based Products segment revenues decreased \$0.8 million, primarily due to decreased demand for fiber-based products from the segment's largest customer, as well as a \$0.4 million decrease as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000.

Gross Profit Margin

Our gross profit margin decreased to 38% in 2000 from 41% in 1999. The gross profit margin decreased at the Papermaking Equipment segment, primarily due to a change in product mix that resulted largely from a higher proportion of lower-margin large system sales at our North American stock-preparation equipment business. To a lesser extent, the gross profit margin decreased at the Composite and Fiber-based Products segment, primarily due to decreased

sales without a corresponding decrease in costs, an increase of approximately \$0.6 million in the cost of natural gas in 2000 and the inclusion of \$0.6 million of overhead costs at our new composite building products business.

Other Operating Expenses

Selling, general and administrative expenses as a percentage of revenues decreased to 26% in 2000 from 27% in 1999, primarily due to increased revenues from our Papermaking Equipment segment's stock-preparation equipment product line.

Research and development expenses increased slightly to \$7.7 million in 2000, compared with \$7.3 million in 1999, or 3% of revenues in both periods. The increase in research and development expenses in 2000 primarily represents increased expenditures in the Papermaking Equipment segment.

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. 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. In February 1999, we sold our Thermo Wisconsin subsidiary for \$13.6 million in cash, resulting in a pretax gain of \$11.2 million.

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Restructuring and Unusual Items

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. Restructuring and unusual costs of \$6.2 million in 1999 represents write-downs for impairment of assets, severance costs, termination of distributor agreements, the expected settlement of a contractual dispute and facility-closure costs.

Interest Income and Expense

Interest income increased to \$10.5 million in 2000 from \$8.5 million in 1999, due to higher average invested balances and, to a lesser extent, higher interest rates. Interest expense was relatively unchanged at \$7.5 million in 2000 and \$7.4 million in 1999.

Income Taxes

Our effective tax rate was 41% in 2000, compared with 39% in 1999. The effective tax rate exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses. The effective tax rate increased in 2000 as a result of an increase in nondeductible and other expenses.

Minority Interest

Minority interest income in 2000 primarily represents the minority investors' share of losses in Thermo Fibergen's NEXT Fiber Products subsidiary for the full year, offset in part by accretion of Thermo Fibergen's common stock subject to redemption. As of September 30, 2000, Thermo Fibergen's common stock subject to redemption was fully accreted. In January 2001, Thermo Fibergen purchased the remaining 49% equity interest in NEXT Fiber Products from the minority investors. As a result of Thermo Fibergen's redemption of common stock in September 2000, our ownership of Thermo Fibergen increased to 91%. Minority interest expense in 1999 primarily represents accretion of Thermo Fibergen's common stock subject to redemption, offset in part by the minority investors' share of losses NEXT Fiber Products.

Year Ended 1999 Compared With Year Ended 1998

Revenues

Excluding the results of Thermo Wisconsin, which we sold in February 1999, revenues decreased to \$226.3 million in 1999 from \$228.5 million in 1998. Thermo Wisconsin's revenues to external customers were \$1.8 million and \$18.9 million in 1999 and 1998, respectively. Arcline Products, which was acquired in

May 1999, added revenues of \$1.0 million during the period. The inclusion for the full 1999 period of results from Goslin Birmingham, which was acquired in July 1998, added incremental revenues of \$3.5 million. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues at the Papermaking Equipment segment by \$2.1 million in 1999.

Pulp and Papermaking Equipment and Systems Segment. Excluding the results of acquisitions and the effect of currency translation, revenues in our Papermaking Equipment segment decreased \$7.9 million, primarily due to a \$10.8 million decrease in revenues from the stock-preparation equipment product line, resulting principally from market weakness in Europe, and a \$2.1 million decrease in the accessories product line, principally in North America. These decreases were offset in part by a \$5.1 million increase in revenues from the segment's water-management product line, principally in North America, related to demand for two recently introduced products.

Composite and Fiber-based Products Segment. Our Composite and Fiber-based Products segment revenues increased \$3.3 million due to a \$1.7 million increase in demand for fiber-based products, primarily

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from its two largest customers; a \$0.8 million increase in sales of its cat box filler product, which was introduced in the third quarter of 1998; and the inclusion of revenues for the full 1999 period from its fiber-recovery and water-clarification facility, which began operations in July 1998 and added \$0.8 million of additional revenues in 1999.

Gross Profit Margin

Our gross profit margin was relatively unchanged at 40.8% in 1999, compared with 40.5% in 1998.

Other Operating Expenses

Selling, general and administrative expenses as a percentage of revenues increased to 27% in 1999 from 26% in 1998, primarily due to the effect of the sale of Thermo Wisconsin, for which such expenses represented 15% of Thermo Wisconsin's revenues in 1998.

Research and development expenses increased slightly to \$7.3 million in 1999 from \$7.0 million in 1998, primarily due to increased expenditures in the Papermaking Equipment segment.

Gain on Sale of Business and Property

During the first quarter of 1999, we sold our Thermo Wisconsin subsidiary for \$13.6 million in cash, resulting in a pretax gain of \$11.2 million. In 1998, we recorded gains of \$0.5 million relating to the sale of real estate.

Restructuring and Unusual Items

Restructuring costs and unusual items of \$6.2 million in 1999 represent write-downs for impairment of assets, severance costs, termination of distributor agreements, the expected settlement of a contractual dispute and facility-closure costs.

Interest Income and Expense

Interest income increased to \$8.5 million in 1999 from \$8.0 million in 1998 due to higher average invested balances as a result of cash received from the sale of Thermo Wisconsin. Interest expense was relatively unchanged in 1999 and 1998.

Income Taxes

Our effective tax rate was unchanged at 39% in 1999 and 1998. The effective tax rate exceeded the statutory federal income tax rate primarily due to the impact of state income taxes.

Minority Interest

Minority interest expense primarily represents accretion of Thermo

Fibergen's common stock subject to redemption.

Liquidity and Capital Resources

Consolidated working capital was \$177.9 million at March 31, 2001, compared with \$173.1 million at December 30, 2000. Included in working capital are cash, cash equivalents and available-for-sale investments of \$152.7 million at March 31, 2001, compared with \$148.6 million at December 30, 2000. In addition, we had \$3.8 million and \$5.7 million invested in an advance to affiliate as of March 31, 2001 and December 30, 2000, respectively. Of the total cash, cash equivalents and available-for-sale investments at March 31, 2001, \$12.3 million and \$7.3 million was held by our majority-owned Thermo Fibergen and Thermo Fiberprep subsidiaries, respectively, and the remainder was held by us and our wholly owned subsidiaries. At March 31, 2001, \$44.8 million of our cash and cash equivalents was held by our foreign subsidiaries.

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During the first three months of 2001, \$2.1 million of cash was provided by operating activities. Inventories and unbilled contract costs and fees used cash of \$2.2 million, including \$3.5 million related to an increase in inventories, primarily in the stock-preparation product line, offset in part by \$1.2 million related to a decrease in unbilled contract costs and fees, primarily in the stock-preparation product line due to the timing of billings. An increase in accounts payable provided \$2.8 million of cash, primarily in the stock-preparation product line due to the timing of payments. In addition, a decrease in other current liabilities used \$3.6 million of cash, consisting primarily of \$1.7 million paid for interest accrued at year-end, a \$1.3 million net decrease in accrued payroll and employee benefits and a \$0.5 million decrease in billings in excess of costs and fees related to the timing of billings on long-term contracts.

During the first three months of 2001, our investing activities, excluding available-for-sale investments and advances to affiliates, used \$0.9 million of cash. We purchased property, plant and equipment for \$1.2 million, including \$0.8 million at Thermo Fibergen. In addition, we received cash of \$0.6 million from a note receivable related to Thermo Fibergen's September 2000 sale of its fiber-recovery and water-clarification systems plant.

During the first three months of 2001, our financing activities used \$0.2 million of cash, primarily to fund the repayment of a long-term obligation.

During September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of \$12.75 per share, for a total \$34.6 million. Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at a redemption price of \$12.75 per share in September 2001, the next and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at the time of redemption. As of March 31, 2001, there were 2,001,049 redemption rights outstanding and 1,087,299 shares of Thermo Fibergen's common stock held by persons other than us. In addition, we and/or Thermo Fibergen may acquire additional shares of Thermo Fibergen's common stock in the open market. To the extent the number of rights exceeds the number of shares of Thermo Fibergen's common stock held by persons other than us, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of \$12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than us at the time of the redemption. We expect this amount will not exceed \$17.0 million. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron, but we are required to reimburse Thermo Electron if Thermo Electron makes any payment under the guarantee. In addition, we have agreed to lend Thermo Fibergen up to \$15 million on commercially reasonable terms for the September 2001 redemption obligation and for working capital needs.

At March 31, 2001, we had \$74.4 million of undistributed foreign earnings that could be subject to tax if remitted to the United States. We do not currently intend to repatriate undistributed foreign earnings into the United States, and we do not expect that this will have a material adverse effect on our current liquidity.

During the remainder of 2001, we plan to make expenditures for property, plant and equipment of approximately \$6.7 million. Included in this amount is \$3.3 million for capital expenditures to develop and expand our composite building products business. This business will continue to require a significant amount of capital investment as the business grows. We believe that our existing resources are sufficient to meet the capital requirements of our existing operations for the foreseeable future.

Our ability to use our cash and to incur additional debt will be limited by financial covenants in our post-distribution agreements with Thermo Electron. See "The Distribution--Our Relationship with Thermo Electron--Distribution Agreement."

In compliance with the IRS ruling on the distribution, we intend to issue equity in the range of 10 to 20 percent of our outstanding common stock within one year of the distribution to support our current business plan, which includes the repayment of debt, acquisitions, strategic partnerships and investment in additional capacity for our composite building products business.

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CAPITALIZATION

The following table sets forth our total capitalization as of March 31, 2001. All share numbers have been restated to reflect our one-for-five reverse stock split, which we effected in July 2001. This table should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this information statement.

	March 31, 2001

	(In thousands)
Short-term obligations:	
Current maturities of long-term obligations.....	\$ 562
Common stock of subsidiary subject to redemption.....	17,026

	17,588

Long-term obligations:	
4 1/2% subordinated convertible debentures (1).....	153,000
Other.....	1,469

	154,469

Stockholders' investment:	
Common stock, \$.01 par value, 150,000,000 shares authorized, 12,732,455 shares issued.....	127
Capital in excess of par value.....	77,248
Retained earnings.....	136,651
Treasury stock at cost, 455,146 shares.....	(20,758)
Deferred compensation.....	(28)
Accumulated other comprehensive items.....	(18,548)

Total stockholders' investment.....	174,692

Total capitalization.....	\$346,749
	=====

(1) The debentures are convertible into shares of our common stock at a conversion price of \$60.50 per share, are due to mature in July 2004 and are guaranteed on a subordinated basis by Thermo Electron.

The above information excludes 5,657,780 shares of common stock that, as of March 31, 2001, we had reserved for issuance upon the exercise of options and awards currently outstanding or that may in the future be outstanding under our stock-based compensation plans and upon the possible conversion of our 4 1/2% subordinated convertible debentures due 2004.

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THE DISTRIBUTION

Background and Reasons for the Distribution

Thermo Electron Reorganization

On January 31, 2000, Thermo Electron announced that its board of directors had authorized its management to proceed with a major reorganization of its operations. The reorganization reflects a significant change in strategic direction for Thermo Electron, in terms of both its business focus and its operating structure.

- . Until Thermo Electron adopted the reorganization plan, it had been engaged in operating and managing a diversified group of businesses. As a result of the reorganization, Thermo Electron today focuses primarily on its core instruments business.
- . Thermo Electron historically pursued a strategy of publicly offering minority interests in some of its subsidiaries. These subsidiaries, in turn, pursued the same strategy. Thermo Electron's management reevaluated the benefits and detriments of this corporate structure and concluded that Thermo Electron would benefit if it reorganized its instruments business under a single parent company without minority interests.

The reorganization announced in January has three major components:

- . first, to acquire all of the minority interests in its subsidiaries except for Spectra Physics Inc. and Kadant (including its publicly-traded subsidiary);
- . second, to divest non-instruments businesses; and
- . third, to spin-off Kadant and Viasys Healthcare Inc., a wholly owned subsidiary of Thermo Electron, as dividends to stockholders of Thermo Electron.

Thermo Electron has completed the first and second components of its reorganization. Thermo Electron expects to complete its spin-off of Kadant with the distribution contemplated by this information statement on August 8, 2001 and to complete its spin-off of Viasys in the second half of 2001.

Purpose of the Distribution

On July 10, 2001, as part of its corporate reorganization, Thermo Electron announced the distribution of approximately 11,125,496 shares of our common stock, representing approximately 91% of our outstanding shares of common stock to stockholders of record of Thermo Electron on July 30, 2001. We expect Thermo Electron to effect the distribution on August 8, 2001. On the distribution date, each Thermo Electron stockholder of record on the record date will receive .0612 of a share of our common stock, together with the associated preferred stock purchase rights, as a dividend on each share of Thermo Electron common stock held by such stockholder on the record date.

Thermo Electron is effecting the distribution of our common stock for the following purposes:

- . Thermo Electron Reorganization. Management of Thermo Electron has determined that Thermo Electron should redefine itself as a focused instrument company without the distraction of managing unrelated business units, such as our company. The distribution will assist Thermo Electron in focusing on its core instruments business by spinning-off our business.
- . Need for Additional Capital. Thermo Electron estimates that our capital needs, combined with those of Thermo Electron and Viasys, exceed Thermo Electron's projected capital resources. Thermo Electron has determined that the most efficient way to meet these projected capital needs is for us and Viasys to raise our own additional capital, while Thermo Electron dedicates available cash and anticipated proceeds from the divestiture of its non-core business units to its instruments business.

- . Facilitating Our Future Financings. Thermo Electron has concluded that a public offering by us as an independent company would raise funds on better economic terms than could be raised through either an additional public offering of Thermo Electron common stock or a public offering of our common stock by us while we continue to be controlled by Thermo Electron. Thermo Electron also believes that its present organizational structure limits the ability of Thermo Electron and its subsidiaries, including our company, to fund future growth opportunities. We will only make a public offering of our common stock by means of a prospectus complying with the requirements of the Securities Act, and this information statement does not constitute an offer to sell, or a solicitation of an offer to buy, any shares of our common stock.
- . Facilitating Our Growth Strategy. We plan to aggressively seek to expand our business over the next several years through the introduction of new products, investments in research and development and the exploration of new opportunities in the paper and paper recycling and alternative lumber products markets and the acquisition of complementary technologies and businesses. In order to pursue acquisitions or invest significant capital in research and development, we, as a majority-owned subsidiary of Thermo Electron, have had to obtain the approval of Thermo Electron's management and compete with other Thermo Electron businesses for limited capital resources. As a fully independent company, with access to our own capital and without the involvement of Thermo Electron, we will be free to pursue our growth and acquisition strategies.
- . Attraction and Retention of Employees. Following the distribution, we and Thermo Electron each will have a continued need to recruit qualified managers. Due to the differences of the industries in which we and Thermo Electron compete, we and Thermo Electron believe that we each will be better able to attract qualified candidates because our respective businesses will be more focused and not part of a large diversified company. We and Thermo Electron each will be able to focus on our respective businesses, and we each will be able to reward our employees through incentive compensation and option plans that are tied more directly to the performance of our own business.

Determination of the Board of Directors of Thermo Electron to Spin Off Kadant

In authorizing the distribution, the board of directors of Thermo Electron considered a number of positive and negative factors, evaluated other options with respect to our business and consulted with its financial advisors. The Thermo Electron board of directors ultimately concluded that the distribution would maximize the combined value of Thermo Electron and our company for Thermo Electron's stockholders.

Positive Considerations. In authorizing the distribution, the board of directors of Thermo Electron considered the factors described above under "-- Purpose of the Distribution." Thermo Electron's board of directors also considered the following factors, each of which it considered positive, in its evaluation of the distribution:

- . Thermo Electron's need to operate as a single company focused on its core instruments business;
- . Our company's possession of sufficient scale and business fundamentals to operate as a stand-alone entity; and
- . Our company's operational focus, customer profile and market dynamics, which are sufficiently dissimilar to Thermo Electron's core instrument business to render it difficult to manage together with the instrument business.

Negative Considerations. Thermo Electron's board of directors also considered the following factors, each of which it considered negative, in its evaluation of the distribution:

- . The size of our market capitalization;
- . Our lack of access to the resources and economies of scale of a larger organization; and
- . The elimination of our revenues and income from Thermo Electron's

Alternatives to the Distribution. The board of directors of Thermo Electron considered several alternatives to the distribution. In particular, the board considered retaining our company as a majority-owned subsidiary of Thermo Electron, but concluded that our company's operational focus, customer profile and market dynamics were sufficiently dissimilar to those of Thermo Electron's core instrument business to render it difficult for Thermo Electron to continue to manage our company following Thermo Electron's reorganization. In addition, the board of directors considered a sale of its stake in our company but concluded that, among other things, the tax consequences of such a sale would result in less of a benefit to Thermo Electron's stockholders than a spin-off of our company.

Manner of Effecting the Distribution

In connection with the distribution, we have entered into a distribution agreement and a tax matters agreement with Thermo Electron that set forth the general terms and conditions of the distribution. We also have entered into a transition services agreement with Thermo Electron that will govern our relationship with Thermo Electron following the distribution.

The Number of Shares You Will Receive

Pursuant to the distribution agreement, for each share of Thermo Electron common stock that you own at 5:00 p.m. Eastern time on July 30, 2001, the record date, you will be entitled to receive that number of shares of our common stock equal to the quotient obtained by dividing the number of shares of our common stock to be distributed in the spin-off by the total number of shares of Thermo Electron common stock outstanding at 5:00 p.m. Eastern time on the record date. Thus, the following equation determines the number of shares of our common stock you will be entitled to receive for each share of Thermo Electron common stock you hold:

Total number of our shares to be distributed in the spin-off	11,125,496	
-----	=	----- = .0612
Total number of shares of Thermo Electron common stock outstanding as of 5:00 p.m., Eastern time, on the record date	181,568,236	

Based on the number of shares of Thermo Electron common stock outstanding as of 5:00 p.m. Eastern time on July 30, 2001, the record date, you will be entitled to receive .0612 of a share of our common stock for each share of Thermo Electron common stock you own at 5:00 p.m. Eastern time on the record date.

You are not required to pay cash or any other consideration for the shares of our common stock that you receive in the distribution. You will not need to surrender or exchange certificates representing shares of Thermo Electron common stock in order to receive shares of our common stock. You will continue to own your shares of Thermo Electron common stock and, if you were a stockholder of record on the record date for the distribution, you will also receive shares of our common stock. The distribution will not otherwise change the number of, or the rights associated with, outstanding shares of Thermo Electron common stock.

All shares of our common stock distributed to Thermo Electron stockholders in the distribution will be fully paid and nonassessable, and the holders thereof will not be entitled to preemptive rights. See "Description of Capital Stock."

Trading between the Record Date and Distribution Date

During the period beginning approximately two business days prior to the record date and ending at the market close on August 8, 2001, the distribution date, there will be two markets in Thermo Electron common stock, a "regular way" market and an "ex-dividend" market. Shares that trade on the regular way market will trade with an entitlement to shares of our common stock distributed

pursuant to the spin-off. Shares that trade on the ex-dividend market will trade without an entitlement to shares of our common stock distributed pursuant

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to the spin-off. Therefore, if you own shares of Thermo Electron common stock at 5:00 p.m. Eastern time on the record date, and sell those shares on the regular way market prior to market close on August 8, 2001, the distribution date, you will also be trading the shares of our common stock that would have been distributed to you pursuant to the spin-off. If you sell those shares of Thermo Electron common stock on the ex-dividend market prior to the distribution date, you will still receive the shares of our common stock that were to be distributed to you pursuant to your ownership of the shares of Thermo Electron common stock.

Furthermore, between the record date and market close on the distribution date there will be two markets in our common stock, a "regular way" market and a "when-issued trading" market. The regular way market will be the same market for shares of our common stock that currently exists. The when-issued trading market will be a market for shares of our common stock that will be distributed to Thermo Electron stockholders on the distribution date. If you own shares of Thermo Electron common stock at 5:00 p.m. Eastern time on the record date, then you will be entitled to shares of our common stock distributed pursuant to the spin-off. You may trade this entitlement to shares of our common stock, without the shares of Thermo Electron common stock you own, on the when-issued trading market.

When and How You Will Receive the Dividend

Thermo Electron will distribute the dividend after market close on August 8, 2001, by releasing its shares of our common stock to be distributed in the spin-off to American Stock Transfer & Trust Company, our transfer agent and the distribution agent for the spin-off. As of 4:00 p.m. Eastern time on August 8, 2001, the distribution agent will cause the shares of our common stock to which you are entitled to be registered in your name. As of that time, you will become the record holder of that number of shares of our common stock.

The distribution agent will not deliver any fractional shares of our common stock in connection with the spin-off. Instead, the distribution agent will aggregate all fractional shares and sell them on behalf of those holders who otherwise would be entitled to receive a fractional share. Such holders will then receive a cash payment in the amount of their pro rata share of the total net proceeds of that sale.

You will receive stock certificates representing your ownership of whole shares of our common stock from the distribution agent. The distribution agent will begin mailing stock certificates representing your ownership of whole shares of our common stock on or promptly after August 8, 2001, the distribution date. Your check for any cash that you may be entitled to receive instead of fractional shares of our common stock will follow separately. We currently estimate that it will take about two weeks from the distribution date for the distribution agent to complete these mailings. No interest will accrue on the amount of any payment made in lieu of the issuance of a fractional share.

Accounting Treatment of the Distribution

The distribution will be treated for accounting purposes as a payment of a dividend of shares of our common stock to stockholders of Thermo Electron in the period in which the distribution is consummated.

Material United States Federal Income Tax Consequences of the Distribution

Thermo Electron has received a favorable private letter ruling from the IRS substantially to the effect that, among other things, the distribution will qualify as a "tax-free" spin-off under Section 355 of the Internal Revenue Code. The following is a list of the material United States federal income tax consequences of the distribution.

- . Thermo Electron stockholders generally will not recognize gain or loss upon the receipt of our common stock in the distribution. They will, however, recognize dividend income in an amount equal to the fair market value of any "taxable" shares received by them. For this purpose, shares of our common stock will be treated as "taxable" shares if they were

acquired by Thermo Electron during the preceding five-

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year period in transactions in which gain or loss was realized to any extent. We believe that approximately eight percent of our shares of common stock distributed in the distribution will be considered to be "taxable" shares. A pro-rata portion of the "taxable" shares will be received by each Thermo Electron stockholder. In addition, a Thermo Electron stockholder will recognize gain or loss to the extent any cash received in lieu of a fractional share of our common stock exceeds or is less than, as applicable, the stockholder's basis in the fractional share.

- . Neither we nor Thermo Electron will recognize gain or loss upon the distribution, except that Thermo Electron will recognize gain to the extent of any appreciation over Thermo Electron's original purchase price in any "taxable" shares of our stock that it distributes.
- . The aggregate tax basis of the Thermo Electron common stock and our common stock (other than "taxable" shares) in the hands of each Thermo Electron's stockholder after the distribution will equal the aggregate tax basis of the Thermo Electron common stock held by the stockholder immediately before the distribution. Applicable treasury regulations require that each stockholder allocate this aggregate tax basis between the Thermo Electron common stock and our common stock (other than "taxable" shares) in proportion to their respective fair market values at the time of the distribution. The aggregate tax basis of any "taxable" shares received by a Thermo Electron stockholder in the distribution will equal the fair market value of those shares at the time of the distribution.
- . Assuming that a Thermo Electron stockholder's common stock is held as a capital asset, the holding period for the shares (other than "taxable" shares) of our common stock received in the distribution by the stockholder will include the holding period of the Thermo Electron common stock upon which the distribution is made. The holding period for any "taxable" shares of our common stock received in the distribution will commence on the day following the date of the distribution.

Although the distribution generally will be tax-free as of the distribution date, the occurrence of various actions or events following the distribution could render the distribution fully taxable to stockholders of Thermo Electron who receive shares of our common stock in the distribution and/or Thermo Electron. The events that could cause the distribution to become taxable to the stockholders of Thermo Electron and Thermo Electron retroactively include:

- . our transfer of a material portion of our assets outside the ordinary course of business;
- . Thermo Electron's transfer of a material portion of its assets outside of the ordinary course of business;
- . the liquidation of our company or Thermo Electron, or the merger of our company or Thermo Electron with or into another corporation;
- . our discontinuance of a material portion of our historical business activities;
- . Thermo Electron's discontinuance of a material portion of its historical business activities;
- . the conversion, redemption or exchange of shares of our common stock received in the distribution into or for any other stock, security, property or cash;
- . transfers of our common stock or Thermo Electron common stock in amounts sufficient to cause the historic stockholders of Thermo Electron not to be considered to have maintained sufficient continuity of proprietary interest in our company, Thermo Electron or both; and
- . our failure to conduct a public offering of ten to twenty percent of our common stock within one year of the distribution in accordance with our representation to the IRS.

As of the date of this information statement, neither we nor Thermo Electron have any plans to take any of the foregoing actions.

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If the distribution of our shares becomes taxable as a result of one of any of the foregoing actions, then:

- . The group of corporations with which we and Thermo Electron currently file consolidated federal income tax returns would recognize a corporate-level taxable gain. This gain generally would equal the amount by which the fair market value of the shares of our common stock distributed in the distribution exceeded Thermo Electron's basis in those shares.
- . Under applicable law, we and Thermo Electron each would be severally liable for the corporate-level tax on such gain.
- . Each holder of Thermo Electron common stock who received shares of our common stock in the distribution would be treated as having received a taxable dividend in an amount equal to the fair market value of the shares of our common stock received.

In addition, the acquisition of 50% or more of the stock of Thermo Electron or of our company, by vote or value, pursuant to a plan that contemplated both the acquisition and the distribution would cause the distribution to become fully taxable to Thermo Electron, but not its stockholders. For this purpose, most acquisitions of stock within the four-year period beginning two years prior to the distribution will be presumed to have been undertaken pursuant to such a plan.

Under the tax matters agreement, we have agreed to indemnify Thermo Electron, but not the stockholders of Thermo Electron, against liability for taxes resulting from (a) the conduct of our business following the distribution or (b) the failure of the distribution to Thermo Electron stockholders of shares of our common stock or of the Viasys common stock to continue to qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code as a result of some actions that we take following the distribution. Thermo Electron has agreed to indemnify us 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 our common stock to the Thermo Electron stockholders to continue to qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code other than as a result of some actions that we may take following the distribution. If any of our post-distribution activities causes the distribution to become taxable, we could incur significant liability to Thermo Electron and/or various taxing authorities, which could adversely affect our results of operations, financial position and cash flows.

You should consult your own tax advisor as to the particular consequences to you of the distribution, including the application of state, local and foreign tax laws. In addition, you should file with the IRS the form of information statement annexed hereto as Annex A with your tax return covering the period in which the distribution occurs.

Treatment of Thermo Electron Options Held by Our Employees

On the distribution date, all options for Thermo Electron common stock held by our employees will cease to vest. All such options that are not vested will be cancelled on the distribution date. All vested Thermo Electron options held by our employees on the distribution date will expire on January 31, 2002, unless exercised prior to that date. Alternatively, our employees may elect prior to the distribution to receive options for Kadant common stock in exchange for their Thermo Electron options. We will determine the number of shares and the exercise price of options to purchase Kadant common stock issued in exchange for Thermo Electron options using a conversion formula. The conversion formula will be calculated by dividing the closing price per share of Thermo Electron common stock on The New York Stock Exchange on the distribution date by the opening price per share of our common stock on The American Stock Exchange on the first trading day after the distribution date. The resulting Kadant options will maintain the original vesting provisions and option periods. As of June 28, 2001, our employees held options to purchase an aggregate of approximately 429,500 shares of Thermo Electron common stock. We do not currently know how many Kadant options we will issue in exchange for

Thermo Electron options because, among other things, we will not know some of the conversion formula components until the day after the distribution date.

Relationship with Thermo Electron After the Distribution

In connection with the distribution, we and Thermo Electron have entered into a distribution agreement and a transition services agreement, the material terms of which are summarized below. In addition, we have entered into a tax matters agreement, the material terms of which are summarized above under "--Material United States Federal Income Tax Consequences of the Distribution."

Distribution Agreement

The distribution agreement provides, among other things:

- . for the principal corporate transactions required to effect the distribution;
- . for restrictions relating to our ability to use cash or incur debt during the time that Thermo Electron continues to guarantee our subordinated convertible debentures due 2004 and our obligations with respect to the redemption of the outstanding shares of Thermo Fibergen that are not held by us. These restrictions include financial covenants requiring (1) the ratio of our net indebtedness to net capitalization not to exceed 40% and (2) the sum of our (a) operating income (excluding restructuring and other unusual charges or income (such as gains on sales of assets) included in operating income) and amortization of our goodwill and other intangible assets and (b) our interest income to be at least four times greater than our interest expense. In the event that we fail to comply with these financial covenants and have not cured our noncompliance within the applicable cure period, we will be obligated to relieve Thermo Electron of its obligations under all of its outstanding guarantees of our performance and payment in connection with our debentures and our obligations with respect to the redemption of outstanding shares of Thermo Fibergen common stock. In addition, in the event that we undergo a change in control, we have agreed to fully cash collateralize or back with one or more letters of credit all of our obligations under the debentures and with respect to the redemption of outstanding shares of Thermo Fibergen common stock;
- . that we must, on or before December 29, 2001, terminate or replace, by obtaining letters of credit, guarantees or other similar arrangements from our lender, all of our obligations that are subject to guarantee, indemnity or other similar assurance by Thermo Electron (other than our obligations under our subordinated convertible debentures due 2004 and our obligation with respect to the redemption of outstanding shares of Thermo Fibergen that are not held by us); and
- . for the other arrangements governing the relationship between us and Thermo Electron with respect to and resulting from the distribution.

The distribution agreement provides for cross-indemnification designed principally to place financial responsibility for the liabilities of our business with us and financial responsibility for the liabilities of Thermo Electron's business with Thermo Electron.

Transition Services Agreement

The transition services agreement provides that Thermo Electron's corporate staff will provide us with routine administrative services, including the arrangement of insurance coverage (at our expense), stock option and employee stock purchase plan administration, corporate record keeping, information technology, tax, Edgar and Hyperion support and other services, until December 29, 2001. Thermo Electron will provide us with these routine services at a level and in a manner consistent with the services that Thermo Electron provided to us prior to the distribution. Thermo Electron has also agreed to perform transition services necessary to train our personnel to assume responsibility for services provided by Thermo Electron prior to the distribution. In return for these routine administrative and transition services, we will pay Thermo Electron a fee equal to 0.4% of our consolidated revenues for the fiscal quarter ending September 29, 2001, and 0.2% of our

consolidated revenues for the fiscal quarter ending December 29, 2001, plus out-of-pocket and third party expenses. We and Thermo Electron believe that this fee arrangement reflects an arms-length, fair market valuation of the services that Thermo Electron will provide us under this Agreement.

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In addition to routine administrative and training services, the transition services agreement provides that Thermo Electron, in its discretion, may also provide us with additional services specifically requested by us, such as litigation support, acquisition and offering support, corporate development or public or investor relations. For performing these additional services, Thermo Electron will charge us what it determines to be the fair market value of the services on a basis consistent with the fees Thermo Electron charged us for similar services prior to the distribution, plus out-of-pocket and third party expenses. Thermo Electron's good faith determination of whether a service is an additional service to be provided at additional cost is binding on both parties unless made in bad faith.

Thermo Electron has also agreed to continue to sublease to us our existing office space at our corporate headquarters. The sublease will be on a month-to-month basis and on terms consistent with those in effect between Thermo Electron and us prior to the distribution. The term of the sublease may extend beyond December 29, 2001. Thermo Electron may terminate this sublease on three months prior written notice to us.

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RELATIONSHIP AND POTENTIAL CONFLICTS OF INTEREST WITH THERMO ELECTRON AND RELATED PARTIES

The following is a description of the material terms of the agreements and arrangements involving our company and either Thermo Electron or Thermo Electron's direct and indirect subsidiaries.

General

Prior to our incorporation, we operated as a division of Thermo Electron. We were incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron. We conducted an initial public offering of our common stock in November 1992 and became a majority-owned subsidiary of Thermo Electron. Prior to the distribution, some of our directors and executive officers were also directors, officers and employees of Thermo Electron and/or its other subsidiaries. In acting on our behalf, these directors and officers considered not only the short-term and long-term impact of operating decisions on our business, but also the impact of such decisions on the consolidated financial results of Thermo Electron.

We have entered into a number of agreements with Thermo Electron and its subsidiaries relating to our historical business and our relationship with the Thermo Electron group of companies, the material terms of which are described below. In addition, we recently entered into a number of agreements with Thermo Electron relating to the distribution, which are described below and elsewhere in this information statement. Although these agreements were not negotiated on an arm's-length basis, we and Thermo Electron each believe that the terms of these agreements are comparable to those that we would receive from unaffiliated third parties.

Agreements Relating to the Distribution

Immediately prior to the distribution, we will be a majority-owned subsidiary of Thermo Electron. After the distribution, Thermo Electron will not own any of our common stock, no Thermo Electron directors will serve on our board of directors and no Thermo Electron officers will serve as officers of our company.

We have entered into several agreements with Thermo Electron to define our ongoing relationship after the distribution and to allocate tax and other specified liabilities and obligations arising from periods prior to the distribution date. We entered into these agreements while we were still a majority-owned subsidiary of Thermo Electron. The material terms of these agreements are set forth under the caption "The Distribution--Our Relationship with Thermo Electron after the Distribution" and "The Distribution--Material

Other Agreements

Historically, the relationship between Thermo Electron and its majority-owned, private and publicly held subsidiaries has been governed by the Thermo Electron Corporate Charter, which defines the relationships and delineates the nature of cooperation among Thermo Electron and these subsidiaries. Prior to the distribution, the relationship between Thermo Electron and our company was governed by the Charter. The purpose of the Charter is to ensure that (1) all of the companies and their stockholders are treated consistently and fairly, (2) the scope and nature of the cooperation among the companies, and each company's responsibilities, are adequately defined, (3) each company has access to the combined resources and financial, managerial and technological strengths of the others, and (4) Thermo Electron and these subsidiaries, in the aggregate, are able to obtain the most favorable terms from outside parties.

To achieve these ends, the Charter identifies the general principles to be followed by the companies, addresses the role and responsibilities of the management of each company, provides for the sharing of group resources by the companies and provides for centralized administrative, banking and credit services to be performed by Thermo Electron. The services provided by Thermo Electron include collecting and managing cash generated by members, coordinating the access of Thermo Electron and the subsidiaries to external

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financing sources, ensuring compliance with external financial covenants and internal financial policies, assisting in the formulation of long-range planning and providing other banking and credit services. Pursuant to the Charter, Thermo Electron may also provide guarantees of debt or other obligations of the subsidiaries or may obtain external financing at the parent level for the benefit of the subsidiaries. In certain instances, the subsidiaries may provide credit support to, or on behalf of, the consolidated entity or may obtain financing directly from external financing sources. Under the Charter, Thermo Electron is responsible for determining that Thermo Electron and the subsidiaries remain in compliance with all covenants imposed by external financing sources, including covenants related to borrowings of Thermo Electron or the subsidiaries, and for apportioning such constraints among Thermo Electron and the subsidiaries. In addition, Thermo Electron establishes certain internal policies and procedures applicable to members of the Thermo group. The cost of the services provided by Thermo Electron to the subsidiaries is covered under existing corporate services agreements between Thermo Electron and the subsidiaries.

As provided in the Charter, we and Thermo Electron have entered into a corporate services agreement under which Thermo Electron's corporate staff provides certain administrative services, including certain legal advice and services, risk management, employee benefit administration, tax advice and preparation of tax returns, centralized cash management and financial and other services to us. We were assessed an annual fee equal to 0.8% of our consolidated revenues for these services in fiscal 2000. Our management believes that the charges under the services agreement for fiscal 2000 are reasonable and that the terms of the services agreement are fair to our company. Effective April 2001, the fee under this arrangement was reduced to 0.6% of our consolidated revenues and will continue to decline to 0.4% of consolidated revenues in the third quarter and 0.2% of consolidated revenues in the fourth quarter of 2001. The services agreement terminates automatically in the event that we cease to be a participant in the Charter, which will occur upon the distribution, and will be replaced by the transition services agreement described above under "The Distribution--Relationship with Thermo Electron After the Distribution."

We have also entered into a tax allocation agreement under which we and our subsidiaries are included in the consolidated federal and state income tax returns filed by Thermo Electron. The tax allocation agreement provides that in years in which these entities have taxable income, we will pay to Thermo Electron amounts comparable to the taxes we would have paid if we had filed separate tax returns. In years in which these entities include a loss, Thermo Electron will reimburse us the amount that we would have received if we had filed separate tax returns. After the distribution, we will be required to file our own income tax returns. At June 30, 2001, we owed Thermo Electron \$1.7 million under the tax allocation agreement.

Our participation in the Charter will terminate when we cease to be controlled by Thermo Electron. Our withdrawal from the Charter will automatically terminate the corporate services agreement and tax allocation agreement in effect between us and Thermo Electron. Our withdrawal from participation will not terminate outstanding commitments to third parties made by us, or by Thermo Electron or the other participating subsidiaries, prior to the withdrawal.

One of our European-based subsidiaries, along with other European-based subsidiaries of Thermo Electron, participate in a notional pool arrangement in the United Kingdom with Barclays Bank. Under this arrangement, Barclays notionally combines the positive and negative cash balances held by the participants to calculate the net interest yield/expense for the group. The benefit derived from this arrangement is then allocated based on balances attributable to the respective participants. Thermo Electron guarantees all of the obligations of each participant in this arrangement. At June 30, 2001, we had access to a \$1.6 million line of credit under this arrangement. At June 30, 2001, we had invested \$11.0 million under this arrangement. We will cease to participate in the notional pool arrangement after the distribution.

At June 30, 2001, we owed Thermo Electron and its other subsidiaries an aggregate of \$0.8 million for amounts due under the corporate services agreement and related administrative charges, for other products and services, and for miscellaneous items, excluding amounts owed by us to Thermo Electron under the tax allocation agreement. The largest amount of such net indebtedness owed by us to Thermo Electron and its other

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subsidiaries since January 2, 2000 was \$1.7 million. These amounts do not bear interest, and we expect to pay them in the normal course of business.

From June 1999 to August 2000, we and Thermo Electron used a domestic cash management arrangement. Under the arrangement, amounts advanced to Thermo Electron by us for domestic cash management purposes earned interest at the 30-day Dealer Commercial Paper Rate plus 50 basis points, set at the beginning of each month. Thermo Electron was contractually required to maintain cash, cash equivalents, and/or immediately available bank lines of credit equal to at least 50% of all funds invested under this cash management arrangement by all Thermo Electron subsidiaries other than wholly owned subsidiaries. We had the contractual right to withdraw our funds invested in the cash management arrangement upon 30 days' prior notice. Effective August 2000, we no longer participate in the domestic cash management arrangement. In addition, one of our European-based subsidiaries currently participates in a cash management arrangement with a wholly owned subsidiary of Thermo Electron on terms similar to the domestic cash management arrangement. At June 30, 2001, we, through this European-based subsidiary, had \$3.5 million invested under this arrangement. This arrangement will cease after the distribution.

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DESCRIPTION OF CAPITAL STOCK

The following description summarizes our charter and by-laws. This summary is qualified by reference to the actual provisions of our charter and by-laws which are included as exhibits to our public filings with the Commission.

Common Stock

Our charter authorizes 150,000,000 shares of common stock, par value \$.01 per share, for issuance. As of July 30, 2001, the record date of the distribution, 12,277,147 shares of our common stock were issued and outstanding, of which 11,125,496 shares were held by Thermo Electron. Our charter provides for the following with respect to our common stock:

Voting. Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of our common stock entitled to vote in any election of directors may elect all of the directors standing for election.

Dividends. If our board of directors declares a dividend, holders of common stock will receive payments on a ratable basis from our funds that are legally

available to pay dividends. However, this dividend right is subject to any preferential dividend rights we may grant to the persons who hold preferred stock, if any is outstanding.

Liquidation. If we are dissolved, the holders of our common stock will be entitled to share ratably in all the assets that remain after we pay our liabilities and any amounts we may owe to the persons who hold preferred stock, if any is outstanding.

Other. Holders of our common stock do not have preemptive, subscription, redemption or conversion rights. The outstanding shares of our common stock are, and the shares to be distributed by Thermo Electron will be, fully paid and nonassessable.

The rights, powers, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future. Currently, we have no shares of preferred stock outstanding.

Preferred Stock

Our charter authorizes our board of directors, subject to any limitations prescribed by law and without further stockholder approval, to issue from time to time up to 5,000,000 shares of preferred stock in one or more series. Our charter also authorizes our board of directors, subject to the limitations prescribed by Delaware law, to:

- . establish the number of shares to be included in each series and to fix the voting powers, preferences, qualifications and special or relative rights or privileges of each series; and
- . issue preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of common stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock or of rights to purchase preferred stock, however, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding common stock.

Our board of directors has authorized 15,000 shares of Series A junior participating preferred stock for issuance under our stockholder rights plan. See "--Stockholder Rights Plan" below. We have no current plans to issue any preferred stock other than as may be provided for by the stockholder rights plan.

Delaware Law and Our Charter and By-Laws Provisions; Anti-Takeover Effects

Staggered Board. Our charter provides that:

- . our board of directors will be divided into three classes, with staggered three-year terms;
- . directors may be removed only for cause by the vote of the holders of at least 75% of the shares of our capital stock entitled to vote; and
- . any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of a majority of the directors then in office.

These provisions could discourage, delay or prevent a change in control of our company or an acquisition of our company at a price which many stockholders may find attractive. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions may also have the effect of discouraging a third party from initiating a proxy contest, making a tender offer or attempting to change the composition or policies of our board of directors.

Stockholder Action; Special Meeting of Stockholders. Our charter and by-laws also provide that:

- . stockholder action may be taken only at a duly called and convened annual or special meeting of stockholders and then only if properly brought before the meeting;
- . stockholder action may not be taken by written action in lieu of a meeting;
- . special meetings of stockholders may be called only by our chairman of the board, our chief executive officer or by our board of directors; and
- . in order for any matter to be considered "properly brought" before a meeting, a stockholder must comply with requirements regarding providing specified information and advance notice to us.

These provisions could delay, until the next stockholders' meeting, actions which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage another person or entity from making a tender offer for our common stock, because a person or entity, even if it acquired a majority of our outstanding voting securities, would be able to take action as a stockholder only at a duly called stockholders' meeting, and not by written consent.

Supermajority Votes Required. The General Corporation Law of Delaware provides that the vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's charter or by-laws, unless a corporation's charter or by-laws, as the case may be, requires a greater percentage. Our charter requires the vote of the holders of at least 75% of our capital stock entitled to vote to amend or repeal any of the foregoing provisions. The 75% stockholder vote is in addition to any separate class vote that might be required pursuant to the terms of any series of preferred stock that might be then outstanding.

Business Combinations. We are subject to the provisions of Section 203 of the Delaware General Corporation Law. Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock.

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Indemnification. Our charter provides that our directors will not be personally liable to us or to our stockholders for monetary damages for breach of fiduciary duty as a director, except that the limitation eliminates or limits liability only to the extent that the elimination or limitation of this liability is permitted by the Delaware General Corporation Law as it exists or may later be amended. Our charter further provides for the indemnification of our directors and officers to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, including circumstances in which indemnification is otherwise discretionary.

Stockholder Rights Plan

Under Delaware law, every corporation may create and issue rights entitling the holders of the rights to purchase from the corporation shares of its capital stock, subject to any provisions of its charter. The price and terms of the shares must be stated in the company's charter or in a resolution adopted by the board of directors for the creation or issuance of such rights.

We have entered into a rights agreement with American Stock Transfer & Trust Company, as rights agent. On August 6, 2001, pursuant to the terms of our rights plan, we issued to our stockholders one preferred stock purchase right for each outstanding share of our common stock. Each right, when exercisable, entitles the registered holder to purchase from us a unit consisting of one ten-thousandth of a share of Series A junior participating preferred stock at a purchase price of \$75, subject to adjustment.

The rights agreement provides that, with respect to the period of time prior to the distribution, the rights will not become exercisable as a result of Thermo Electron's ownership of our stock.

The following description is a summary of the material terms of our stockholder rights plan. It does not restate these terms in their entirety. We urge you to read our stockholder rights plan because it, and not this description, defines the terms and provisions of our plan. We have filed a copy of the rights agreement that establishes our rights plan as an exhibit to our Current Report on Form 8-K, which was filed with the Commission on July 17, 2001.

Distribution of rights. Initially, the rights are not exercisable and are attached to all certificates representing outstanding shares of our common stock, and we will not distribute separate rights certificates. The rights will separate from our common stock, and a rights distribution date will occur, upon the earlier of the following events:

- . 10 business days after a public announcement that a person or group has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of our common stock; and
- . 10 business days following the start of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of our common stock.

The distribution date may be deferred by our board of directors. In addition, some inadvertent actions will not trigger the occurrence of the rights distribution date.

Prior to the rights distribution date:

- . the rights are evidenced by our common stock certificates and will be transferred with and only with such common stock certificates; and
- . the surrender for transfer of any certificates of our common stock will also constitute the transfer of the rights associated with our common stock represented by such certificate.

The rights are not exercisable until the rights distribution date and will expire at the close of business on the tenth anniversary of the date our board of directors adopts the rights plan, unless we redeem or exchange them earlier as described below.

As soon as practicable after the rights distribution date, rights certificates will be mailed to the holders of record of our common stock as of the close of business on the rights distribution date. From and after the rights

distribution date, the separate rights certificates alone will represent the rights. All shares of our common stock issued prior to the rights distribution date will be issued with rights. Shares of our common stock issued after the rights distribution date in connection with specified employee benefit plans or upon conversion of specified securities will be issued with rights. Except as otherwise determined by our board of directors, no other shares of our common stock issued after the rights distribution date will be issued with rights.

Flip-in event. If a person becomes the beneficial owner of 15% or more of the outstanding shares of our common stock, except as described below, each holder of a right will thereafter have the right to receive, upon exercise, a number of shares of our common stock, or, in some circumstances, cash, property or other securities of ours, which equals the exercise price of the right divided by one-half of the current market price of our common stock on the date the acquisition occurs. However, following the acquisition:

- . rights are not exercisable until the rights are no longer redeemable by us as set forth below; and
- . all rights that are, or were, under the circumstances specified in the rights agreement, beneficially owned by any acquiring person will be null and void.

The event set forth in this paragraph is referred to as a flip-in event. A flip-in event would not occur if there is an offer for all of our outstanding shares of common stock that our board of directors determines is fair to our stockholders and in their best interests.

For example, at an exercise price of \$75 per right, each right not owned by an acquiring person, or by some related parties, following a flip-in event would entitle the holder to purchase for \$75 the number of shares of our common stock, or other consideration, as noted above, as equals \$75 divided by one-half of the current market price of our common stock. Assuming that our common stock had a per share value of \$25 at that time, the holder of each valid right would be entitled to purchase six shares of our common stock for \$75.

Flip-over event. If at any time after a person has become the beneficial owner of 15% or more of the outstanding shares of our common stock:

- . we are acquired in a merger or other business combination transaction in which we are not the surviving corporation,
- . our common stock is changed or exchanged for stock or securities of any other person or for cash or any other property or
- . 50% or more of our assets or earning power is sold or transferred,

then each holder of a right, except rights which previously have been voided as set forth above, shall thereafter have the right to receive, upon exercise, that number of shares of common stock of the acquiring company which equals the exercise price of the right divided by one-half of the current market price of that company's common stock at the date of the occurrence of the event. This exercise right does not arise if the merger or other transaction follows an offer for all of our outstanding shares of common stock that our board of directors determines is fair to our stockholders and in their best interests.

For example, at an exercise price of \$75 per right, each right following an event described in the preceding paragraph would entitle the holder to purchase for \$75 the number of shares of common stock of the acquiring company as equals \$75 divided by one-half of the current market price of that company's common stock. Assuming that the common stock had a per share value of \$25 at that time, the holder of each valid right would be entitled to purchase six shares of common stock of the acquiring company for \$75.

Exchange of rights. At any time after a flip-in event, when no person owns a majority of our common stock, our board of directors may exchange the rights, other than rights owned by the acquiring person that have become void, in whole or in part, at an exchange ratio of one share of our common stock, or one ten-thousandth of a share of preferred stock, or of a share of a class or series of preferred stock having equivalent rights, preferences and privileges, per right.

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Series A junior participating preferred stock. Series A preferred stock purchasable upon exercise of the rights will not be redeemable. Each share of series A preferred stock will be entitled to receive, when, as and if declared by our Board, a minimum preferential quarterly dividend payment of \$100 per share and will be entitled to an aggregate dividend of 10,000 times the dividend declared per share of our common stock. In the event of liquidation, the holders of the series A preferred stock will be entitled to a minimum preferential liquidating payment of \$10,000 per share and will be entitled to an aggregate payment of 10,000 times the payment made per share of our common stock. Each share of series A preferred stock will have 10,000 votes, voting together with our common stock. Finally, in the event of any merger, consolidation or other transaction in which our common stock is changed or exchanged, each share of series A preferred stock will be entitled to receive 10,000 times the amount received per share of our common stock. These rights are protected by customary antidilution provisions.

Because of the nature of the series A preferred stock's dividend, liquidation and voting rights, the value of one ten-thousandth of a share of series A preferred stock purchasable upon exercise of each right should approximate the value of one share of our common stock.

Redemption of rights. At any time until ten business days following the date

of a public announcement that a person has acquired or obtained the right to acquire beneficial ownership of 15% or more of the outstanding shares of our common stock, we may redeem the rights in whole, but not in part, at a price of \$.001 per right, payable in cash or stock. Immediately upon the redemption of the rights or such earlier time as established by our board of directors in the resolution ordering the redemption of the rights, the rights will terminate and the only right of the holders of rights will be to receive the \$.001 redemption price.

Status of rights holder and tax effects. Until a right is exercised, the holder of the right, as such, will have no rights as a stockholder of ours, including the right to vote or to receive dividends. Although the distribution of the rights should not be taxable to stockholders or to us, stockholders may, depending upon the circumstances, recognize taxable income in the event that the rights become exercisable for our common stock, or other consideration, or for common stock of the acquiring company as described above.

Board's authority to amend. Our board of directors may amend any provision of the rights agreement, other than the redemption price, prior to the date on which the rights are no longer redeemable. Once the rights are no longer redeemable, our board's authority to amend the rights agreement is limited to correcting ambiguities or defective or inconsistent provisions in a manner that does not adversely affect the interest of holders of rights.

Effects of the rights. The rights are intended to protect our stockholders 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. The rights may have anti-takeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire us without conditioning the offer on a substantial number of rights being acquired. The rights, however, should not affect any prospective offeror willing to make an offer at a fair price and otherwise in the best interests of us and our stockholders, as determined by a majority of our board of directors. The rights should not interfere with any merger or other business combination approved by our board of directors.

Dividends

We currently anticipate that we will retain all of our earnings for use in the development of our business, and we do not anticipate paying any cash dividends in the foreseeable future.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

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EXPERTS

Our Consolidated Balance Sheet as of January 1, 2000 and December 30, 2000, and the related Consolidated Statements of Income, Cash Flows and Comprehensive Income and Stockholders' Investment for each of the three years in the period ended December 30, 2000 included in this information statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are included in this information statement in reliance upon the authority of said firm as experts in giving said report.

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KADANT INC.

Consolidated Balance Sheet (Unaudited)

	March 31, 2001

	(In thousands except share amounts)
Assets	
Current Assets:	
Cash and cash equivalents.....	\$133,594
Advance to affiliate.....	3,814
Available-for-sale investments, at quoted market value (amortized cost of \$19,076 and \$86,104).....	19,083
Accounts receivable, less allowances of \$3,473 and \$2,182.....	42,479
Unbilled contract costs and fees.....	7,028
Inventories:	
Raw materials and supplies.....	14,404
Work in process.....	7,137
Finished goods (includes \$2,936 and \$3,765 at customer locations).....	14,716
Deferred tax asset.....	9,324
Other current assets.....	5,312

	256,891

Property, Plant, and Equipment, at Cost.....	69,527
Less: Accumulated depreciation and amortization.....	40,599

	28,928

Other Assets (Note 5).....	12,467

Goodwill.....	118,271

	\$416,557
	=====
Liabilities and Stockholders' Investment	

Current Liabilities:	
Current maturities of long-term obligations.....	\$ 562
Accounts payable.....	25,395
Accrued income taxes.....	6,493
Accrued payroll and employee benefits.....	6,393
Accrued warranty costs.....	4,894
Deferred revenues.....	3,544
Customer deposits.....	2,461
Other accrued expenses.....	11,244
Common stock of subsidiary subject to redemption (at redemption value).....	17,026
Due to parent company and affiliated companies.....	990

	79,002

Deferred Income Taxes and Other Deferred Items.....	8,092

Long-term Obligations:	
Subordinated convertible debentures.....	153,000
Notes payable.....	1,469

	154,469

Minority Interest (Note 5).....	302

Stockholders' Investment:	
Common stock, \$.01 par value, 150,000,000 shares authorized; 12,732,455 shares issued (Note 8).....	127
Capital in excess of par value.....	77,248
Retained earnings.....	136,651
Treasury stock at cost, 455,146 shares (Note 8).....	(20,758)
Deferred compensation.....	(28)
Accumulated other comprehensive items (Notes 2 and 6).....	(18,548)

	174,692

	\$416,557
	=====

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

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KADANT INC.

Consolidated Statement of Income
(Unaudited)

	Three Months Ended	
	March 31, April 1,	
	2001	2000
	-----	-----
	(In thousands except per share amounts)	
Revenues.....	\$58,900	\$57,922
	-----	-----
Costs and Operating Expenses:		
Cost of revenues.....	36,196	34,607
Selling, general, and administrative expenses.....	15,856	15,831
Research and development expenses.....	1,792	1,863
	-----	-----
	53,844	52,301
	-----	-----
Operating Income.....	5,056	5,621
Interest Income.....	2,141	2,503

Interest Expense.....	(1,873)	(1,890)
	-----	-----
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle.....	5,324	6,234
Provision for Income Taxes.....	2,219	2,525
Minority Interest (Income) Expense (Note 5).....	(24)	149
	-----	-----
Income Before Cumulative Effect of Change in Accounting Principle.....	3,129	3,560
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580).....	--	(870)
	-----	-----
Net Income.....	\$ 3,129	\$ 2,690
	=====	=====
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle (Notes 3 and 8)...	\$.25	\$.29
	=====	=====
Basic and Diluted Earnings per Share (Notes 3 and 8).....	\$.25	\$.22
	=====	=====
Weighted Average Shares (Notes 3 and 8):		
Basic.....	12,277	12,249
	=====	=====
Diluted.....	12,290	12,319
	=====	=====

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

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KADANT INC.

Consolidated Statement of Cash Flows (Unaudited)

	Three Months Ended	
	March 31, 2001	April 1, 2000
	-----	-----
	(In thousands)	
Operating Activities		
Net income.....	\$ 3,129	\$ 2,690
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Cumulative effect of change in accounting principle.....	--	870
Depreciation and amortization.....	2,381	2,400
Provision for losses on accounts receivable.....	1,295	126
Minority interest (income) expense (Note 5).....	(24)	149
Other noncash items.....	(1)	51
Changes in current accounts, excluding the effects of acquisitions and dispositions:		
Accounts receivable.....	304	7,594
Inventories and unbilled contract costs and fees.....	(2,228)	(2,798)
Prepaid income taxes and other current assets.....	(1,991)	(589)
Accounts payable.....	2,848	1,187
Other current liabilities.....	(3,602)	(12,060)
	-----	-----
Net cash provided by (used in) operating activities....	2,111	(380)
	-----	-----
Investing Activities		
Acquisitions, net of cash acquired.....	--	(2,998)
Acquisition of capital equipment and technology.....	--	(1,200)
Advances to affiliate, net.....	1,890	(5,668)
Proceeds from maturities of available-for-sale investments...	67,028	10,244
Purchases of property, plant, and equipment.....	(1,178)	(1,369)
Payment received on note for sale of property.....	600	--

Other, net.....	(334)	(42)
	-----	-----
Net cash provided by (used in) investing activities....	68,006	(1,033)
	-----	-----
Financing Activities		
Net proceeds from issuance of Company and subsidiary common stock.....	20	207
Repayments of long-term obligations.....	(182)	--
	-----	-----
Net cash provided by (used in) financing activities....	(162)	207
	-----	-----
Exchange Rate Effect on Cash.....	1,178	(462)
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents.....	71,133	(1,668)
Cash and Cash Equivalents at Beginning of Period.....	62,461	39,254
	-----	-----
Cash and Cash Equivalents at End of Period.....	\$133,594	\$37,586
	=====	=====
Noncash Activities		
Fair value of assets of acquired companies.....	\$ --	\$ 5,285
Cash paid for acquired companies.....	--	(3,411)
Note payable for acquired companies.....	--	(795)
	-----	-----
Liabilities assumed of acquired companies.....	\$ --	\$ 1,079
	=====	=====
Amounts forgiven in exchange for the 49% minority interest in NEXT		
Fiber Products (Note 5).....	\$ 2,053	\$ --
	=====	=====

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

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KADANT INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. General

The interim consolidated financial statements presented have been prepared by Kadant Inc. (the Company, formerly Thermo Fibertek Inc.; Note 8) without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at March 31, 2001, and the results of operations and cash flows for the three-month periods ended March 31, 2001 and April 1, 2000. Interim results are not necessarily indicative of results for a full year.

Historical financial results have been restated to reflect the adoption of Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", effective as of January 2, 2000. The consolidated financial statements and notes do not contain certain information included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 included elsewhere in this information statement.

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items" that represent certain amounts that are reported as components of stockholders' 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 (Note 6). During the first quarter of 2001 and 2000, the Company had comprehensive income of \$4,034,000 and \$1,644,000, respectively.

3. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended	
	March 31, 2001	April 1, 2000
	(In thousands except per share amounts)	
Basic		
Income Before Cumulative Effect of Change in Accounting Principle.....	\$3,129	\$3,560
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580).....	--	(870)
Net Income.....	\$3,129	\$2,690
Weighted Average Shares.....	12,277	12,249
Basic Earnings per Share:		
Income Before Cumulative Effect of Change in Accounting Principle.....	\$.25	\$.29
Change in Accounting Principle.....	--	(.07)
	\$.25	\$.22
	=====	=====

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Unaudited)

	Three Months Ended	
	March 31, 2001	April 1, 2000
	(In thousands except per share amounts)	
Diluted		
Income Before Cumulative Effect of Change in Accounting Principle.....	\$3,129	\$3,560
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580).....	--	(870)
Net Income.....	\$3,129	\$2,690
Effect of Majority-owned Subsidiary's Dilutive Securities....	--	(4)
Income Available to Common Stockholders, as Adjusted.....	\$3,129	\$2,686
Weighted Average Shares.....	12,277	12,249
Effect of Stock Options.....	13	70
Weighted Average Shares, as Adjusted.....	12,290	12,319
Diluted Earnings per Share:		

Income Before Cumulative Effect of Change in Accounting Principle.....	\$.25	\$.29
Change in Accounting Principle.....	--	(.07)
	-----	-----
	\$.25	\$.22
	=====	=====

Options to purchase 430,400 and 177,800 shares of common stock for the first quarter of 2001 and 2000, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would be antidilutive.

In addition, the computation of diluted earnings per share for each period excludes the effect of assuming the conversion of the Company's \$153,000,000 principal amount of 4 1/2% subordinated convertible debentures, convertible at \$60.50 per share, because the effect would be antidilutive.

4. Business Segment Information

Three Months Ended	

March 31,	April 1,
2001	2000

(In thousands)	

Revenues:

Pulp and Papermaking Equipment and Systems.....	\$ 55,987	\$ 55,197
Composite and Fiber-based Products (a).....	2,913	2,733
Intersegment sales elimination (b).....	--	(8)
	-----	-----
	\$ 58,900	\$ 57,922
	=====	=====

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Unaudited)

Three Months Ended	

March 31,	April 1,
2001	2000

(In thousands)	

Income Before Provision for Income Taxes, Minority Interest, and

Cumulative Effect of Change in Accounting Principle:

Pulp and Papermaking Equipment and Systems.....	\$6,979	\$6,885
Composite and Fiber-based Products (a).....	(983)	(303)
Corporate (c).....	(940)	(961)
	-----	-----
Total Operating Income.....	5,056	5,621
Interest Income, Net.....	268	613
	-----	-----
	\$5,324	\$6,234
	=====	=====

- (a) Reflects the sale of the Company's fiber-recovery and water-clarification services plant in September 2000.
- (b) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
- (c) Primarily general and administrative expenses.

5. Acquisition of Composites Venture Minority Interest

In January 2001, the Company's Thermo Fibergen subsidiary acquired the outstanding 49% equity interest in NEXT Fiber Products, Inc. from the minority investors (the seller). Next Fiber Products was a joint venture formed in 1999 to develop, produce and market fiber-based composite products primarily for the building industry. In exchange for the 49% minority interest, Thermo Fibergen agreed to forgive \$2,053,000 due from the seller, which related to the seller's investment in NEXT Fiber Products. The excess of assigned fair value of net assets acquired from the buyout over the acquisition costs resulted in a reduction in the intangible asset recorded at the time of Thermo Fibergen's initial investment in NEXT Fiber Products.

6. Recent Accounting Pronouncement

Effective in the first quarter of 2001, the Company adopted Statement of Financial Accounting Standards (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 through 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 recognized in other comprehensive income until the hedged item is recognized in earnings. The Company records in 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.

Forward currency exchange contracts are used primarily by the Company to hedge certain operational ("cash-flow" hedges) and balance sheet ("fair value" hedges) exposures resulting from changes 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 enters into these currency exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business, and accordingly, the hedges are

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Unaudited)

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 accrued expenses 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 income 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.

7. Proposed Spin Off

On January 31, 2000, Thermo Electron announced that, as part of a major reorganization plan, it plans to spin off its equity interest in the Company as a dividend to Thermo Electron stockholders. In February 2001, Thermo Electron received a favorable ruling from the Internal Revenue Service regarding the spin off. The IRS required that the Company raise additional equity capital in a public offering within one year of the spin off. The Company plans to issue equity in the range of 10 to 20 percent of its outstanding shares to support

its current business plan, which includes the repayment of debt, acquisitions, strategic partnerships, and investment in additional capacity for its composites business. Thermo Electron has stated that it expects to complete the spin off in the summer of 2001. The spin off will require Thermo Electron Board of Director actions and the satisfaction of other customary conditions. Following the spin off, Thermo Electron will continue to guarantee, in each case on a subordinated basis, the Company's \$153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004 and Thermo Fibergen's remaining obligation under its redemption rights. Also in connection with the spin off, the Company expects to agree with Thermo Electron to certain restrictions regarding the Company's use of cash and incurrence of debt while such debentures and guarantee remain outstanding.

8. Subsequent Events

On May 15, 2001, at the Annual Meeting of the Company's Stockholders, the stockholders voted to approve a one-for-five reverse stock split and a change of the Company name to Kadant Inc., which were effective as of July 12, 2001. All share and per share information has been restated to reflect the reverse stock split.

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KADANT INC.

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheet of Kadant Inc. (formerly, Thermo Fibertek Inc.; Note 18, a Delaware corporation and 91%-owned subsidiary of Thermo Electron Corporation) and subsidiaries as of December 30, 2000 and January 1, 2000, and the related consolidated statements of income, comprehensive income and stockholders' investment, and cash flows for each of the three years in the period ended December 30, 2000. 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 30, 2000 and January 1, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Notes 1 and 16 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 12, 2001 (except for the matters discussed
in Note 18, as to which the date is July 12, 2001)

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KADANT INC.

Consolidated Balance Sheet

	2000	1999
	-----	-----
	(In thousands except share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents.....	\$ 62,461	\$ 39,254
Advance to affiliate.....	5,704	93,780
Available-for-sale investments, at quoted market value (amortized cost of \$86,104 and \$46,470; Note 2).....	86,137	46,405
Accounts receivable, less allowances of \$2,182 and \$1,659.....	43,866	49,323
Unbilled contract costs and fees.....	8,029	9,570
Inventories.....	33,077	28,907
Deferred tax asset (Note 7).....	8,879	4,896
Other current assets (Notes 3 and 4).....	3,625	1,034
	-----	-----
	251,778	273,169
	-----	-----
Property, Plant, and Equipment, at Cost, Net (Notes 3 and 4).....	29,582	30,494
Other Assets (Notes 4 and 5).....	13,755	17,044
Goodwill (Note 4).....	119,100	121,870
	-----	-----
	\$414,215	\$442,577
	=====	=====
Liabilities and Stockholders' Investment		
Current Liabilities:		
Current maturities of long-term obligations (Notes 4 and 8).....	\$ 562	\$ 380
Accounts payable.....	21,921	21,957
Accrued payroll and employee benefits.....	7,727	8,659
Customer deposits.....	7,076	3,242
Accrued warranty costs.....	5,666	5,005
Billings in excess of contract costs and fees.....	1,241	4,730
Other accrued expenses (Notes 3 and 11).....	16,178	20,322
Common stock of subsidiary subject to redemption (\$17,026 and \$49,788 redemption value; Notes 1 and 12).....	17,026	49,160
Due to parent company and affiliated companies.....	1,284	1,003
	-----	-----
	78,681	114,458
	-----	-----
Deferred Income Taxes and Other Deferred Items (Note 7)....	8,042	6,365
Long-term Obligations:		
Subordinated convertible debentures (Notes 8 and 12)....	153,000	153,000
Notes payable (Notes 4 and 8).....	1,650	1,350
	-----	-----
	154,650	154,350
	-----	-----
Minority Interest (Note 3).....	2,209	3,334
Commitments and Contingencies (Note 10)		
Stockholders' Investment (Notes 5 and 6):		
Common stock, \$.01 par value, 150,000,000 shares authorized; 12,732,455 and 12,707,511 shares issued (Note 18).....	127	127
Capital in excess of par value.....	77,231	77,919
Retained earnings.....	133,522	118,380
Treasury stock at cost, 455,146 and 465,504 shares (Note 18).....	(20,758)	(21,239)
Deferred compensation.....	(36)	(66)
Accumulated other comprehensive items (Note 15).....	(19,453)	(11,051)
	-----	-----
	170,633	164,070
	-----	-----
	\$414,215	\$442,577
	=====	=====

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

KADANT INC.

Consolidated Statement of Income

	2000	1999	1998
	-----	-----	-----
	(In thousands	except per share amounts)	
Revenues (Notes 13 and 16).....	\$ 234,913	\$ 228,036	\$ 247,426
Costs and Operating Expenses:			
Cost of revenues.....	145,111	134,893	147,262
Selling, general, and administrative expenses (Note 9).....	60,901	61,345	63,381
Research and development expenses.....	7,687	7,278	6,971
Gain on sale of business (Note 4) and property.....	(1,700)	(11,154)	(536)
Restructuring and unusual items (Note 11).....	(506)	6,152	--
	-----	-----	-----
	211,493	198,514	217,078
Operating Income.....	23,420	29,522	30,348
Interest Income.....	10,466	8,478	7,956
Interest Expense (Note 8).....	(7,503)	(7,449)	(7,408)
	-----	-----	-----
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle.....	26,383	30,551	30,896
Provision for Income Taxes (Note 7).....	(10,947)	(11,852)	(11,902)
Minority Interest Income (Expense).....	576	(921)	(999)
	-----	-----	-----
Income Before Cumulative Effect of Change in Accounting Principle.....	16,012	17,778	17,995
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580; Note 16).....	(870)	--	--
	-----	-----	-----
Net Income.....	\$ 15,142	\$ 17,778	\$ 17,995
	=====	=====	=====
Earnings per Share Before Cumulative Effect of Change in Accounting Principle (Notes 14 and 18)			
Basic.....	\$ 1.31	\$ 1.45	\$ 1.46
	=====	=====	=====
Diluted.....	\$ 1.30	\$ 1.44	\$ 1.44
	=====	=====	=====
Earnings per Share (Notes 14 and 18)			
Basic.....	\$ 1.24	\$ 1.45	\$ 1.46
	=====	=====	=====
Diluted.....	\$ 1.23	\$ 1.44	\$ 1.44
	=====	=====	=====
Weighted Average Shares (Notes 14 and 18)			
Basic.....	12,260	12,237	12,322
	=====	=====	=====
Diluted.....	12,298	12,312	12,471
	=====	=====	=====

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

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KADANT INC.

Consolidated Statement of Cash Flow

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Operating Activities			
Net income.....	\$ 15,142	\$17,778	\$ 17,995
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net of income taxes (Note 16).....	870	--	--
Depreciation and amortization.....	9,540	8,928	8,492
Provision for losses on accounts receivable.....	1,197	234	248
Minority interest (income) expense.....	(576)	921	999
Gain on sale of business (Note 4) and property... Noncash restructuring and unusual items (Note 11).....	(1,700)	(11,154)	(536)
Deferred income tax expense.....	(506)	3,239	--
Other noncash items.....	108	1,572	2,090
Changes in current accounts, excluding the effects of acquisitions and dispositions:	(246)	(105)	314
Accounts receivable.....	1,021	(4,448)	3,702
Inventories and unbilled contract costs and fees.....	(1,436)	(7,445)	3,277
Other current assets.....	(3,791)	448	836
Accounts payable.....	1,049	3,039	(5,787)
Other current liabilities.....	(2,234)	4,198	307
Net cash provided by operating activities.....	18,438	17,205	31,937
Investing Activities			
Acquisitions, net of cash acquired (Note 4).....	(3,302)	(2,607)	(964)
Acquisition of capital equipment and technology (Note 3).....	(1,200)	(500)	--
Proceeds from sale of business and property, net of cash divested (Note 4).....	4,109	13,592	--
Advances to affiliate, net.....	88,076	(93,780)	--
Purchases of available-for-sale investments.....	(132,058)	(61,825)	(70,882)
Proceeds from maturities of available-for-sale investments.....	92,424	63,565	51,470
Proceeds from sale of available-for-sale investments.....	--	--	7,730
Purchases of property, plant, and equipment.....	(6,355)	(3,903)	(7,773)
Proceeds from sale of property, plant, and equipment.....	252	414	1,586
Advances under notes receivable (Note 4).....	--	--	(2,910)
Proceeds from repayment of notes receivable (Note 4).....	800	--	1,250
Refund of acquisition purchase price (Note 4).....	--	377	--
Other.....	(295)	(160)	(458)
Net cash provided by (used in) investing activities.....	42,451	(84,827)	(20,951)
Financing Activities			
Redemption of subsidiary common stock (Note 1)....	(34,603)	--	--
Purchases of Company and subsidiary common stock..	--	(5,804)	(6,598)
Purchases of subsidiary common stock from Thermo Electron.....	--	(2,227)	--
Net proceeds from issuance of Company and subsidiary common stock (Note 1).....	1,204	551	405
Repayment of long-term obligations.....	(313)	--	--
Net cash used in financing activities.....	(33,712)	(7,480)	(6,193)

Exchange Rate Effect on Cash.....	(3,970)	(1,116)	(969)
Increase (Decrease) in Cash and Cash Equivalents..	23,207	(76,218)	3,824
Cash and Cash Equivalents at Beginning of Year....	39,254	115,472	111,648
Cash and Cash Equivalents at End of Year.....	\$ 62,461	\$39,254	\$115,472
Cash Paid For			
Interest.....	\$ 7,041	\$ 6,913	\$ 6,917
Income taxes.....	\$ 11,779	\$ 6,559	\$ 5,431
Noncash Activities (Notes 3 and 4)			
Fair value of assets of acquired companies, capital equipment, and technology.....	\$ 6,345	\$10,135	\$ 1,161
Cash paid for acquired companies, capital equipment, and technology.....	(3,889)	(3,160)	(964)
Payable for acquired companies, capital equipment, and technology.....	(795)	(3,430)	--
Equity interest in subsidiary transferred for capital equipment and technology.....	--	(3,075)	--
Liabilities assumed of acquired companies.....	\$ 1,661	\$ 470	\$ 197

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

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KADANT INC.

Consolidated Statement of Comprehensive Income and Stockholders' Investment

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Comprehensive Income			
Net Income.....	\$ 15,142	\$ 17,778	\$ 17,995
Other Comprehensive Items (Note 15):			
Foreign currency translation adjustment.....	(8,465)	(3,279)	(185)
Unrealized gain (loss) on available-for-sale investments, net of taxes and reclassification adjustment.....	63	(39)	(32)
	(8,402)	(3,318)	(217)
	\$ 6,740	\$ 14,460	\$ 17,778
	=====	=====	=====
Stockholders' Investment			
Common Stock, \$.01 Par Value:			
Balance at beginning of year.....	\$ 127	\$ 127	\$ 127
Activity under employees' and directors' stock plans.....	--	--	--
Balance at end of year.....	127	127	127
Capital in Excess of Par Value:			
Balance at beginning of year.....	77,919	79,238	82,371
Activity under employees' and directors' stock plans.....	167	(1,915)	(4,400)
Tax benefit related to employees' and directors' stock plans.....	512	513	1,267
Effect of majority-owned subsidiary's equity transactions.....	(1,367)	83	--
Balance at end of year.....	77,231	77,919	79,238
Retained Earnings:			
Balance at beginning of year.....	118,380	100,602	82,607
Net income.....	15,142	17,778	17,995

Balance at end of year.....	133,522	118,380	100,602
Treasury Stock:			
Balance at beginning of year.....	(21,239)	(21,286)	(19,494)
Purchases of Company common stock.....	--	(2,511)	(6,598)
Activity under employees' and directors' stock plans.....	481	2,558	4,806
Balance at end of year.....	(20,758)	(21,239)	(21,286)
Deferred Compensation:			
Balance at beginning of year.....	(66)	--	--
Issuance of restricted stock under employees' stock plans (Note 5).....	--	(91)	--
Amortization of deferred compensation.....	30	25	--
Balance at end of year.....	(36)	(66)	--
Accumulated Other Comprehensive Items (Note 15):			
Balance at beginning of year.....	(11,051)	(7,733)	(7,516)
Other comprehensive items.....	(8,402)	(3,318)	(217)
Balance at end of year.....	(19,453)	(11,051)	(7,733)
	\$170,633	\$164,070	\$150,948
	=====	=====	=====

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

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kadant Inc. (the Company, formerly Thermo Fibertek Inc.; Note 18) 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 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. The Company's Thermo Fibergen Inc. subsidiary comprises the Composite and Fiber-based Products segment and develops, manufactures, and markets fiber-based composite products for the building industry. In addition, Thermo Fibergen also develops and commercializes products derived from cellulose fiber.

Relationship with Thermo Electron Corporation

The Company was incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron. As of December 30, 2000, Thermo Electron owned 11,125,496 shares of the Company's common stock, representing 91% of such stock outstanding.

On January 31, 2000, Thermo Electron announced that, as part of a major reorganization plan, it plans to spin off its equity interest in the Company as a dividend to Thermo Electron stockholders. In February 2001, Thermo Electron received a favorable ruling from the Internal Revenue Service regarding the spin off. The IRS required that the Company raise additional equity capital in a public offering within one year of the spin off. The Company plans to issue equity in the range of 10 to 20 percent of its outstanding shares to support its current business plan, which includes the repayment of debt, acquisitions, strategic partnerships, and investment in additional capacity for its

composites business. Thermo Electron has announced that it expects to distribute the Thermo Fibertek dividend in the second half of 2001. The spin off will require Thermo Electron Board of Director actions and other customary conditions. Following the spin off, Thermo Electron will continue to guarantee, in each case on a subordinated basis, the Company's \$153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004 and Thermo Fiberger's remaining obligation under its redemption rights.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, its 91%-owned public subsidiary Thermo Fiberger, and its 95%-owned Fiberprep, Inc. subsidiary. 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 2000, 1999, and 1998 are for the fiscal years ended December 30, 2000, January 1, 2000, and January 2, 1999, respectively. The Company's E. & M. Lamort, S.A. subsidiary, based in France, has a fiscal year ending on November 30 to allow sufficient time for the Company to receive their financial statements.

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Revenue Recognition

Prior to 2000, the Company generally recognized revenues upon shipment of its products. During the fourth quarter of 2000, effective as of 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, revenues for products that are sold subject to customer acceptance provisions for which compliance with those provisions cannot be demonstrated until a point in time subsequent to delivery are recognized upon customer acceptance. Revenues for products that are sold subject to installation for which the installation is essential to functionality or not deemed inconsequential or perfunctory are recognized upon completion of installation. Revenues for products where installation is not essential to functionality, and is deemed inconsequential, or perfunctory, are recognized upon shipment with estimated installation costs accrued (Note 16). The Company provides a reserve for its estimate of warranty and installation costs at the time revenue is recognized.

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 \$43,440,000 in 2000, \$40,689,000 in 1999, and \$45,114,000 in 1998. The percentage of completion is determined by relating the actual costs incurred to date to management's 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 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.

Stock-based Compensation Plans

The Company applies Accounting Principles Board Opinion (APB) 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 stockholders' investment.

Income Taxes

The Company and Thermo Electron have a tax allocation agreement under which the Company and its subsidiaries, exclusive of its foreign operations, its Fiberprep subsidiary, and Thermo Fibergen's NEXT Fiber Products subsidiary, are included in the consolidated federal and certain state income tax returns filed by Thermo Electron. The agreement provides that in years in which these entities have taxable income, the Company will pay to Thermo Electron amounts comparable to the taxes it would have paid if the Company had filed separate tax returns. If Thermo Electron's equity ownership of the Company were to drop below 80%, the Company would be required to file its own federal income tax returns. Prior to Thermo Fibergen's September 2000 redemption of common stock (Note 1), the Company's ownership of outstanding shares of Thermo Fibergen's common stock was less than 80% and Thermo Fibergen filed its own income tax return.

In accordance with Statement of Financial Accounting Standards (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.

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(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 be antidilutive, diluted earnings per share have been computed assuming the conversion of the Company's convertible obligations and the elimination of the related interest expense, and the exercise of stock options, as well as their related income tax effects.

Cash and Cash Equivalents

The Company, along with certain European-based subsidiaries of Thermo Electron, participates in a notional pool arrangement in the United Kingdom with Barclays Bank. Under this arrangement, Barclays notionally combines the positive and negative cash balances held by the participants to calculate the net interest yield/expense for the group. The benefit derived from this arrangement is then allocated based on balances attributable to the respective participants. Thermo Electron guarantees all of the obligations of each participant in this arrangement. The Company has access to a \$1,637,000 line of credit under this arrangement. At year-end 2000 and 1999, the Company had invested \$10,356,000 and \$6,732,000, respectively, under this arrangement. In connection with the spin off from Thermo Electron, this arrangement will cease.

At year-end 2000 and 1999, the Company's cash equivalents included investments in commercial paper, U.S. government-agency and U.S. Treasury securities, corporate notes, money market funds, and other marketable securities of the Company's foreign subsidiaries, which had original maturities of three months or less. Cash equivalents are carried at cost, which approximates market value.

Advance to Affiliate

From June 1999 to August 2000, the Company participated in a new domestic cash management arrangement with Thermo Electron. Under the arrangement, amounts advanced to Thermo Electron by the Company for domestic cash management purposes earned interest at the 30-day Dealer Commercial Paper Rate plus 50 basis points, set at the beginning of each month. Thermo Electron was contractually required to maintain cash, cash equivalents, and/or immediately available bank lines of credit equal to at least 50% of all funds invested under this cash management arrangement by all Thermo Electron subsidiaries other than wholly owned subsidiaries. The Company had the contractual right to withdraw its funds invested in the cash management arrangement upon 30 days' prior notice. Effective August 2000, the Company no longer participates in the

domestic cash management arrangement.

In addition, one of the Company's European-based subsidiaries continues to participate in a cash management arrangement with a wholly owned subsidiary of Thermo Electron on terms similar to the domestic cash management arrangement. In connection with the spin off from Thermo Electron, this arrangement will cease.

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:

	2000	1999
	-----	-----
	(In thousands)	
Raw Materials and Supplies.....	\$13,218	\$12,088
Work in Process.....	4,825	6,122
Finished Goods (includes \$3,765 at customer locations in 2000).....	15,034	10,697
	-----	-----
	\$33,077	\$28,907
	=====	=====

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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.

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: fiber-recovery and water-clarification facility, the shorter of the term of the service contract or the life of the asset; buildings, 15 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:

	2000	1999
	-----	-----
	(In thousands)	
Land.....	\$ 2,756	\$ 2,886
Fiber-recovery and Water-clarification Facility.....	--	3,573
Buildings.....	19,472	19,676
Machinery, Equipment, and Leasehold Improvements.....	45,418	41,669
	-----	-----
	67,646	67,804
Less: Accumulated Depreciation and Amortization.....	38,064	37,310
	-----	-----
	\$29,582	\$30,494
	=====	=====

Other Assets

Other assets in the accompanying balance sheet includes intangible assets,

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. The aggregate carrying value of these assets is \$9,594,000 and \$10,676,000, net of accumulated amortization of \$2,542,000 and \$1,328,000 at year-end 2000 and 1999, respectively.

Goodwill

Goodwill is amortized using the straight-line method principally over 40 years. Accumulated amortization was \$16,105,000 and \$12,642,000 at year-end 2000 and 1999, respectively. The Company assesses the future useful life of this asset and other noncurrent assets whenever events or changes in circumstances indicate that the current useful life has diminished. Such events or circumstances generally would include the occurrence of operating losses or a significant decline in earnings associated with the acquired business or asset. The Company considers the future undiscounted cash flows of the acquired companies in assessing the recoverability of this asset. The Company assesses cash flows before interest charges and when impairment is indicated, writes the asset down to fair value. If quoted market values are not available, the Company estimates fair value by calculating the present value of future cash flows. If impairment has occurred, any excess of carrying value over fair value is recorded as a loss.

Common Stock of Subsidiary Subject to Redemption

In September 1996, Thermo Fibergen sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at \$12.75 per unit for net

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

proceeds of \$55,781,000. The common stock and redemption rights subsequently began trading separately. During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of \$12.75 per share, for a total of \$34,603,000. Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at \$12.75 per share in September 2001, the second and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at that time. As of December 30, 2000, there were 2,001,049 redemption rights outstanding and 1,075,749 shares of Thermo Fibergen's common stock held by persons other than the Company or Thermo Electron. In addition, Thermo Electron, the Company and/or Thermo Fibergen may acquire shares of Thermo Fibergen's common stock in the open market. To the extent the number of redemption rights exceeds the number of shares of common stock held by persons other than Thermo Electron or the Company, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of \$12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than Thermo Electron or the Company at the time of the redemption. The redemption rights carry terms that generally provide for their expiration if the closing price of Thermo Fibergen's common stock exceeds \$19 1/8 for 20 of any 30 consecutive trading days prior to September 2001. The difference between the redemption value and the original carrying amount of common stock of subsidiary subject to redemption was accreted over the period ending September 2000, which corresponded with the first redemption period. The accretion was charged to minority interest expense in the accompanying statement of income. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee. In addition, the Company has agreed to lend Thermo Fibergen up to \$5 million on commercially reasonable terms for the September 2001 redemption obligation and for working capital needs.

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 stockholders' investment (Note 15). 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

The Company uses short-term forward foreign exchange contracts to manage certain exposures to foreign currencies. The Company enters into forward contracts to hedge firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. These contracts principally hedge transactions denominated in U.S. dollars, French francs, and Canadian dollars. The purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. Gains and losses arising from forward foreign exchange contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. The Company does not enter into speculative foreign currency agreements.

Recent Accounting Pronouncement

During 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133, as amended, requires that all derivatives,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Changes in fair value of derivatives that are not hedges must be recorded through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in fair value of the derivative are either completely or partially offset by the change in fair value of the hedged items through earnings or for anticipated transactions recognized in other comprehensive income until the hedged item is recognized in earnings. The Company is required to adopt SFAS No. 133 in 2001. The Company does not expect the adoption of SFAS No. 133 will materially affect its financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

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 stockholders' investment. The aggregate market value, cost basis, and gross unrealized gains and losses of available-for-sale investments by major security type are as follows:

Market Value	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses
-----	-----	-----	-----
(In thousands)			

Government-agency Securities.....	\$28,541	\$28,531	\$ 10	\$ --
Corporate Bonds.....	57,596	57,573	23	--
	-----	-----	----	----
	\$86,137	\$86,104	\$ 33	\$ --
	=====	=====	=====	=====
1999				
Government-agency Securities.....	\$46,074	\$46,139	\$ --	\$(65)
Other.....	331	331	--	--
	-----	-----	----	----
	\$46,405	\$46,470	\$ --	\$(65)
	=====	=====	=====	=====

Available-for-sale investments in the accompanying 2000 balance sheet have contractual maturities of one year or less. Actual maturities may differ from contractual maturities as a result of the Company's intent to sell these securities prior to maturity and as a result of put and call features of the securities that enable either the Company, the issuer, or both to redeem these securities at an earlier date.

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.

3. Composites Venture

In October 1999, Thermo Fibergen created a subsidiary, NEXT Fiber Products Inc., to develop, produce, and market fiber-based composites primarily for the building industry, used for applications such as soundwalls,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

decking, privacy fencing, and siding. Thermo Fibergen capitalized NEXT Fiber Products with \$3,200,000 in cash. NEXT Fiber Products 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 \$2,200,000 in cash, payable in installments, if certain conditions are met. Thermo Fibergen paid \$1,200,000 and \$500,000 of the purchase price in 2000 and 1999, respectively. The \$500,000 remaining obligation is expected to be paid in 2001 and is included in other accrued liabilities in the accompanying 2000 balance sheet. In January 2001, Thermo Fibergen acquired the remaining 49% equity interest in NEXT Fiber Products. In exchange for the 49% equity interest, Thermo Fibergen agreed to forgive certain amounts due from the seller related to the seller's investment in NEXT Fiber Products prior to the purchase of the remaining 49% equity interest.

Thermo Fibergen constructed a composites manufacturing facility in Green Bay, Wisconsin, and began limited production at such facility in 2000.

4. Acquisitions and Dispositions

Acquisitions

In June 2000, the Company acquired Cyclotech AB-Stockholm, a Swedish manufacturer of stock-preparation equipment, for \$637,000 in cash, subject to a post-closing adjustment. Of the total purchase price, \$478,000 was paid at closing and the remaining \$159,000, which is included in other accrued expenses in the accompanying 2000 balance sheet, will be paid one year from the date of acquisition. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by \$578,000, which is being amortized over 40 years.

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 stockholder, 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, which is being amortized over 40 years.

In May 1999, the Company acquired the outstanding stock of Arcline Products,

Inc., a manufacturer of shower and doctor oscillation systems, for \$2,660,000 in cash and \$2,000,000 payable over five years (Note 8). The cost of this acquisition approximated the fair value of the net assets acquired.

In July 1998, the Company acquired Goslin Birmingham Inc., a division of Green Bay Packaging Inc., for \$1,296,000 in cash. During 1999, the Company received a post-closing purchase price adjustment of \$377,000 related to this acquisition. The Company recorded this amount as a reduction of goodwill. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by \$860,000 and is being amortized over 40 years. Goslin manufactures evaporators and recausticizing systems that concentrate and recycle process chemicals used during pulping, and products that remove condensate gases.

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 and, for the 2000 acquisitions, is subject to adjustment upon finalization of the purchase price allocations. To date, no information has been gathered that would cause the Company to believe that the final allocation of the purchase price will be materially different from the preliminary estimates. Pro forma results have not been presented, as the results of the acquired businesses were not material to the Company's results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In connection with these acquisitions, the Company has undertaken restructuring activities at the acquired businesses. The Company's restructuring activities, which were accounted for in accordance with Emerging Issues Task Force Pronouncement (EITF) 95-3, primarily have included reductions in staffing levels. In connection with these restructuring activities, as part of the cost of acquisitions, the Company established reserves, primarily for severance and acquired overmarket leases. In accordance with EITF 95-3, the Company finalized its restructuring plans no later than one year from the respective dates of the acquisitions.

A summary of the changes in accrued acquisition expenses follows:

	Abandoned Facilities	Severance		
	Thermo Black Clawson	Thermo Black Clawson	Goslin	Total
	-----	-----	-----	-----
	(In thousands)			
Balance at January 3, 1998.....	\$ 47	\$ --	\$ 515	\$ 562
Reserves established.....	--	80	--	80
Usage.....	(47)	--	(227)	(274)
Decrease due to finalization of restructuring plan, recorded as a decrease to goodwill.....	--	--	(219)	(219)
	----	----	----	----
Balance at January 2, 1999.....	--	80	69	149
Usage.....	--	--	(69)	(69)
Decrease due to finalization of restructuring plan, recorded as a decrease to goodwill.....	--	(80)	--	(80)
	----	----	----	----
Balance at January 1, 2000.....	\$ --	\$ --	\$ --	\$ --
	=====	=====	=====	=====

Dispositions

In September 2000, Thermo Fibergeren 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 seventeen monthly payments of \$200,000, plus interest at 9.5%, beginning September 28, 2000. The note receivable is secured by an irrevocable letter of credit. Thermo Fibergeren recognized a pre-tax gain of \$729,000 on the sale.

During 1996, the Company loaned \$6,000,000 to Tree-Free Fiber Company, LLC in connection with a proposed engineering, procurement, and construction project. This project was delayed due to weakness in pulp prices, and did not proceed as a result of Tree-Free's insolvency. Tree-Free was unable to repay the note upon its original maturity. The note and loans by another lender were secured by liens on a tissue mill in Maine and related assets. In December 1997, the Superior Court of Maine appointed a receiver to preserve and protect the collateral for the loans made by the Company and other lenders to Tree-Free. In May 1998, the Company purchased an assignment of Tree-Free's secured indebtedness to another lender for \$2,910,000. In June 1998, the Company conducted a foreclosure sale of the tissue mill, at which it was the successful bidder, and executed a purchase and sale agreement. In October 1998, the stock of a mill located in Mexico, which had also secured the note, was sold and the proceeds of \$1,250,000 were paid to the Company and recorded as a reduction of the carrying value of the note. During the second quarter of 1999, the Company entered into a nonbinding letter of intent with a third party to dispose of this asset for an amount in excess of the carrying value. During the third quarter of 1999, the third party elected to not proceed with the transaction. Accordingly, the Company recorded a \$2,834,000 write-down to reflect the asset at its then-estimated recoverable value. The Company had previously recorded impairment on this note of \$200,000 in the first quarter of 1999 (Note 11).

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In December 1999, the Company entered into a purchase and sale agreement, as amended, to sell the mill. The Company sold its interest in the mill in June 2000 for \$3,909,000 in cash, resulting in a gain of \$971,000.

In February 1999, the Company sold its Thermo Wisconsin, Inc. subsidiary for \$13,631,000 in cash, resulting in a pretax gain of \$11,154,000. The Company decided to sell Thermo Wisconsin to divest of a non-strategic, cyclical operating unit. Thermo Wisconsin, a manufacturer and marketer of dryers and pollution-control equipment, had unaudited revenues to external customers and net income in 1998 of \$18,877,000 and \$1,547,000, respectively.

5. Employee Benefit Plans

Stock-based Compensation Plans

Stock Option Plans

The Company maintains stock-based compensation plans for its key employees, directors, and others. Two of these plans permit the grant of nonqualified and incentive stock options. A third plan permits the grant of a variety of stock and stock-based awards as determined by the human resources committee of the Company's Board of Directors (the Board Committee), including restricted stock, stock options, stock bonus shares, or performance-based shares. The option recipients and the terms of options granted under these plans are determined by the Board Committee. Generally, options granted to date are exercisable immediately, but are subject to certain transfer restrictions and the right of the Company to repurchase shares issued upon exercise of the options at the exercise price, upon certain events. The restrictions and repurchase rights generally lapse ratably over a one- to ten-year period, depending on the term of the option, which may range from five to twelve years. In addition, under certain options, shares acquired upon exercise are restricted from resale until retirement or other events. Nonqualified options may be granted at any price determined by the Board Committee, although incentive stock options must be granted at not less than the fair market value of the Company's stock on the date of grant. To date, all options have been granted at fair market value. The Company also has a directors' stock option plan that provides for the grant of stock options to outside directors pursuant to a formula approved by the Company's stockholders. Options awarded under this plan are exercisable six

months after the date of grant and generally expire three or seven years after the date of grant. In addition to the Company's stock-based compensation plans, certain officers and key employees may also participate in the stock-based compensation plans of Thermo Electron.

In November 1998, the Company's employees, excluding its officers and directors, were offered the opportunity to exchange previously granted options to purchase shares of Company common stock for an amount of options equal to half of the number of options previously held, exercisable at a price equal to the fair market value at the time of the exchange offer. Holders of options to acquire 138,000 shares at a weighted average exercise price of \$53.40 per share elected to participate in this exchange and, as a result, received options to purchase 69,000 shares of Company common stock at \$28.15 per share, which are included in the 1998 grants in the table below. The other terms of the new options are the same as the exchanged options except that the holders were not able to sell shares purchased pursuant to such new options for six months from the exchange date. The options exchanged were canceled by the Company.

In January 1999, the Company awarded 2,380 shares of restricted Company common stock to certain key employees. The shares had an aggregate value of \$91,000 and vest three years from the date of award, assuming continued employment, with certain exceptions. The Company has recorded the fair value of the restricted stock as deferred compensation in the accompanying balance sheet and is amortizing such amount over the vesting period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

A summary of the Company's stock option activity is as follows:

	2000		1999		1998	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
	(Shares in thousands)					
Options Outstanding, Beginning of Year.....	611	\$32.85	698	\$30.00	798	\$31.20
Granted.....	1	33.30	32	36.50	191	34.10
Exercised.....	(30)	18.90	(108)	15.40	(129)	15.55
Forfeited.....	(47)	30.65	(11)	32.75	(24)	46.15
Canceled due to exchange....	--	--	--	--	(138)	53.40
	---		----		----	
Options Outstanding, End of Year.....	535	\$33.85	611	\$32.85	698	\$30.00
	===	=====	=====	=====	=====	=====
Options Exercisable.....	535	\$33.85	611	\$32.85	697	\$30.00
	===	=====	=====	=====	=====	=====
Options Available for Grant...	313		266		290	
	===		=====		=====	

A summary of the status of the Company's stock options at December 30, 2000, is as follows:

	Options Outstanding and Exercisable		
	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Range of Exercise Prices	(In thousands)		

\$15.00--\$29.15.....	210	2.6 years	\$21.90
29.20-- 43.35.....	216	4.2 years	33.75
43.40-- 57.55.....	103	5.7 years	56.10
57.60-- 71.75.....	6	7.1 years	71.60

\$15.00--\$71.75.....	535	3.9 years	\$33.85
	===		

Employee Stock Purchase Program

Substantially all of the Company's full-time U.S. employees are eligible to participate in an employee stock purchase program sponsored by the Company. Under this program, shares of the Company's and, prior to November 2000, shares of Thermo Electron's common stock may be purchased at 85% of the lower of the fair market value at the beginning or end of the period, and the shares purchased are subject to a one-year resale restriction. Effective November 2000, employees may no longer purchase shares of Thermo Electron under this program. During 2000 and 1999, the Company issued 6,304 and 3,600 shares, respectively, of its common stock under this program. No shares of the Company's common stock were issued under this program during 1998.

Pro Forma Stock-based Compensation Expense

In October 1995, the FASB issued 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. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

forth under SFAS No. 123, the effect on the Company's net income and earnings per share would have been as follows:

	2000	1999	1998
	-----	-----	-----
	(In thousands except per share amounts)		
Net Income:			
As reported.....	\$15,142	\$17,778	\$17,995
Pro forma.....	14,198	16,265	16,668
Basic Earnings per Share:			
As reported.....	1.24	1.45	1.46
Pro forma.....	1.16	1.33	1.35
Diluted Earnings per Share:			
As reported.....	1.23	1.44	1.44
Pro forma.....	1.15	1.32	1.34

Because the method prescribed by SFAS No. 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation expense may not be representative of the amount to be expected in future years. Pro forma compensation expense for options granted is reflected over the vesting period; therefore, future pro forma compensation expense may be greater as additional options are granted.

The weighted average fair value per share of options granted was \$5.50, \$13.45, and \$11.60 in 2000, 1999, and 1998, respectively. The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2000	1999	1998
	-----	-----	-----
Volatility.....	42%	39%	35%
Risk-free Interest Rate.....	4.9%	5.6%	4.6%
Expected Life of Options.....	1.0 years	3.8 years	4.2 years

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.

401(k) Savings Plan

Effective November 2000, the majority of the Company's domestic subsidiaries participate in the Company's 401(k) retirement savings plan and, prior to November 2000, 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. For this plan, the Company contributed and charged to expense \$803,000, \$761,000, and \$974,000 in 2000, 1999, and 1998, respectively.

Profit-sharing Plans

One of the Company's domestic subsidiaries has adopted a profit-sharing plan under which the Company annually contributes 10% of the subsidiary's net income before profit-sharing expense. All contributions are

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

immediately vested. In addition, one of the Company's foreign subsidiaries maintains a state-mandated profit-sharing plan. Under the state-mandated plan, the Company contributes 0--11% of the subsidiary's net profit after taxes reduced by 5% of its stockholders' investment. For these plans, the Company contributed and charged to expense \$812,000, \$959,000, and \$1,119,000 in 2000, 1999, and 1998, respectively.

Defined Benefit Pension Plan

One of the Company's divisions has a noncontributory defined benefit retirement plan. Benefits under the plan are based on years of service and employees' 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 includes:

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Interest Cost.....	\$ 902	\$ 823	\$ 802
Service Cost.....	496	439	421
Expected Return on Plan Assets.....	(1,884)	(1,588)	(1,375)
Amortization of Unrecognized Gain.....	(380)	(431)	(328)
	-----	-----	-----
	\$ (866)	\$ (757)	\$ (480)
	=====	=====	=====

The Company's defined benefit pension plan activity is:

	2000	1999
	-----	-----
	(In thousands)	
Change in Benefit Obligation:		
Benefit obligation, beginning of year.....	\$11,797	\$10,771
Interest cost.....	902	823
Service costs.....	496	439
Benefits paid.....	(525)	(458)
Actuarial gain.....	--	222
	-----	-----
Benefit obligation, end of year.....	12,670	11,797
	-----	-----
Change in Plan Assets:		
Fair value of plan assets, beginning of year.....	20,638	19,485
Actual return on plan assets.....	(709)	1,611
Benefits paid.....	(525)	(458)
	-----	-----
Fair value of plan assets, end of year.....	19,404	20,638
	-----	-----
Funded Status.....	6,734	8,841
Unrecognized Net Gain.....	(4,877)	(7,850)
	-----	-----
Prepaid Benefit Costs.....	\$ 1,857	\$ 991
	=====	=====

Plan assets are primarily invested in cash, cash equivalents, fixed income securities, and equity securities. Prepaid benefit costs are included in other assets in the accompanying balance sheet. The weighted average actuarial assumptions used to determine the net periodic benefit costs were: discount rate of 7.5% and rate of increase in salary levels of 5.5% in 2000, 1999, and 1998; expected long-term rate of return on assets of 9.25% in 2000 and 8.25% in 1999 and 1998.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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 \$1,195,000, \$779,000, and \$1,285,000 in 2000, 1999, and 1998, respectively.

6. Common Stock

At December 30, 2000, the Company had reserved 3,663,552 unissued shares of its common stock for possible issuance under stock-based compensation plans and for issuance upon possible conversion of the Company's subordinated convertible debentures.

7. Income Taxes

The components of income before provision for income taxes and minority interest are as follows:

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Domestic.....	\$13,914	\$21,802	\$19,751

Foreign.....	12,469	8,749	11,145
	-----	-----	-----
	\$26,383	\$30,551	\$30,896
	=====	=====	=====

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

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Currently Payable:			
Federal.....	\$ 5,594	\$ 5,870	\$ 4,491
Foreign.....	4,299	3,409	4,282
State.....	946	1,001	1,039
	-----	-----	-----
	10,839	10,280	9,812
	-----	-----	-----
Net Deferred (Prepaid):			
Federal.....	569	1,600	1,939
Foreign.....	(177)	(353)	(71)
State.....	(284)	325	222
	-----	-----	-----
	108	1,572	2,090
	-----	-----	-----
	\$10,947	\$11,852	\$11,902
	=====	=====	=====

The Company receives a tax deduction upon exercise of nonqualified stock options by employees for the difference between the exercise price and the market price of the Company's common stock on the date of exercise. The provision for income taxes that is currently payable does not reflect \$512,000, \$513,000, and \$1,267,000 of such benefits from exercises of stock options that have been allocated to capital in excess of par value in 2000, 1999, and 1998, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Provision for Income Taxes at Statutory Rate.....	\$ 9,234	\$10,693	\$10,814
Increases (Decreases) Resulting From:			
State income taxes, net of federal tax.....	577	805	820
Foreign tax rate and tax regulation differential...	(242)	(227)	310
Nondeductible expenses.....	497	253	178
Change in valuation allowance.....	174	50	203
Other.....	707	278	(423)
	-----	-----	-----
	\$10,947	\$11,852	\$11,902
	=====	=====	=====

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

	2000	1999
	-----	-----
	(In thousands)	
Deferred Tax Asset (Liability):		
Operating loss carryforwards.....	\$1,045	\$ 253
Reserves and accruals.....	4,972	3,082
Inventory basis difference.....	2,168	1,243
Accrued compensation.....	175	429
Allowance for doubtful accounts.....	361	128
Amortization of intangible assets.....	(4,839)	(3,203)
Depreciation.....	(1,360)	(980)
Other.....	(60)	(728)
	-----	-----
	2,462	224
Less: Valuation allowance.....	427	253
	-----	-----
	\$2,035	\$ (29)
	=====	=====

The valuation allowance relates primarily to uncertainty surrounding the realization of state operating loss carryforwards of \$3,900,000 and \$2,700,000 at year-end 2000 and 1999, respectively, which begin to expire in 2003. In addition, the Company has federal operating loss carryforwards of \$2,000,000 at year-end 2000, which begin to expire in 2019.

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 (such 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.

A provision has not been made for U.S. or additional foreign taxes on \$72.3 million of undistributed earnings of foreign subsidiaries that could be subject to tax if remitted to the U.S. because the Company plans to keep these amounts permanently reinvested overseas. The Company believes that any additional U.S. tax liability due upon remittance of such earnings would be immaterial due to available U.S. foreign tax credits.

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

8. Long-Term Obligations

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 as its net present value of \$795,000.

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 are convertible into shares of the Company's common stock at a conversion price of \$60.50 per share and are guaranteed on a subordinated basis by Thermo Electron.

See Note 12 for fair value information pertaining to the Company's long-term obligations.

9. Related-Party Transactions

Corporate Services Agreement

The Company and Thermo Electron have a corporate services agreement under which Thermo Electron's corporate staff provides 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 pays Thermo Electron annually an amount equal to 0.8% of the Company's revenues. For these services, the Company was charged \$1,879,000, \$1,824,000, and \$1,979,000 in 2000, 1999, and 1998, respectively. The fee is reviewed and adjusted annually by mutual agreement of the parties. Management believes that the service fee charged by Thermo Electron is reasonable and that such fees are representative of the expenses the Company would have incurred on a stand-alone basis. The corporate services agreement is renewed annually but can be terminated upon 30 days' prior notice by the Company or upon the Company's withdrawal from the Thermo Electron Corporate Charter (the Thermo Electron Corporate Charter defines the relationship among Thermo Electron and its majority-owned subsidiaries). For additional items such as employee benefit plans, insurance coverage, and other identifiable costs, Thermo Electron charges the Company based upon costs attributable to the Company.

Cash Management

The Company has, from time to time, invested excess cash in arrangements with Thermo Electron as discussed in Note 1.

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 \$2,257,000, \$1,767,000, and \$1,862,000 in 2000, 1999, and 1998, respectively. The future minimum payments due under noncancelable operating leases as of December 30, 2000, are \$935,000 in 2001; \$590,000 in 2002; \$270,000 in 2003; \$194,000 in 2004; and \$6,000 in 2005. Total future minimum lease payments are \$1,995,000.

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Contingencies

In the ordinary course of business, the Company is at times required to issue limited performance guarantees relating to its equipment and systems. The Company typically limits its liability under these guarantees to amounts that would not exceed the cost of the equipment. The Company believes that it has adequate reserves for any potential liability in connection with such guarantees.

11. Restructuring and Unusual Items

During 1999, the Company recorded restructuring costs and unusual items of \$6,152,000. Restructuring costs of \$2,257,000, which were accounted for in accordance with EITF 94-3, include severance costs of \$1,283,000 for 24 employees across all functions at the Company's E. & M. Lamort, S.A. subsidiary, all of whom were terminated as of January 1, 2000, and \$974,000 to terminate distributor agreements. These actions were taken in efforts to improve profitability and were in response to a cyclical downturn in demand at this business unit. Unusual items of \$3,895,000 include \$3,239,000 for asset write-downs, consisting of \$3,034,000 for the write-down of a note receivable secured by a tissue mill (Note 4) and \$205,000 for impairment of a building in Ohio held for disposal, which was sold in July 1999; \$526,000 for the expected settlement of a contractual dispute; and \$130,000 for facility-closure costs. During 2000, due to breach of an agreement by a third party distributor, the Company is no longer obligated to pay amounts accrued in 1999 for this matter and, therefore, reversed \$506,000 of costs.

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

	Severance	Other	Total
	-----	-----	-----
	(In thousands)		
Balance at January 3, 1998.....	\$ --	\$ 197	\$ 197
Usage.....	--	(163)	(163)
	-----	-----	-----
Balance at January 2, 1999.....	--	34	34
Provision charged to expense.....	1,283	974	2,257
Usage.....	(1,117)	(239)	(1,356)
Currency translation.....	(151)	(115)	(266)
	-----	-----	-----
Balance at January 1, 2000.....	15	654	669
Usage.....	(15)	(18)	(33)
Reversal.....	--	(506)	(506)
Currency translation.....	--	(98)	(98)
	-----	-----	-----
Balance at December 30, 2000.....	\$ --	\$ 32	\$ 32
	=====	=====	=====

The Company expects to pay the remaining accrued restructuring costs in 2001.

12. Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, advance to affiliate, available-for-sale investments, accounts receivable, current maturities of notes payable, accounts payable, common stock of subsidiary subject to redemption, due to parent company and affiliated companies, subordinated convertible debentures, notes payable, and forward foreign exchange contracts. The carrying amounts of accounts receivable, current maturities of notes payable, accounts payable, and due to parent company and affiliated companies approximate fair value due to their short-term nature.

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Available-for-sale investments 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.

The carrying amount and fair value of the Company's subordinated convertible debentures, common stock of subsidiary subject to redemption, and off-balance-sheet financial instruments are as follows:

	2000		1999	
	-----	-----	-----	-----
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	-----	-----	-----	-----
	(In thousands)			
Subordinated Convertible Debentures.....	\$153,000	\$138,312	\$153,000	\$124,710
Common Stock of Subsidiary Subject to Redemption.....	\$ 17,026	\$ 15,858	\$ 49,160	\$ 51,011
Off-balance-sheet Financial Instruments:				
Forward foreign exchange contracts payable.....		\$ 348		\$ 35

The fair value of the Company's subordinated convertible debentures and common stock of subsidiary subject to redemption was determined based on quoted market prices.

The notional amounts of forward foreign exchange contracts outstanding totaled \$12,474,000 and \$4,080,000 at year-end 2000 and 1999, 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.

13. Business Segment and Geographical Information

The Company organizes and manages its business by individual functional operating entity. The Company has combined its operating entities into three segments, one of which was sold in February 1999: Pulp and Papermaking Equipment and Systems, Dryers and Pollution-control Equipment, and Composite and Cellulose-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 designs and manufactures stock-preparation equipment, paper machine accessories, and water-management systems for the paper and paper recycling industries. 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 equipment product line were \$112,976,000, \$98,929,000, and \$107,518,000 in 2000, 1999, and 1998, respectively. Revenues from the accessories product line were \$70,306,000, \$74,839,000, and \$77,817,000 in 2000, 1999, and 1998, respectively. Revenues from the water-management product line were \$42,447,000, \$42,611,000, and \$36,908,000 in 2000, 1999, and 1998, respectively.

The Dryers and Pollution-control Equipment segment, which consisted of the Company's Thermo Wisconsin subsidiary, manufactured and marketed dryers and pollution-control equipment for the printing, papermaking, and converting industries. In February 1999, the Company sold its Thermo Wisconsin subsidiary (Note 4).

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Composite and Fiber-based Products segment consists of the Company's Thermo Fibergen subsidiary. Through its GranTek Inc. subsidiary, Thermo Fibergen employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, and cat box fillers. In addition, through its NEXT Fiber Products subsidiary (Note 3), Thermo Fibergen develops, produces, and markets fiber-based composites primarily for the building industry, used for applications such as soundwalls, decking, privacy fencing, and siding. Prior to September 2000, this segment 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. Thermo Fibergen sold this plant to the host mill in September 2000 (Note 4), although it intends to continue operating in this line of business and is pursuing other fiber-recovery projects.

	2000	1999	1998
	-----	-----	-----
	(In thousands)		

Business Segment Information

Revenues:

Pulp and Papermaking Equipment and Systems

(a).....	\$227,133	\$217,724	\$223,799
----------	-----------	-----------	-----------

Dryers and Pollution-control Equipment (b)....	--	1,802	19,513
--	----	-------	--------

Composite and Fiber-based Products (c).....	7,794	8,579	5,276
Intersegment sales elimination (d).....	(14)	(69)	(1,162)
	-----	-----	-----
	\$234,913	\$228,036	\$247,426
	=====	=====	=====
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle:			
Pulp and Papermaking Equipment and Systems			
(e).....	\$ 29,209	\$ 27,061	\$ 33,937
Dryers and Pollution-control Equipment			
(b)(f).....	--	11,609	2,736
Composite and Fiber-based Products (c)(g).....	(3,116)	(1,010)	(2,468)
Corporate (h).....	(2,673)	(8,138)	(3,857)
	-----	-----	-----
Total operating income.....	23,420	29,522	30,348
Interest income, net.....	2,963	1,029	548
	-----	-----	-----
	\$ 26,383	\$ 30,551	\$ 30,896
	=====	=====	=====
Total Assets:			
Pulp and Papermaking Equipment and Systems....	\$280,655	\$282,837	\$277,688
Dryers and Pollution-control Equipment (b)....	--	--	5,390
Composite and Fiber-based Products (c).....	38,465	72,438	71,116
Corporate (i).....	95,095	87,302	72,906
	-----	-----	-----
	\$414,215	\$442,577	\$427,100
	=====	=====	=====
Depreciation and Amortization:			
Pulp and Papermaking Equipment and Systems....	\$ 7,314	\$ 7,502	\$ 7,188
Dryers and Pollution-control Equipment (b)....	--	16	153
Composite and Fiber-based Products (c).....	2,226	1,410	1,151
	-----	-----	-----
	\$ 9,540	\$ 8,928	\$ 8,492
	=====	=====	=====
Capital Expenditures:			
Pulp and Papermaking Equipment and Systems....	\$ 2,550	\$ 2,964	\$ 3,442
Dryers and Pollution-control Equipment (b)....	--	--	197
Composite and Fiber-based Products.....	3,805	939	4,134
	-----	-----	-----
	\$ 6,355	\$ 3,903	\$ 7,773
	=====	=====	=====

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Geographical Information			
Revenues (j):			
United States.....	\$157,904	\$142,800	\$153,658
France.....	52,895	60,682	65,308
Other.....	33,427	33,477	39,636
Transfers among geographic areas (d).....	(9,313)	(8,923)	(11,176)
	-----	-----	-----
	\$234,913	\$228,036	\$247,426
	=====	=====	=====
Long-lived Assets (k):			
United States.....	\$ 22,213	\$ 23,948	\$ 27,232
France.....	3,291	4,483	5,381
Other.....	4,422	4,711	4,844
	-----	-----	-----
	\$ 29,926	\$ 33,142	\$ 37,457
	=====	=====	=====

Export Revenues Included in United States

Revenues Above (1).....	\$ 37,926	\$ 23,366	\$ 24,244
	=====	=====	=====

-
- (a) Includes intersegment sales of \$0.5 million in 1998.
 - (b) Includes intersegment sales of \$0.6 million in 1998. The Company sold this segment in February 1999.
 - (c) Reflects Thermo Fibergen's September 2000 redemption of common stock for \$34.6 million and the sale of the Company's fiber-recovery and water-clarification services plant in September 2000.
 - (d) Intersegment sales and transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.
 - (e) Includes \$0.5 million of income related to restructuring and unusual items in 2000 and \$3.1 million of restructuring and unusual costs in 1999.
 - (f) Includes \$11.2 million of gain on sale of business in 1999.
 - (g) Includes gain on sale of plant of \$0.7 million in 2000.
 - (h) Includes gain on sale of property of \$1.0 million in 2000. Includes \$3.0 million of unusual items in 1999 for the write-down of a note receivable. Also includes related carrying costs of the note receivable and underlying security of \$1.4 million and \$0.9 million in 1999 and 1998, respectively.
 - (i) Primarily available-for-sale investments.
 - (j) Revenues are attributed to countries based on selling location.
 - (k) Includes property, plant, and equipment, net, and other long-term tangible assets.
 - (l) In general, export revenues are denominated in U.S. dollars.

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

14. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

	2000	1999	1998
	-----	-----	-----
	(In thousands except per share amounts)		
Basic			
Income Before Cumulative Effect of Change in Accounting Principle.....	\$16,012	\$17,778	\$17,995
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580).....	(870)	--	--
	-----	-----	-----
Net Income.....	\$15,142	\$17,778	\$17,995
	-----	-----	-----
Weighted Average Shares.....	12,260	12,237	12,322
	-----	-----	-----
Basic Earnings per Share:			
Income Before Cumulative Effect of Change in Accounting Principle.....	\$ 1.31	\$ 1.45	\$ 1.46
Change in Accounting Principle.....	(.07)	--	--
	-----	-----	-----
	\$ 1.24	\$ 1.45	\$ 1.46
	=====	=====	=====
Diluted			
Income Before Cumulative Effect of Change in Accounting Principle.....	\$16,012	\$17,778	\$17,995
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580).....	(870)	--	--
	-----	-----	-----
Net Income.....	15,142	17,778	17,995
Effect of Majority-owned Subsidiary's Dilutive Securities.....	(7)	(48)	(33)
	-----	-----	-----
Income Available to Common Stockholders, as			

Adjusted.....	\$15,135	\$17,730	\$17,962
	-----	-----	-----
Weighted Average Shares.....	12,260	12,237	12,322
Effect of Stock Options.....	38	75	149
	-----	-----	-----
Weighted Average Shares, as Adjusted.....	12,298	12,312	12,471
	-----	-----	-----
Diluted Earnings per Share:			
Income Before Cumulative Effect of Change in			
Accounting Principle.....	\$ 1.30	\$ 1.44	\$ 1.44
Change in Accounting Principle.....	(.07)	--	--
	-----	-----	-----
	\$ 1.23	\$ 1.44	\$ 1.44
	=====	=====	=====

Options to purchase 435,800, 181,600, and 120,200 shares of common stock were not included in the computation of diluted earnings per share for 2000, 1999, and 1998, respectively, because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

In addition, the computation of diluted earnings per share excludes the effect of assuming the conversion of the Company's \$153,000,000 principal amount of 4 1/2% subordinated convertible debentures, convertible at \$60.50 per share, because the effect would be antidilutive.

15. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items," which represent certain amounts that are reported as components of stockholders' investment in the accompanying balance sheet,

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

including foreign currency translation adjustments and unrealized net of tax gains and losses on available-for-sale investments.

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

	2000	1999
	-----	-----
	(In thousands)	
Cumulative Translation Adjustment.....	\$ (19,474)	\$ (11,009)
Net Unrealized Gain (Loss) on Available-for-sale		
Investments.....	21	(42)
	-----	-----
	\$ (19,453)	\$ (11,051)
	=====	=====

16. Adoption of SAB No. 101

In December 1999, the SEC issued SAB No. 101. SAB No. 101 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 has adopted the pronouncement as of January 2, 2000, and has recorded the cumulative effect of the change in accounting principle in the restated results for the first quarter of 2000. The cumulative effect on net income totaled \$870,000, net of income taxes of \$580,000. Revenues of \$3,004,000 in 2000 (as restated for the adoption of SAB

No. 101) relate to shipments that occurred in 1999 but for which installation and/or acceptance did not occur until 2000. 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 the change in accounting principle for periods prior to 2000. The Company has not provided pro forma data for 1999 and 1998 as the amounts are not readily determinable based on the nature of the revenue adjustments required by SAB No. 101.

The Company's unaudited quarterly results for 2000 have been restated as follows:

	First	Second	Third
	(In thousands except per share amounts) (Unaudited)		
Revenues:			
As previously reported.....	\$ 60,829	\$ 61,647	\$ 56,997
As adjusted.....	57,922	60,565	58,315
Gross Profit:			
As previously reported.....	24,401	23,201	21,513
As adjusted.....	23,315	22,635	22,022
Income Before Cumulative Effect of Change in Accounting Principle:			
As previously reported.....	4,062	4,269	4,077
As adjusted.....	3,560	3,910	4,332
Net Income:			
As previously reported.....	4,062	4,269	4,077
As adjusted.....	2,690	3,910	4,332
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle:			
As previously reported.....	.33	.35	.33
As adjusted.....	.29	.32	.35
Basic and Diluted Earnings per Share:			
As previously reported.....	.33	.35	.33
As adjusted.....	.22	.32	.35

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KADANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

17. Unaudited Quarterly Information

	First (a)	Second (a,b)	Third (a,c)	Fourth (d)
	(In thousands except per share amounts)			
2000				
Revenues.....	\$57,922	\$60,565	\$58,315	\$58,111
Gross Profit.....	23,315	22,635	22,022	21,830
Net Income.....	2,690	3,910	4,332	4,210
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle....	.29	.32	.35	.34
Basic and Diluted Earnings per Share.....	.22	.32	.35	.34
	First (e)	Second	Third (f)	Fourth

1999

Revenues.....	\$60,223	\$53,549	\$53,075	\$61,189
Gross Profit.....	23,436	22,064	21,898	25,745
Net Income.....	8,228	3,011	1,568	4,971
Earnings per Share:				
Basic.....	.67	.25	.13	.41
Diluted.....	.62	.24	.13	.40

-
- (a) Restated to reflect the adoption of SAB No. 101. The first quarter of 2000 reflects the cumulative effect of change in accounting principle of \$0.9 million, net of income taxes of \$0.6 million.
 - (b) Reflects a pretax gain of \$1.0 million on the June 2000 sale of property.
 - (c) Reflects a pretax gain of \$0.7 million on the September 2000 sale of the Company's fiber-recovery and water-clarification services plant.
 - (d) Reflects \$0.5 million of pretax income related to restructuring and unusual items.
 - (e) Reflects a pretax gain of \$11.2 million on the February 1999 disposition of Thermo Wisconsin, Inc. and restructuring costs and unusual items of \$3.4 million.
 - (f) Reflects pretax restructuring costs of \$2.8 million.

18. Subsequent Events

On May 15, 2001, at the Annual Meeting of the Company's Stockholders, the stockholders voted to approve a one-for-five reverse stock split and a change of the Company name to Kadant Inc., which were effective as of July 12, 2001. All share and per share information has been restated to reflect the reverse stock split.

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ANNEX A

SAMPLE FORM OF INFORMATION STATEMENT TO BE PROVIDED TO INTERNAL REVENUE SERVICE BY STOCKHOLDERS

Note: Attachment to 2001 federal income tax return of stockholders

Statement of stockholders receiving a distribution of stock in Kadant Inc. (a controlled corporation), pursuant to Treas. Reg. (S) 1.355-5(b).

- (1) The undersigned, a stockholder owning shares of Thermo Electron Corporation as of July 30, 2001, received a distribution of stock in a controlled corporation that qualifies under (S) 355 pursuant to a private letter ruling received by Thermo Electron Corporation from the Internal Revenue Service.
- (2) The name and addresses of the corporations involved are:

Thermo Electron Corporation (Distributing Corporation)
81 Wyman Street, P.O. Box 9046
Waltham, Massachusetts 02454-9046

Kadant Inc. (Controlled Corporation)
245 Winter Street
Waltham, Massachusetts 02451
- (3) No stock or securities in Thermo Electron Corporation were surrendered by the undersigned.
- (4) _____ shares of Kadant Inc. were received constituting only common shares in such corporation.
- (5) _____ shares of Kadant, Inc. received in the distribution with an aggregate fair market value of _____ are treated as "property" other than stock within the meaning of Internal Revenue Code Section 355(b)(2)(B). No other cash or property was received by the undersigned in connection with the distribution except for \$ _____ representing a cash payment in lieu of fractional shares.

Stockholder

STOCKHOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX
CONSEQUENCES OF THE DISTRIBUTION UPON THEM.

[THERMO ELECTRON CORPORATION LETTERHEAD]

81 Wyman Street
Post Office Box 9046
Waltham, MA 02454-9046

(781) 622-1000
Fax: (781) 622-1207
www.thermo.com

August 8, 2001

Dear Shareholder:

On July 9, 2001, the board of directors of Thermo Electron Corporation approved the spinoff of Kadant Inc. (formerly Thermo Fibertek Inc.) as a dividend to Thermo Electron shareholders. All of the outstanding shares of common stock of Kadant held by Thermo Electron (approximately 11,125,496 shares) will be distributed on August 8, 2001. Because you were a Thermo Electron shareholder on July 30, 2001, you will be entitled to receive this dividend and also become a shareholder of Kadant. Upon completion of the distribution, Thermo Electron will no longer own any shares of Kadant common stock.

Kadant, established as a separate subsidiary of Thermo Electron in November 1991, is a leading supplier of a range of products for the global papermaking and paper-recycling industries, including de-inking systems, stock-preparation equipment, water-management systems, and papermachine accessories. The company also develops and commercializes composite building materials produced from recycled fiber and plastic.

The Thermo Electron board believes that this distribution is in the best interests of Thermo Electron, Kadant, and Thermo Electron shareholders because it will improve both companies' access to capital, better focus the efforts of management and employees on the performance of their respective businesses, and offer management incentives directly linked to the objective performance of each company's stock in the public markets.

As a Thermo Electron shareholder on July 30, you are entitled to the Kadant dividend. The enclosed stock certificate represents .0612 of a share of Kadant common stock for each share of Thermo Electron common stock you owned on that date. The common stock of Kadant is listed on the American Stock Exchange under the symbol "KAI." The enclosed Information Statement provides important details regarding the distribution, as well as Kadant's organization, business, properties, and historical financial information. You are encouraged to read this material carefully.

As described in the enclosed Information Statement, you will be receiving from our distribution agent, American Stock Transfer & Trust Company, a cash payment in lieu of any fraction of a share of Kadant common stock that you would otherwise be entitled to receive in the dividend.

Thermo Electron shareholders entitled to this dividend are not required to take any action to participate in the distribution. Shareholder approval of the distribution is not required, and Thermo Electron is not soliciting your proxy.

Sincerely,

/s/ RICHARD F. SYRON

RICHARD F. SYRON
Chairman and Chief Executive Officer

PLAN AND AGREEMENT OF DISTRIBUTION

THIS PLAN AND AGREEMENT OF DISTRIBUTION (the "Agreement") is made as of the 3rd day of August, 2001, between Thermo Electron Corporation, a Delaware corporation ("Thermo Electron"), and Kadant Inc., a Delaware corporation ("Kadant").

RECITALS

WHEREAS, Thermo Electron is the holder of approximately 91% of the issued and outstanding shares of Common Stock, \$.01 par value per share, of Kadant ("Kadant Common Stock"); and

WHEREAS, it is the intention of Thermo Electron to distribute all of the issued and outstanding shares of Kadant Common Stock held by Thermo Electron to the stockholders of Thermo Electron (the "Distribution"); and

WHEREAS, Thermo Electron and Kadant have determined that it is necessary and desirable to set forth the principal corporate transactions required to effect the Distribution and to set forth other agreements that will govern certain other matters following such Distribution.

NOW, THEREFORE, in consideration of the mutual covenants and agreements made herein, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 General. As used in this Agreement and the Exhibits hereto, the following terms shall have the following meanings:

"Action" means any action, claim, suit, litigation, arbitration,

inquiry, subpoena, discovery request, proceeding or investigation by or before any court or grand jury, any governmental or other regulatory or administrative agency or commission or any arbitration tribunal.

"Active Employees" means, with respect to each Group, all employees

actively engaged in the performance of services to, for or on behalf of any member of such Group as of the Distribution Date, including any employee who is not actively performing services because of (a) leave of absence or (b) disability, and the dependents of such persons (and, as applicable, the alternate payees of such persons). "Active Employees" includes, with respect to a Group, non-employee directors of Thermo Electron and Kadant providing services as a director to Thermo Electron or any member of the Thermo Electron Group and Kadant or any member of the Kadant Group, respectively, as of the Distribution Date.

"Affiliate" means, with respect to any specified person, a person

that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified person; provided, however, that Thermo Electron (and its subsidiaries) shall not be deemed to be Affiliates of Kadant (and its subsidiaries), and vice versa, for purposes of this Agreement.

"Agent" means American Stock Transfer & Trust Company, the

distribution agent appointed by Thermo Electron to distribute the shares of Kadant Common Stock in connection with the Distribution.

"Ancillary Agreements" means all of the agreements, instruments,

understandings, assignments or other arrangements entered into in connection with the transactions contemplated hereby, including, without limitation, the Tax Matters Agreement and the Transition Services

Agreement.

"Cash" means cash and cash equivalents and available for sale

investments shown on the consolidated balance sheet of Kadant in accordance with GAAP.

"Code" means the Internal Revenue Code of 1986, as amended, together

with the rules and regulations promulgated thereunder.

"Commission" means the Securities and Exchange Commission.

"Debenture Redemption Event" has occurred if the Kadant Common Stock

(or other equity securities of Kadant into which the Kadant Debentures are then convertible) is neither listed for trading on a United States national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States.

"Distributed Kadant per Share Amount" means the fraction of a share of

Kadant Common Stock (on a post-Reverse Split basis and rounded to no less than the fourth decimal place) obtained by dividing the number of Distribution Shares by the total number of shares of Thermo Electron Common Stock outstanding as of 5:00 p.m., Boston Time, on the Distribution Record Date.

"Distribution" has the meaning ascribed to it in the Recitals.

"Distribution Date" means the date of effecting the Distribution, as

determined by the Thermo Electron Board.

"Distribution Record Date" means the date determined by the Thermo

Electron Board as of which the holders of Thermo Electron Common Stock and their respective stock holdings shall be determined for purposes of distributing Kadant Common Stock to such Thermo Electron stockholders.

"EBITA" means, with respect to Kadant for any fiscal period, an amount

equal to the sum of (a) Operating Income of Kadant on a consolidated basis excluding restructuring and other unusual charges or income (such as gains on sales of assets)

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included in Operating Income plus (b) amortization of good will and other intangible assets of Kadant on a consolidated basis for such fiscal period, all as determined in accordance with GAAP.

"Exchange Act" means the Securities Exchange Act of 1934, as amended,

together with the rules and regulations promulgated thereunder.

"Fibergen Redemption Rights" means the redemption rights relating to

the outstanding common stock of Thermo Fibergen, which rights are guaranteed, on a subordinated basis, by Thermo Electron pursuant to the terms of the Guarantee Agreement dated September 13, 1996 by and among Kadant, Thermo Electron and the Representatives (as defined therein).

"Fundamental Change" means (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) other than a member of the Thermo Electron Group of beneficial ownership of any capital stock of Kadant if, after such acquisition, such individual, entity or group beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 30% or more of either (i) the then-outstanding shares of Kadant Common Stock or (ii) the combined voting power of the then-outstanding securities of Kadant entitled

to vote generally in the election of directors, (b) any acquisition of the business of Kadant by consolidation with, or merger of Kadant into, any other corporation, or any merger of another corporation into Kadant, (c) any sale or transfer, in one or more transactions, of all or substantially all of the assets of Kadant (which shall not include the sale or transfer of any portion of the assets of Kadant to any corporation or corporations if each of such corporations immediately following such transfer is at least 51% owned, directly or indirectly, by Kadant), or (d) the occurrence of a Debenture Redemption Event.

"GAAP" means generally accepted accounting principles that are (a)

consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time, and (b) consistently applied with past financial statements of Kadant adopting the same principles; provided that a certified public accountant

would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in GAAP) as to financial statements in which such principles have been properly applied.

"Group" means the Thermo Electron Group or the Kadant Group.

"Indebtedness" means (a) all long term debt of the Kadant Group

including current maturities, (b) all commercial paper obligations of the Kadant Group, (c) all notes payable and other short term borrowings of the Kadant Group, (d) all capital lease obligations of the Kadant Group, and (e) all indebtedness of the types described in clauses (a) - (d) above that is directly or indirectly guaranteed by any member of the Kadant Group, which, in the case of clauses (a) - (d) above, are as shown on the consolidated financial statements of Kadant (including the footnotes thereto) determined in accordance with GAAP.

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"Indemnifiable Losses" means all losses, Liabilities, damages, claims,

demands, judgments or settlements of any nature or kind, known or unknown, fixed, accrued, absolute or contingent, liquidated or unliquidated, including all reasonable costs and expenses (legal, accounting or otherwise as such costs are incurred) relating thereto, suffered by an Indemnatee, including any reasonable costs or expenses of enforcing any indemnity hereunder.

"Indemnifying Party" means a Person who or which is obligated under

this Agreement to provide indemnification.

"Indemnatee" means a Person who or which may seek indemnification

under this Agreement.

"Information Statement" means the Information Statement in the form to

be distributed to the holders of Thermo Electron Common Stock in connection with the Distribution, and as it may be amended or supplemented subsequent to such dissemination.

"Interest Expense" means interest expense shown on the consolidated

statement of income of Kadant in accordance with GAAP.

"Interest Income" means interest income shown on the consolidated

statement of income of Kadant in accordance with GAAP.

"IRS Ruling" means the letter dated February 2001 from the Internal

Revenue Service to Thermo Electron in response to the Private Letter Ruling Request.

"Kadant Board" means the Board of Directors of Kadant.

"Kadant Business" means all of the businesses and operations conducted

at any time, whether prior to, on or after the Distribution Date, by any member of the Kadant Group, whether such businesses and operations were conducted prior to the Distribution Date by such member of the Kadant Group or by a predecessor, including Thermo Electron.

"Kadant Common Stock" has the meaning ascribed to it in the Recitals.

"Kadant Debentures" means the 4 1/2% subordinated convertible

debentures due 2004 of Kadant, convertible into shares of Kadant Common Stock at a conversion price of \$60.50 (on a post-Reverse Split basis) per share and guaranteed on a subordinated basis by Thermo Electron.

"Kadant Group" means Kadant and the Kadant Subsidiaries.

"Kadant Indemnitees" means Kadant, each Affiliate of Kadant and each

of their respective Representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

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"Kadant Subsidiaries" means all Subsidiaries of Kadant.

"KAI Exchange Ratio" means a fraction, (a) the numerator of which is

the closing sale price per share of Thermo Electron Common Stock (trading "regular way") on the New York Stock Exchange at the close of regular trading hours on the Distribution Date and (b) the denominator of which is the opening sale price per share of Kadant Common Stock on the American Stock Exchange at the commencement of regular trading hours on the date that is the next business day after the Distribution Date.

"Liabilities" means any and all debts, liabilities and obligations,

absolute or contingent, mature or unmature, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising (unless otherwise specified in this Agreement), and whether or not the same would properly be reflected on a balance sheet, including all costs and expenses relating thereto, and those debts, liabilities and obligations arising under any law, rule, regulation, Action, threatened Action, order or consent decree of any governmental entity or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking.

"Net Capital" means, at the relevant measurement time, shareholders'

investment shown on the consolidated balance sheet of the Kadant Group in accordance with GAAP at such time plus Net Debt.

"Net Debt" means, at the relevant measurement time, all Indebtedness

of the Kadant Group on a consolidated basis at such time plus the maximum aggregate redemption price of the Fibergen Redemption Rights outstanding at the relevant measurement time, minus all Cash balances at the relevant measurement time.

"Operating Income" means operating income shown on the consolidated

statement of income of the Kadant Group determined in accordance with GAAP.

"Person" means an individual, a partnership, a joint venture, a

corporation, a limited liability company, a trust, an unincorporated organization or a government or any department or agency thereof.

"Private Letter Ruling Request" means Thermo Electron's Request for

Rulings Filed Under Section 355 of the Code dated April 7, 2000 filed with the Internal Revenue Service in connection with the Distribution, as amended.

"Representative" means, with respect to any Person, any of such

Person's directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives.

"Reverse Split" means the reverse split of the Kadant Common Stock

pursuant to which each five shares of Kadant Common Stock were converted into one share of Kadant Common Stock on July 12, 2001.

"Securities Act" means the Securities Act of 1933, as amended,

together with the rules and regulations promulgated thereunder.

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"Subsidiary" means, with respect to any specified Person, any

corporation or other legal entity of which such Person or any of its Subsidiaries controls or owns, directly or indirectly, more than 50% of the stock or other equity interest entitled to vote on the election of members to the board of directors or similar governing body; provided, however, that for purposes of this Agreement, Kadant and the Kadant Subsidiaries shall not be deemed to be Subsidiaries of Thermo Electron or any of the Thermo Electron Subsidiaries.

"Tax Matters Agreement" means the Tax Matters Agreement between Thermo

Electron and Kadant substantially in the form attached hereto as Exhibit A,

with such changes as may be mutually satisfactory to Thermo Electron and Kadant; such Tax Matters Agreement providing for, among other things, the allocation of certain liabilities with respect to federal, state and local income taxes and the procedures for filing returns with respect to such taxes.

"Thermo Electron Board" means the Board of Directors of Thermo

Electron.

"Thermo Electron Business" means all of the businesses and operations

conducted at any time, whether prior to, on or after the Distribution Date, by any member of the Thermo Electron Group (including Viasys Healthcare Inc.), other than the Kadant Business.

"Thermo Electron Common Stock" means the Common Stock, \$1.00 par value

per share, of Thermo Electron.

"Thermo Electron Group" means Thermo Electron and the Thermo Electron

Subsidiaries.

"Thermo Electron Indemnitees" means Thermo Electron, each Affiliate of

Thermo Electron (including Viasys Healthcare Inc. and its Subsidiaries) and each of their respective Representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

"Thermo Electron Subsidiaries" means all Subsidiaries of Thermo

Electron, other than Kadant and the Kadant Subsidiaries.

"Thermo Electron Trademarks" means the "Thermo" name and logo and

related tradenames and marks used in the Kadant Business as of the Distribution Date.

"Thermo Fibergen" means Thermo Fibergen Inc., a majority-owned

subsidiary of Kadant.

"Thermo Fibergen Common Stock" means the Common Stock, \$.01 par value

per share, of Thermo Fibergen.

"Third-Party Claim" means any claim, suit, arbitration, injury,

proceeding or investigation by or before any court, any governmental or
other regulatory or

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administrative agency or commission or any arbitration tribunal asserted by
a Person who or which is neither a party hereto nor an Affiliate of a party
hereto.

"TMO Adjustment Ratio" means a fraction, (a) the numerator of which is

the closing sale price per share of Thermo Electron Common Stock (trading
"regular way") on the New York Stock Exchange at the close of regular
trading hours on the Distribution Date and (b) the denominator of which is
the opening sale price per share of Thermo Electron Common Stock on the New
York Stock Exchange at the commencement of regular trading hours on the
date that is the next business day after the Distribution Date.

"TMO/KAI Exchange Ratio" means a fraction, (a) the numerator of which

is the closing sale price per share of Kadant Common Stock (trading
"regular way") on the American Stock Exchange at the close of regular
trading hours on the Distribution Date and (b) the denominator of which is
the opening sale price per share of Thermo Electron Common Stock on the New
York Stock Exchange at the commencement of regular trading hours on the
date that is the next business day after the Distribution Date.

"TMO Letter of Credit Guarantees" means all of the obligations of any

member of the Kadant Group under all letters of credit and other borrowings
of any member of the Kadant Group that are subject to any guarantee,
covenant, indemnity, letter of comfort or similar assurance provided by any
member of the Thermo Electron Group (other than members of the Kadant
Group) and that are outstanding as of the Distribution Date.

"TMO/TFG Exchange Ratio" means a fraction, (a) the numerator of which

is the closing sale price per share of Thermo Fibergen Common Stock on the
American Stock Exchange at the close of regular trading hours on the
Distribution Date and (b) the denominator of which is the opening sale
price per share of Thermo Electron Common Stock on the New York Stock
Exchange at the commencement of regular trading hours on the date that is
the next business day after the Distribution Date.

"Transition Services Agreement" means the Transition Services

Agreement between Thermo Electron and Kadant substantially in the form
attached hereto as Exhibit B, with such changes as may be mutually

satisfactory to Thermo Electron and Kadant; such Transition Services
Agreement providing for Thermo Electron's provision to Kadant of various
administrative services, including certain tax and legal, stock plan
related, financial and other services.

ARTICLE II

ACKNOWLEDGMENT OF MATERIAL FACTS

2.1 Organization. Thermo Electron and Kadant acknowledge that each is duly
organized, validly existing and in good standing under the laws of the State of
Delaware, with requisite corporate power to own their respective properties and
assets and to carry on their respective businesses as presently conducted or
contemplated. On July 30, 2001, Thermo Electron was the owner of 11,125,496 of
the issued and outstanding shares of Kadant Common Stock.

ARTICLE III

PRELIMINARY ACTION

3.1 Cooperation Prior to the Distribution. Thermo Electron and Kadant shall use their respective reasonable efforts to cause, simultaneously with the execution and delivery of this Agreement, the execution and delivery by Thermo Electron and Kadant, or their respective Affiliates, of the Ancillary Agreements and any other agreements, instruments or other documents deemed necessary or desirable by the applicable parties to establish and govern their post-Distribution relationships.

3.2 Consents. Each party hereto understands and agrees that no party hereto is, in this Agreement or in any other agreement or document contemplated by this Agreement or otherwise, representing or warranting in any way that the obtaining of any consents or approvals, the execution and delivery of any agreements or the making of any filings or applications contemplated by this Agreement will satisfy the provisions of any or all applicable agreements or the requirements of any or all applicable laws or judgments except as expressly represented, warranted or covenanted herein or in the Ancillary Agreements. Notwithstanding the foregoing, the parties shall use reasonable efforts to obtain all consents and approvals, to enter into all agreements and to make all filings and applications which may be required for the consummation of the transactions contemplated by this Agreement, including, without limitation, all applicable regulatory filings or consents under federal or state laws and all necessary consents, approvals, agreements, filings and applications.

ARTICLE IV

THE DISTRIBUTION

4.1 The Distribution.

(a) Prior to the Distribution Date, Thermo Electron shall deliver to Kadant the certificates representing all of the outstanding shares of Kadant Common Stock owned by Thermo Electron (on a post-Reverse Split basis) as of 4:00 p.m., Boston Time, on the Distribution Date (the "Distribution Shares"), which Distribution Shares represent approximately 91% of the outstanding shares of Kadant Common Stock on the date hereof, and Kadant shall cancel such certificates. In exchange therefor, and upon receipt from the Agent of a certificate as to the number of shares of Thermo Electron Common Stock outstanding as of the Distribution Record Date, Kadant shall deliver to the Agent on the Distribution Date on behalf of Thermo Electron and for the benefit of the holders of record of Thermo Electron Common Stock as of the Distribution Record Date, an omnibus stock certificate representing the Distribution Shares. Effective as of 4:00 p.m., Boston Time, on the date of the delivery of such omnibus stock certificate to the Agent, ownership of the Kadant Common Stock held by Thermo Electron shall pass to Thermo Electron's stockholders. Thermo Electron shall instruct the Agent to distribute, beginning on or promptly following the Distribution Date, to such holders of Thermo Electron Common Stock on the Distribution Record Date, certificates representing the Distributed Kadant per Share Amount for every share of Thermo Electron Common Stock outstanding as of the Distribution Record Date. Kadant agrees to provide to the Agent sufficient certificates in such

denominations as the Agent may request in order to effect the Distribution. All of the Distribution Shares shall be fully paid, nonassessable and free of preemptive rights. Holders of Thermo Electron Common Stock shall not be required to pay cash or other consideration for the Distribution Shares received in the Distribution.

(b) No fractional shares of Kadant Common Stock will be received by Thermo Electron stockholders. Instead, each Thermo Electron stockholder that would otherwise be entitled to a fractional share of Kadant Common Stock shall be entitled to receive a cash payment in lieu thereof, which payment shall represent such stockholder's proportionate interest in the net proceeds from the sale by the Agent on behalf of all such Thermo Electron stockholders of the aggregate fractional shares of Kadant Common Stock that such stockholders would

otherwise be entitled to receive. Any such sale shall be made by the Agent within five business days after the Distribution Date.

4.2 Thermo Electron Board Action.

(a) The Thermo Electron Board shall establish in its sole discretion and in accordance with all applicable rules of the New York Stock Exchange the Distribution Record Date, the Distribution Date and all appropriate procedures in connection with the Distribution.

(b) After the declaration of the Distribution and until the Distribution Date, in its sole discretion for any reason, the Thermo Electron Board may rescind the declaration of the Distribution and postpone, withdraw, cancel or abandon the Distribution for any reason and simultaneously terminate this Agreement and the Ancillary Agreements. In the event of such termination, no party hereto or to any Ancillary Agreement shall have any Liability to any Person by reason of this Agreement or any Ancillary Agreement.

ARTICLE V

SURVIVAL, ASSUMPTION AND INDEMNIFICATION

5.1 Survival of Agreements. All covenants and agreements of the parties hereto contained in this Agreement shall survive the Distribution Date.

5.2 Assumption and Indemnification.

(a) Except as specifically otherwise provided in the Ancillary Agreements, Thermo Electron shall indemnify, defend and hold harmless the Kadant Indemnitees from and against (1) all Indemnifiable Losses arising from or relating to the Thermo Electron Business, whether such Indemnifiable Losses relate to events, occurrences or circumstances occurring or existing, or whether such Indemnifiable Losses are asserted, before or after the Distribution Date; (2) all Indemnifiable Losses incurred by Kadant as a consequence of any misstatement or omission of a material fact with respect to Thermo Electron based on information supplied by Thermo Electron in any documents or filings prepared for purposes of compliance or qualification under applicable securities laws in connection with the Distribution and related transactions, including, without limitation, the Information Statement; and (3) all Indemnifiable Losses arising from any breach of or failure to perform any obligation on the part of any member of Thermo Electron Group contained in this Agreement or any of the Ancillary Agreements.

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(b) Except as specifically otherwise provided in the Ancillary Agreements, Kadant shall indemnify, defend and hold harmless the Thermo Electron Indemnitees from and against (1) all Indemnifiable Losses arising from or relating to the Kadant Business, whether such Indemnifiable Losses relate to events, occurrences or circumstances occurring or existing, or whether such Indemnifiable Losses are asserted, before or after the Distribution Date; (2) all Indemnifiable Losses incurred by Thermo Electron as a consequence of any misstatement or omission of a material fact with respect to Kadant based on information supplied by Kadant in any documents or filings prepared for purposes of compliance or qualification under applicable securities laws in connection with the Distribution and related transactions, including, without limitation, the Information Statement; (3) all Indemnifiable Losses arising from any breach of or failure to perform any obligation on the part of any member of the Kadant Group contained in this Agreement or any of the Ancillary Agreements; and (4) all Indemnifiable Losses arising from or relating to any obligations of any member of the Thermo Electron Group or its Representatives under any TMO Letter of Credit Guarantees.

(c) If any Indemnifiable Loss arises from or relates to both the Thermo Electron Business and the Kadant Business, Thermo Electron shall indemnify the Kadant Indemnitees against any portion of such Indemnifiable Loss that pertains more directly to the Thermo Electron Business than to the Kadant Business, and Kadant shall indemnify the Thermo Electron Indemnitees against any portion of such Indemnifiable Loss that pertains more directly to the Kadant Business than to the Thermo Electron Business.

(d) Notwithstanding anything to the contrary set forth herein, indemnification relating to any arrangements between any member of the Thermo Electron Group and any member of the Kadant Group (or any unit of the Kadant

Business) for the provision after the Distribution of goods and services shall be governed by the terms of such arrangements and not by this Section.

5.3 Procedures for Indemnification for Third-Party Claims.

(a) Kadant shall, and shall cause the other Kadant Indemnitees to, notify Thermo Electron in writing promptly after learning of any Third-Party Claim for which any Kadant Indemnitee intends to seek indemnification from Thermo Electron under this Agreement. Thermo Electron shall, and shall cause the other Thermo Electron Indemnitees to, notify Kadant in writing promptly after learning of any Third-Party Claim for which any Thermo Electron Indemnitee intends to seek indemnification from Kadant under this Agreement. The failure of any Indemnitee to give such notice shall not relieve any Indemnifying Party of its obligations under this Article V except to the extent that such Indemnifying Party or its Affiliate is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail considering the information provided to the Indemnitee.

(b) Except as otherwise provided in subsection (c) of this Section 5.3, an Indemnifying Party may, by notice to the Indemnitee and to Kadant, if Thermo Electron is the Indemnifying Party, or to Thermo Electron, if Kadant is the Indemnifying Party, at any time after receipt by such Indemnifying Party of such Indemnitee's notice of a Third-Party Claim, undertake (itself or through another member of its Group) the defense or settlement of such Third-Party Claim. If an Indemnifying Party undertakes the defense of any Third-Party Claim,

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such Indemnifying Party shall thereby admit its obligation to indemnify the Indemnitee against such Third-Party Claim, and such Indemnifying Party shall control the investigation and defense or settlement thereof, except that such Indemnifying Party shall not require any Indemnitee, without its prior written consent, to take or refrain from taking any action in connection with such Third-Party Claim, or make any public statement, which such Indemnitee reasonably considers to be against its interest, nor shall the Indemnifying Party, without the prior written consent of the Indemnitee and of Kadant, if the Indemnitee is a Kadant Indemnitee, or of Thermo Electron, if the Indemnitee is a Thermo Electron Indemnitee, consent to any settlement that does not include as a part thereof an unconditional release of the Indemnitees from liability with respect to such Third-Party Claim or that requires the Indemnitee or any of its Representatives or Affiliates to make any payment that is not fully indemnified under this Agreement or to submit to any non-monetary remedy; and subject to the Indemnifying Party's control rights, as specified herein, the Indemnitees may participate in such investigation and defense, at their own expense.

(c) With respect to any Third-Party Claim, if there is a material conflict of interest between the Indemnifying Party and the Indemnitees involved, neither the Indemnifying Party nor the Indemnitees shall be entitled to control the defense or settlement thereof. If an Indemnitee notifies an Indemnifying Party of a Third-Party Claim pursuant to this Section 5.3, and the Indemnifying Party does not take control of the defense or settlement thereof, or prior to the time that it does so take control, neither the Indemnifying Party nor the Indemnitees shall be entitled to control the defense or settlement thereof. In any such event, the Indemnifying Parties and the Indemnitees involved shall each be entitled to conduct their own investigation and defense, but the parties shall cooperate to conduct such investigation and defense as efficiently as possible. No Indemnitee may compromise or settle any Third-Party Claim described in this subsection as to which indemnification from an Indemnifying Party has or will be sought under this Agreement without the prior written consent of such Indemnifying Party.

(d) If an Indemnifying Party is required to indemnify any Indemnitees with respect to a Third-Party Claim described in subsection (c) of this Section 5.3, such Indemnifying Party shall pay the reasonable attorneys' fees and expenses of one law firm representing the Indemnitees involved in each jurisdiction with respect thereto.

(e) Kadant shall, and shall cause the other Kadant Indemnitees to, and Thermo Electron shall, and shall cause the other Thermo Electron Indemnitees to, make available to each other, their counsel and other Representatives, all information and documents reasonably available to them which relate to any Third-Party Claim, and otherwise cooperate as may reasonably be required in connection with the investigation, defense and settlement thereof.

5.4 Remedies Cumulative. The remedies provided in this Article V shall be cumulative and shall not preclude assertion by any Indemnatee of any other rights or the seeking of any other remedies against any Indemnifying Party. However, the procedures set forth in Section 5.3 shall be the exclusive procedures governing any indemnity action brought under this Agreement or otherwise and relating to a Third-Party Claim, except as otherwise specifically provided in any of the Ancillary Agreements.

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5.5 Release of Pre-Distribution Claims.

(a) Except as provided in Section 5.5(c), effective as of the Distribution Date, Kadant does hereby, for itself and each other member of the Kadant Group, and their respective Affiliates, successors and assigns, remise, release and forever discharge Thermo Electron, the members of the Thermo Electron Group, their respective Affiliates, successors and assigns, and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Distribution Date, including in connection with the actions or decisions taken or omitted to be taken in connection with, and the other activities relating to, the structuring or implementation of the Distribution.

(b) Except as provided in Section 5.5(c), effective as of the Distribution Date, Thermo Electron does hereby, for itself and each other member of the Thermo Electron Group, their respective Affiliates, successors and assigns, remise, release and forever discharge Kadant, the respective members of the Kadant Group, their respective Affiliates, successors and assigns, and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Distribution Date, including in connection with the transactions and all other activities to implement the Distribution.

(c) Nothing contained in Section 5.5(a) or (b) shall impair any right of any Person to enforce this Agreement or the Ancillary Agreements, or any agreements, arrangements, commitments or understandings that are referred to herein or therein as not terminating as of the Distribution Date, in each case in accordance with its terms. Without limiting the foregoing, nothing contained in Section 5.5(a) or (b) shall release any Person from:

- (i) any Liability provided in or resulting from any agreement among any members of the Thermo Electron Group or the Kadant Group that is specified in Section 9.4(b) or in Schedule 9.4(b) as not to terminate as of the Distribution Date;
- (ii) any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement;
- (iii) any Liability that the parties may have with respect to indemnification or contribution pursuant to this Agreement or any Ancillary Agreement, which Liability shall be governed by the provisions of this Article V, or, if applicable, by the appropriate provisions of the Ancillary Agreements; or

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- (iv) any Liability the release of which would result in the release of any Person other than a Person released pursuant to Section 5.5(a) or (b).

(d) Kadant shall not make, and shall not permit any member of the Kadant Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification,

against Thermo Electron, any member of the Thermo Electron Group, or any other Person released pursuant to Section 5.5(a), with respect to any Liabilities released pursuant to Section 5.5(a). Thermo Electron shall not make, and shall not permit any member of the Thermo Electron Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against Kadant or any member of the Kadant Group, or any other Person released pursuant to Section 5.5(b), with respect to any Liabilities released pursuant to Section 5.5(b).

(e) It is the intent of each of Thermo Electron and Kadant by virtue of the provisions of this Section 5.5 to provide for a full and complete release and discharge of all Liabilities existing or arising from all acts and events occurring or failing to occur or alleged to have occurred or to have failed to occur and all conditions existing or alleged to have existed on or before the Distribution Date, between or among Kadant or any member of the Kadant Group, on the one hand, and Thermo Electron or any member of the Thermo Electron Group, on the other hand (including any contractual agreements or arrangements existing or alleged to exist between or among any such members on or before the Distribution Date), except as expressly set forth in Section 5.5(c). At any time, at the request and expense of any other party, each party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions hereof.

ARTICLE VI

ADDITIONAL ASSURANCES

6.1 Mutual Assurances. Thermo Electron and Kadant agree to cooperate with respect to the implementation of this Agreement and the Ancillary Agreements and to execute such further documents and instruments as may be necessary to confirm the transactions contemplated hereby. Such cooperation may include joint meetings with corporate partners, suppliers, customers and others to assure the orderly transition of the business contemplated hereby; provided, however, that nothing herein shall be deemed to obligate either Thermo Electron or Kadant to take any action or reach any understandings which may violate any applicable laws. Pursuant to the Tax Matters Agreement, Thermo Electron and Kadant agree that they will not take any action inconsistent with the facts and representations set forth in the Private Letter Ruling Request and the IRS Ruling and will use their reasonable efforts to cause such facts to remain true and correct and, if either Thermo Electron or Kadant shall take any such inconsistent action, or fail to use such reasonable efforts, it will indemnify the other party for any expense or Liability incurred as a consequence thereof. Thermo Electron and Kadant also agree that the Distribution is intended to qualify under Section 355 of the Code, and that the characterization of the transactions contemplated hereunder for tax purposes and the liability of the parties for taxes shall be governed by the Tax Matters Agreement. Except as otherwise

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specifically provided herein or as agreed between the parties from time to time, Thermo Electron and Kadant shall bear their own expenses associated with the Distribution.

ARTICLE VII

CONDITIONS TO EFFECTIVENESS OF DISTRIBUTION

The Distribution shall be subject to the implementation of the portions of this Agreement which are contemplated to become effective prior to the Distribution and to the satisfaction or waiver of the following conditions:

7.1 Board Approval. This Agreement and the Ancillary Agreements (including exhibits and schedules) shall have been approved by the Thermo Electron Board and the Kadant Board and shall have been executed and delivered by appropriate officers of Thermo Electron and Kadant.

7.2 Securities Laws Compliance. The transactions contemplated hereby shall be in compliance with applicable federal and state securities laws.

7.3 Consents. Thermo Electron shall have received such consents, and shall have received executed copies of such agreements or amendments of agreements, as it shall deem necessary in connection with the completion of the transactions contemplated by this Agreement.

7.4 IRS Ruling. The facts and representations set forth in the IRS Ruling, insofar as they relate to the Distribution, shall be true and accurate as of the Distribution Date.

7.5 Other Instruments. All action and other documents and instruments deemed necessary or advisable in connection with the transactions contemplated hereby shall have been taken or executed, as the case may be, in form and substance reasonably satisfactory to Thermo Electron and Kadant.

7.6 Legal Proceedings. No legal proceedings affecting or arising out of the transactions contemplated hereby or which could otherwise affect Thermo Electron or Kadant in a materially adverse manner shall have been commenced or threatened against Thermo Electron, Kadant or the directors or officers of either Thermo Electron or Kadant.

7.7 Material Changes. No material adverse change shall have occurred with respect to Thermo Electron or Kadant, the securities markets or general economic or financial conditions which shall, in the reasonable judgment of Thermo Electron, make the transactions contemplated by this Agreement inadvisable.

7.8 Notice of Record Date, Etc. Thermo Electron shall have provided (a) the New York Stock Exchange with the prior written notice of the Distribution Record Date as provided by Rule 10b-17 of the Exchange Act and the rules and regulations of the New York Stock Exchange, (b) any and all notices required in connection with the Distribution under the Thermo Electron (i) 4-1/4% Convertible Subordinated Debentures due 2003, (ii) 4-1/2% Senior Convertible Debentures due 2003 (formerly Thermo Instrument Systems Inc.), (iii) 4% Convertible Subordinated Debentures due 2005 (formerly Thermo Instrument Systems Inc.), (iv)

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0% Convertible Subordinated Debentures due 2003 (formerly Thermedics Inc.), (v) 2-7/8% Convertible Subordinated Debentures due 2003 (formerly Thermedics Inc.), (vi) 4-7/8% Convertible Subordinated Debentures due 2004 (formerly Thermo Ecotek Corporation), (vii) 4-5/8% Convertible Subordinated Debentures due 2003 (formerly Thermo TerraTech Corporation), and (viii) 3-1/4% Convertible Subordinated Debentures due 2007 (formerly ThermoTrex Corporation), and (c) any and all notices required under the ThermoLase LLC 4-3/8% Convertible Subordinated Debentures due 2004.

7.9 Opinion of Houlihan Lokey. Houlihan Lokey shall have provided to the Board of Directors of Thermo Electron its written opinion as to the solvency of Thermo Electron and related matters immediately prior to and after giving effect to the Distribution and the distribution of shares of common stock of Viasys Healthcare Inc. by Thermo Electron to the stockholders of Thermo Electron.

7.10 Satisfaction or Waiver of Conditions. Any determination made by the Board of Directors of Thermo Electron on behalf of either party hereto prior to the Distribution Date concerning the satisfaction or waiver of any or all of the conditions set forth in this Article VII shall be conclusive.

ARTICLE VIII

ACCESS TO INFORMATION AND SERVICES

8.1 Provision of Corporate Records. Prior to or as promptly as practicable after the Distribution Date, Thermo Electron shall deliver to Kadant all existing corporate records in the possession of Thermo Electron relating to Kadant, together with all active agreements and any active litigation files relating to the Kadant Business, except (a) to the extent such items are already in the possession of Kadant and (b) for such records as are necessary for the performance by the Thermo Electron Group of services under the Transition Services Agreement (in which case such records shall be delivered to Kadant as soon as practicable after termination or expiration of the Transition Services Agreement). Such records shall be the property of Kadant but shall be available to Thermo Electron for review and duplication for a period of seven (7) years following the Distribution Date or until Thermo Electron shall notify Kadant in writing that such records are no longer of use to Thermo Electron, whichever is earlier; provided that, after the expiration of such retention period, Kadant shall not destroy or otherwise dispose of such records at any time, unless, prior to such destruction or disposal, (i) Kadant shall provide no less than ninety (90) days' prior written notice to Thermo Electron, specifying in

reasonable detail the records proposed to be destroyed or disposed of, and (ii) if Thermo Electron shall request in writing prior to the scheduled date for such destruction or disposal that any of the records proposed to be destroyed or disposed of be delivered to Thermo Electron, Kadant shall promptly arrange for the delivery of such of the records as was requested, at the expense of Thermo Electron.

8.2 Access to Information. From and after the Distribution Date, Thermo Electron shall, and shall cause each of the other members of the Thermo Electron Group to, afford to the members of the Kadant Group and their authorized accountants, counsel and other designated representatives reasonable access (including using reasonable efforts to give access to persons or

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firms possessing information) and duplicating rights during normal business hours to all records, books, contracts, instruments, computer data and other data and information (collectively, "Information") within the Thermo Electron Group's possession relating to the business of the Kadant Group, insofar as such access is reasonably required by any member of the Kadant Group. Kadant shall, and shall cause each of the other members of the Kadant Group to, afford to the members of the Thermo Electron Group and their authorized accountants, counsel and other designated representatives reasonable access (including using reasonable efforts to give access to persons or firms possessing Information) and duplicating rights during normal business hours to Information within the Kadant Group's possession relating to business of the Thermo Electron Group as constituted after the Distribution, insofar as such access is reasonably required by any member of the Thermo Electron Group. Information may be requested under this Article VIII for, without limitation, audit, accounting, claims and litigation purposes, as well as for purposes of fulfilling disclosure and reporting obligations and for performing the transactions contemplated in this Agreement and the Ancillary Agreements.

8.3 Production of Witnesses. At all times from and after the Distribution Date, each of Thermo Electron and Kadant shall, and shall cause the other members of its respective Group to, use reasonable efforts to make available to the members of the other Group, upon written request, its officers, directors, employees and agents as witnesses to the extent that such persons may reasonably be required in connection with legal, administrative or other proceedings in which the requesting party may from time to time be involved and relating to the pre-Distribution business of the Thermo Electron Group or the Kadant Group or relating to or in connection with the relationship between any member of the Thermo Electron Group and any member of the Kadant Group on or prior to the Distribution Date.

8.4 Reimbursement. Except to the extent otherwise contemplated by any Ancillary Agreement, a party providing Information to the other party under this Article VIII shall be entitled to receive from the recipient, upon the presentation of invoices therefor, payments for such amounts, relating to supplies, disbursements and other out-of-pocket expenses, as may be reasonably incurred in providing such Information.

8.5 Retention of Records. For a period of seven (7) years following the Distribution Date, each of Thermo Electron and Kadant shall retain all Information relating to the other, except as otherwise required by law or set forth in an Ancillary Agreement or except to the extent that such Information is in the public domain or in the possession of the other party; provided that, after the expiration of such retention period, such Information shall not be destroyed or otherwise disposed of at any time, unless, prior to such destruction or disposal, (i) the party proposing to destroy or otherwise dispose of such Information shall provide no less than ninety (90) days' prior written notice to the other, specifying in reasonable detail the Information proposed to be destroyed or disposed of, and (ii) if a recipient of such notice shall request in writing prior to the scheduled date for such destruction or disposal that any of the Information proposed to be destroyed or disposed of be delivered to such requesting party, the party proposing the destruction or disposal shall promptly arrange for the delivery of such of the Information as was requested, at the expense of the party requesting such Information.

8.6 Confidentiality. Subject to any contrary requirement of law and the right of each party to enforce its rights hereunder in any legal action, each party shall keep strictly

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confidential, and shall use its reasonable efforts to cause its Affiliates and Representatives to keep strictly confidential, any Information of or concerning the other party which it or any of its Affiliates or Representatives may acquire pursuant to, or in the course of performing its obligations under, any provisions of this Agreement or any Ancillary Agreement; provided, however, that such obligation to maintain confidentiality shall not apply to Information which: (i) at the time of disclosure was in the public domain, not as a result of improper acts by the receiving party; (ii) is received by the receiving party from a third party who did not receive such Information from the disclosing party under an obligation of confidentiality; or (iii) is compelled to be disclosed by judicial or administrative process or, in the opinion of such Person's counsel, by other requirements of law. Notwithstanding the foregoing, each of Thermo Electron and Kadant shall be deemed to have satisfied its obligations under this Section 8.6 with respect to any Information if it exercises the same care with regard to such Information as it takes to preserve the confidentiality of its own similar Information.

ARTICLE IX

COVENANTS

9.1 Listing. For so long as Kadant has a class of securities registered under Section 12 of the Exchange Act, Kadant hereby agrees to use its reasonable efforts to maintain the listing of the Kadant Common Stock on the American Stock Exchange, The Nasdaq National Market or the New York Stock Exchange.

9.2 Ancillary Agreements. The parties agree that they shall comply with and provide all services and take any and all actions required to be provided or taken by the terms of any and all of the Ancillary Agreements following the Distribution.

9.3 Use of Thermo Electron Trademarks.

(a) Thermo Electron hereby grants the Kadant Group a nonexclusive, nontransferable license to use the Thermo Electron Trademarks solely in connection with the operation of the Kadant Business. Kadant acknowledges, on its own behalf and on behalf of the other members of the Kadant Group, that Thermo Electron owns all rights in the Thermo Electron Trademarks. From and after the Distribution Date, the Kadant Group shall have no rights to the Thermo Electron Trademarks except for the limited license granted pursuant to this Section 9.3.

(b) Subject to Section 9.5, on or before December 29, 2001, Kadant and each member of the Kadant Group shall cease all use of the Thermo Electron Trademarks as part of any corporate name or logo, tradename, and/or trademark or service mark, including, without limitation, on any signs, letterhead, business cards, invoices and other business forms, telephone directory listings and promotional materials.

(c) During the period set forth in Section 9.3(b), Kadant shall, and shall cause each other member of the Kadant Group to, maintain the same standards of quality for products and services provided under the Thermo Electron Trademarks as previously provided by Thermo Electron and its Subsidiaries. During such period, Thermo Electron shall have the right to

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monitor the Kadant Group's use of the Thermo Electron Trademarks and shall be able to control the quality of any Kadant Group products and/or services that bear the Thermo Electron Trademarks.

9.4 Termination of Intercompany Agreements.

(a) Kadant and each member of the Kadant Group, on the one hand, and Thermo Electron and each member of the Thermo Electron Group, on the other hand, hereby terminate any and all agreements, arrangements, commitments or understandings, whether or not in writing, between or among Kadant and/or any member of the Kadant Group, on the one hand, and Thermo Electron and/or any member of the Thermo Electron Group, on the other hand, effective as of the Distribution Date. No such terminated agreement, arrangement, commitment or understanding (including any provision thereof which purports to survive termination) shall be of any further force or effect after the Distribution Date. Each Party shall, at the reasonable request of any other party, take, or

cause to be taken, such other actions as may be necessary to effect the foregoing.

(b) The provisions of Section 9.4(a) shall not apply to any of the following agreements, arrangements, commitments or understandings (or to any of the provisions thereof): (i) this Agreement or any of the Ancillary Agreements (and each other agreement or instrument expressly contemplated by this Agreement or any Ancillary Agreement to be entered into by any of the parties hereto or any of the members of their respective Groups); (ii) any agreements, arrangements, commitments or understandings listed or described on Schedule

9.4(b) hereto; (iii) any agreements, arrangements, commitments or understandings

to which any Person other than the parties hereto and their respective Affiliates is a party; and (iv) any other agreements, arrangements, commitments or understandings that this Agreement or any of the Ancillary Agreements expressly contemplates will survive the Distribution Date.

(c) Kadant agrees to assume and perform, pay and discharge all post-retirement medical liabilities for its subsidiary Thermo Web Systems, Inc., as of the Distribution Date, in exchange for which Thermo Electron agrees to pay Kadant, the agreed-upon present value of such liabilities. The agreed-upon present value of such liabilities as of June 30, 2001 shall be calculated by Watson Wyatt on or about August 17, 2001, and then adjusted by Thermo Electron in good faith no later than August 31, 2001 to reflect the present value of such liabilities on the Distribution Date.

9.5 Name Changes. Kadant hereby agrees to cause each of its Subsidiaries (other than Thermo Fibergen Inc.), including but not limited to Thermo AES Canada Inc., Thermo Black Clawson Inc., Thermo Black Clawson (China), Thermo Fibertek Holdings Limited, Thermo Fibertek U.K. Limited, Thermo Web Systems, Inc., TMO Lamort Holdings Inc., and Thermo Black Clawson Limited, to cease using the term "Thermo" or "TMO" in its name by no later than December 29, 2001. Kadant hereby agrees to cause Thermo Fibergen Inc. to cease using the term "Thermo" in its name by no later than March 30, 2002.

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9.6 Financial Covenants.

(a) Kadant will not, for so long as the guarantee by Thermo Electron of obligations under either the Kadant Debentures or the Fibergen Redemption Rights is outstanding:

- (i) permit Net Debt divided by Net Capital to be greater than 40% measured at the end of each fiscal quarter commencing on September 29, 2001; or
- (ii) permit the quotient obtained by dividing (x) the sum of EBITA and Interest Income by (y) Interest Expense to be less than 4.0, measured at the end of each fiscal quarter commencing on September 29, 2001 on an annualized basis using the quarter then ended and the previous three quarters.

(b) In the event that Kadant fails to comply with any covenant contained in subsection (a) above, Kadant shall have until the date that is 90 days after the date on which such failure occurs (the last day of such 90 day period being referred to as the "Cure Date") to cure such failure. If Kadant fails to comply with such covenant by the Cure Date, Kadant shall, by the date that is 90 days after the Cure Date, take any and all actions necessary to relieve Thermo Electron of its obligations under all outstanding guarantees, including but not limited to refinancing the Kadant Debentures, conducting an exchange offer for the Kadant Debentures or all Fibergen common stock subject to outstanding Fibergen Redemption Rights, or repaying in full the underlying obligation.

(c) Kadant will give Thermo Electron 30 days prior written notice of any Fundamental Change. In the event of a Fundamental Change, and as a condition thereto, all obligations of Kadant under or with respect to the Fibergen Redemption Rights and the Kadant Debentures will be fully cash collateralized or fully backed by one or more letters of credit, in either case in form and substance reasonably acceptable to Thermo Electron.

- (d) As soon as practicable (and in any event within 45 days) after

the end of each fiscal quarter of Kadant commencing on September 29, 2001, Kadant shall deliver to Thermo Electron a certificate, executed by the Chief Financial Officer of Kadant, affirming Kadant's compliance with the covenants contained in Section 9.6(a) as of the end of each such fiscal quarter, which certificate shall set forth in reasonable detail the calculations and assumptions (if any) employed by Kadant in determining such compliance.

9.7 Treatment of Stock Options. Each of Thermo Electron and Kadant agrees to take such action as may be necessary to give effect to the arrangements described in the three memoranda, dated July 12, 2001 and previously distributed by Thermo Electron to affected optionees, relating to treatment on the Distribution Date of (a) outstanding options to purchase shares of Thermo Electron Common Stock held by Active Employees of the Kadant Group ("TMO Options"), (b) outstanding options to purchase shares of Kadant Common Stock held by Active Employees of the Thermo Electron Group ("KAI Options"), and (c) outstanding options to purchase shares of Thermo Fibergen Common Stock held by Active Employees of the Thermo Electron Group ("TFG Options"). Pursuant to such arrangements, and on the terms and

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conditions set forth therein and such other terms and conditions as may be agreed upon by the parties, on the Distribution Date:

- (i) (A) the number of shares of Thermo Electron Common Stock subject to each TMO Option (the "Pre-Distribution Number of TMO Option Shares") held by an Active Employee of the Kadant Group who continues to hold such TMO Option following the Distribution shall be adjusted to reflect the Distribution by multiplying the Pre-Distribution Number of TMO Option Shares by the TMO Adjustment Ratio and (B) the exercise price per share of Thermo Electron Common Stock of such TMO Option (the "Pre-Distribution TMO Option Exercise Price Per Share") shall be adjusted to reflect the Distribution by dividing the Pre-Distribution TMO Option Exercise Price Per Share by the TMO Adjustment Ratio;
- (ii) each TMO Option held by an Active Employee of the Kadant Group who elects to exchange such TMO Option for an option to purchase shares of Kadant Common Stock shall be exchanged for an option to purchase such number of shares of Kadant Common Stock as is equal to the number of shares of Thermo Electron Common Stock subject to such TMO Option immediately prior to the Distribution Date multiplied by the KAI Exchange Ratio, at an exercise price per share equal to the exercise price per share of Thermo Electron Common Stock purchasable pursuant to the TMO Option immediately prior to the Distribution Date divided by the KAI Exchange Ratio;
- (iii) each KAI Option held by an Active Employee of Thermo Electron who elects to exchange such KAI Option for an option to purchase shares of Thermo Electron Common Stock shall be exchanged for an option to purchase such number of shares of Thermo Electron Common Stock as is equal to the number of shares of Kadant Common Stock subject to such KAI Option immediately prior to the Distribution Date multiplied by the TMO/KAI Exchange Ratio, at an exercise price per share equal to the exercise price per share of Kadant Common Stock purchasable pursuant to the KAI Option immediately prior to the Distribution Date divided by the TMO/KAI Exchange Ratio; and
- (iv) each TFG Option held by an Active Employee of Thermo Electron who elects to exchange such TFG Option for an option to purchase shares of Thermo Electron Common Stock shall be exchanged for an option to purchase such number of shares of Thermo Electron Common Stock as is equal to the number of shares of Thermo Fibergen Common Stock subject to such TFG Option immediately prior to the Distribution Date multiplied by the TMO/TFG Exchange Ratio, at an exercise price per share equal to the exercise price per share of Thermo Fibergen Common Stock purchasable pursuant to the TFG Option immediately prior to the Distribution Date divided by the TMO/TFG Exchange Ratio.

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9.8 Obligations Under Letters of Credit. On or before December 29, 2001 (the "Release Date"), Kadant shall have arranged for the termination of, or replacement arrangements (including, to the extent required, guarantees and letters of credit from Kadant's lender) reasonably satisfactory to Thermo Electron with respect to, all TMO Letter of Credit Guarantees continuing in effect on and after the Release Date. Such terminations and/or replacement arrangements shall include or have the effect of providing a full and complete release of Thermo Electron, all other members of the Thermo Electron Group and the Representatives of the Thermo Electron Group (other than the members of the Kadant Group) of all of the obligations of the Thermo Electron Group and its Representatives under, or in connection with, the TMO Letter of Credit Guarantees.

ARTICLE X

NO REPRESENTATIONS OR WARRANTIES

10.1 No Representations or Warranties. Kadant acknowledges that, prior to the date of this Agreement, it has had primary responsibility for the operation and management of the Kadant Business, and Thermo Electron acknowledges that, prior to the date of this Agreement, it has had primary responsibility for the operation and management of the Thermo Electron Business. Kadant understands and agrees that no member of the Thermo Electron Group is, in this Agreement or in any other agreement or document, representing or warranting to Kadant or any member of the Kadant Group in any way as to the Kadant Business or the Liabilities of the Kadant Group or as to any consents or approvals required in connection with the consummation of the transactions contemplated by this Agreement. Kadant and each member of the Kadant Group shall bear the economic and legal risk that results from the failure of Kadant or any member of the Kadant Group to obtain any consents or approvals relating to the Kadant Business required in connection with the consummation of the transactions contemplated by this Agreement.

ARTICLE XI

MISCELLANEOUS

11.1 Governing Law. This Agreement shall be governed by the laws of the State of Delaware.

11.2 Construction. Each provision of this Agreement shall be interpreted in a manner to be effective and valid to the fullest extent permissible under applicable law. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement which shall remain in full force and effect.

11.3 Counterparts. This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement.

11.4 Exhibits. Exhibits to this Agreement shall be deemed to be an integral part hereof, and schedules or exhibits to such Exhibits shall be deemed to be an integral part thereof.

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Except as otherwise specifically provided therein, all provisions of this Article XI shall apply to each agreement constituting an Ancillary Agreement or to which reference is made herein.

11.5 Amendments; Waivers. This Agreement may be amended or modified only in writing executed on behalf of Thermo Electron and Kadant. No waiver shall operate to waive any further or future act and no failure to object or forbearance shall operate as a waiver.

11.6 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) on the date of service if served personally on the party to whom notice is given, (ii) on the day of transmission if sent via facsimile transmission to the facsimile number given below, provided telephonic confirmation of receipt is obtained promptly after completion of transmission, (iii) on the business day after delivery to an overnight courier service or the Express mail service maintained by the United States Postal Service, provided receipt of delivery has been confirmed, or (iv) on the fifth day after mailing,

if mailed by registered or certified mail, postage prepaid, properly addressed and return-receipt requested, in all cases to the parties as follows:

Thermo Electron Corporation
81 Wyman Street
P.O. Box 9046
Waltham, MA 02454-9046
Attention: Chief Executive Officer
Telephone: (781) 622-1000
Telecopier: (781) 622-1283

or to:

Kadant Inc.
245 Winter Street
Waltham, MA 02451
Attention: Chief Executive Officer
Telephone: (781) 370-1667
Telecopier: (781) 370-1660

11.7 Successors and Assigns. This Agreement and any of the rights and obligations of each party hereunder shall not be assigned, in whole or in part, without the prior written consent of the other party, provided that either party may sell, assign, transfer, delegate or otherwise dispose of its rights and obligations hereunder in connection with its merger or consolidation or the sale of substantially all of its assets. This Agreement shall be binding upon the parties and their respective successors and assigns to the extent such assignments are in accordance with this Section 11.7.

11.8 Interpretation. The Article and Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement. As used in this Agreement, the term "person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or

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agency thereof. Whenever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine gender in all cases where they would so apply.

11.9 No Third-Party Beneficiaries. Except for the provisions of Sections 5.2 and 5.3 relating to Indemnitees, which are also for the benefit of the Indemnitees, this Agreement is solely for the benefit of the parties hereto and their Subsidiaries and Affiliates and is not intended to confer upon any other Persons any rights or remedies hereunder.

11.10 Complete Agreement.

(a) This Agreement, the Exhibits and any schedules hereto and the Ancillary Agreements and other documents referred to herein shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

(b) All matters arising out of the Distribution relating to taxes shall be governed by the Tax Matters Agreement. In the event of any inconsistency between the Tax Matters Agreement and this Agreement with respect to such matters, the Tax Matters Agreement shall govern.

11.11 Dispute Resolution.

(a) General. In the event that any dispute should arise between the

parties hereto with respect to any matter covered by this Agreement or any of the Ancillary Agreements or the interpretation of this Agreement or any of the Ancillary Agreements, the parties hereto shall resolve such dispute in accordance with the procedures set forth in this Section 11.11.

(b) Arbitration.

(i) Any party hereto may submit any matter referred to in

Section 11.11(a) to arbitration by notifying the other party, in writing, of such dispute. Within 30 days after receipt of such notice, the parties shall designate in writing one arbitrator to resolve the dispute; provided that, if the parties cannot agree on an arbitrator within such 30-day period, the arbitrator shall be selected by the Boston, Massachusetts, Office of the American Arbitration Association. The arbitrator shall be a retired federal or state judge, and shall not be an Affiliate, Representative or stockholder of any party hereto. If neither the parties nor the Boston, Massachusetts, Office of the American Arbitration Association is able to identify an individual to serve as the arbitrator, the Boston, Massachusetts, Office of the American Arbitration Association shall select an arbitrator from the CPC Panel of Distinguished Neutrals of the CPR Institute for Dispute Resolution.

(ii) Within 30 days after the designation of the arbitrator, the arbitrator and the parties hereto shall meet, at which time the parties shall be required to set forth in writing all disputed issues and a proposed ruling on the merits of each such issue.

(iii) The arbitrator shall set a date for a hearing, which shall be no later than 45 days after the submission of written proposals pursuant to Section 11.11(b)(ii), to discuss

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each of the issues identified by the parties. Each party hereto shall have the right to be represented by counsel. Except as provided herein, the arbitration shall be governed by the Commercial Arbitration Rules of the American Arbitration Association; provided, however, that the Federal Rules of Evidence shall apply with regard to the admissibility of evidence and the arbitration shall be conducted by a single arbitrator.

(iv) The arbitrator shall use his or her reasonable efforts to rule on each disputed issue within 30 days after the completion of the hearings described in Section 11.11(b)(iii). The determination of the arbitrator as to the resolution of any dispute shall be binding and conclusive upon all parties hereto. All rulings of the arbitrator shall be in writing and shall be delivered to the parties.

(v) The (1) attorneys' fees of the parties hereto in any arbitration, (2) fees of the arbitrator and (3) costs and expenses of the arbitration shall be borne by the parties as determined by the arbitrator.

(vi) Any arbitration pursuant to this Section 11.11 shall be conducted in Boston, Massachusetts. Any arbitration award may be entered in and enforced by any court having jurisdiction thereover and shall be final and binding upon the parties hereto.

(vii) Notwithstanding the foregoing, nothing in this Section 11.11 shall be construed as limiting in any way the right of a party hereto to seek a temporary restraining order or other injunctive relief with respect to any actual or threatened breach of this Agreement or any Ancillary Agreement from a court of competent jurisdiction. Should any party to this Agreement seek a temporary restraining order or other injunctive relief, then for purposes of determining whether to grant such temporary restraining order or other injunctive relief, the dispute underlying the request for such temporary restraining order or other injunctive relief may be heard by such court of competent jurisdiction.

11.12 Expenses. Except as otherwise specifically provided in this Agreement and the Ancillary Agreements, Thermo Electron and Kadant shall each bear their own costs and expenses incurred in connection with the transactions contemplated hereby and by the Ancillary Agreements (including the fees and expenses of the Agent and of all counsel, accountants and financial and other advisors). Without limiting the foregoing, Thermo Electron and Kadant hereby agree that (a) Thermo Electron shall pay all expenses directly relating to the distribution of its Kadant Common Stock as a dividend to Thermo Electron's stockholders, including but not limited to expenses of the Agent in connection with the Distribution, all expenses of any advisors retained by Thermo Electron to assist Thermo Electron with the placement of the dividend shares and all legal, travel and other expenses incurred in connection with the preparation and presentation of the "road show" relating to the Distribution and the preparation, printing and distribution of the Information Statement, and (b) Kadant shall pay all expenses relating to the listing and trading of the Kadant Common Stock on any stock exchange, the Reverse Split and its name change,

rights plan and other corporate actions effected in connection with the Distribution, including but not limited to expenses of any advisors retained by Kadant in connection with coverage of the Kadant Common Stock.

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11.13 Force Majeure. Neither party shall be considered in default of performance of its obligations under this Agreement to the extent that its performance of such obligations is prevented or delayed by any cause beyond its reasonable control, including but not limited to strikes, labor disputes, civil disturbances, rebellion, invasion, epidemic, hostilities, war, embargo, natural disaster, acts of God, fire, sabotage, loss and destruction of property, changes in laws, regulations or orders, or other events or situations which the party was unable to prevent or overcome despite the exercise of due diligence.

11.14 Compliance with Law. Nothing in this Agreement shall require either party to take any action or omit to take any action in violation of applicable law.

11.15 Termination. Notwithstanding anything to the contrary contained herein, this Agreement shall terminate and have no further force or effect in the event that that Distribution Date has not occurred on or before September 30, 2001.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

THERMO ELECTRON CORPORATION

By: /s/ R.F. Syron

Name: R.F. Syron

Title: Chairman and Chief Executive Officer

KADANT INC.

By: /s/ William A. Rainville

Name: William A. Rainville

Title: President and Chief Executive Officer

Attachments:

Exhibit A Tax Matters Agreement

Exhibit B Transition Services Agreement

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Schedule 9.4(b)

Certain Agreements and Arrangements

1. The guaranty by the Thermo Electron Group of Kadant's obligations under the Kadant Debentures as set forth on the certificates representing the Kadant Debentures.
2. The guaranty by the Thermo Electron Group of Thermo Fibergen's obligations with respect to the Fibergen Redemption Rights as set forth on the certificates representing the Fibergen Redemption Rights.
3. Sections 3, 4, 5, 6 and 7 of the Amended and Restated Master Cash Management, Guarantee Reimbursement, and Loan Agreement dated as of June 1,

1999 by and between Kadant and Thermo Electron.

4. Sections 3, 4, 5, 6 and 7 of the Amended and Restated Master Cash Management, Guarantee Reimbursement, and Loan Agreement dated as of June 1, 1999 by and between Thermo Fibergen and Thermo Electron.

TAX MATTERS AGREEMENT

THIS TAX MATTERS AGREEMENT (the "Agreement") is made as of the Distribution Date (as defined in the Distribution Agreement (as defined below)) by and among Thermo Electron Corporation, a Delaware corporation ("Thermo Electron" and, together with its subsidiaries existing immediately following the Distribution, the "Thermo Electron Group"), and Kadant Inc., a Delaware corporation and a majority-owned subsidiary of Thermo Electron ("Kadant" and, together with its subsidiaries existing immediately following the Distribution, the "Kadant Group"). For purposes of this Agreement, Viasys Healthcare Inc. shall be deemed to be a part of the Thermo Electron Group regardless of when the Second Distribution (as defined below) occurs.

WHEREAS, Thermo Electron and Kadant have entered into a Plan and Agreement of Distribution dated as of August 3, 2001 (the "Distribution Agreement"), providing for the distribution of all of the issued and outstanding shares of Kadant common stock owned by Thermo Electron to Thermo Electron's shareholders in accordance with the Distribution Agreement (the "Distribution");

WHEREAS, prior to the Distribution, the Thermo Electron Group and the Kadant Group were part of an affiliated group of corporations that filed consolidated and combined Returns (as defined below) and of which Thermo Electron was the common parent, within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended;

WHEREAS, Thermo Electron and Kadant desire to set forth their agreement regarding the allocation between the Thermo Electron Group and the Kadant Group of all responsibilities, liabilities and benefits relating to or affecting Taxes (as defined below) paid or payable by either of them for all taxable periods.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the parties hereby agree as follows:

1. Definitions. Capitalized terms not otherwise defined herein shall have

the meanings given them in the Distribution Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" of any person means any person, corporation, partnership or other entity directly or indirectly controlling, controlled by or under common control with such person.

"Code" means the Internal Revenue Code of 1986, as amended or, as the context may require, the Internal Revenue Code applicable to the taxable year in question.

"Distribution Agreement" has the meaning set forth in the preamble hereto.

"Final Determination" shall mean the final resolution of liability for any Tax for a taxable period (i) by Internal Revenue Service Form 870 or 870-AD (or any successor forms

thereto), on the date of acceptance by or on behalf of the taxpayer, or by a comparable form under the laws of any other jurisdiction; except that a Form 870 or 870-AD or comparable form that reserves (whether by its terms or by operation of law) the right of the taxpayer to file a claim for refund and/or the right of the taxing authority to assert a further deficiency shall not constitute a Final Determination; (ii) by a decision, judgment, decree or other order by a court of competent jurisdiction, which has become final and unappealable; (iii) by a closing agreement or accepted offer in compromise under Section 7121 or 7122 of the Code, or comparable agreements under the laws of other jurisdictions; (iv) by any allowance of a refund or credit in respect of an overpayment of Tax, but only after the expiration of all periods during which such refund may be recovered (including by way of offset) by the Taxing Authority; or (v) by any other final disposition, including by reason of the expiration of the applicable statute of limitations or by mutual agreement of the parties.

"Post-Distribution Act" means any event or transaction (or the execution of an agreement, letter of intent or option providing for a transaction) in which Kadant participates after the Distribution and in which any of the following occurs:

(i) Kadant transfers a material portion of its assets (other than a transfer of assets in the ordinary course of business) within two years following the Distribution Date;

(ii) Kadant merges with another corporation within two years following the Distribution Date;

(iii) Within two years following the Distribution Date Kadant discontinues a material portion of its historic business activities including the design, manufacture, marketing and sale of stock-preparation equipment and accessories and water management systems for the paper making and paper recycling industries;

(iv) Within one year following the Distribution Date a material portion of the shares of Kadant common stock distributed in the Distribution is converted into (or redeemed or exchanged for) any other stock, any security, any property or cash;

(v) Within two years following the Distribution Date, Kadant issues its capital stock in one or more issuances, whether incident to a stock offering, an acquisition transaction or otherwise, which causes the aggregate amount of shares issued or acquired in all such transactions to represent a greater-than-twenty-percent interest in the total issued and outstanding stock of Kadant determined in accordance with Section 355(d)(4) of the Code as of the date of the Distribution without Kadant having delivered to Thermo Electron an opinion of counsel reasonably acceptable to Thermo Electron to the effect that such Post-Distribution Act will not cause Section 355(e) of the Code to apply with respect to the Distribution, which opinion shall be in such form and based upon such factual representations and assumptions as may be reasonably acceptable to Thermo Electron. For purpose of this paragraph (v), any issues of capital stock by Kadant pursuant to the conversion of the subordinated convertible debentures of Kadant due 2004 and outstanding on the date hereof shall not be taken into account.

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"Post-Distribution Taxes" means any and all liability for Taxes of the Kadant Group or the Thermo Electron Group, as appropriate, other than for Pre-Distribution Taxes.

"Pre-Distribution Taxes" means any and all Taxes of the Thermo Electron Group or the Kadant Group, as appropriate, for all periods that ended on or prior to the Distribution Date. For purposes of computing the amount of Pre-Distribution Taxes in the case of a Tax period that begins before and ends after the Distribution Date, the amount of Taxes considered to have accrued with respect to the portion of the Tax period that ended on the Distribution Date shall be determined as follows:

(i) In the case of any ad valorem, personal property and real property Taxes, an amount of such Tax for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the portion of the Tax period ended on the Distribution Date and the denominator of which is the number of days in the entire Tax period, provided that such allocation of Taxes shall be appropriately adjusted to reflect any material acquisitions or dispositions of property during the Tax period;

(ii) In the case of any withholding Tax, the amount of Taxes required to be withheld which relates to any payment by any member of the Thermo Electron Group or the Kadant Group on or before the Distribution Date; and

(iii) In the case of any Tax other than ad valorem, personal property and real property Taxes or any withholding Tax, the amount that would be payable if the relevant Tax period ended on the Distribution Date.

In the case of any credits relating to a Tax period that begins before and ends after the Distribution Date, only those credits that would have resulted had the relevant Tax period ended on the Distribution Date shall be taken into account.

"Returns" means all returns, reports and information statements (including all exhibits and schedules thereto) required to be filed with a Taxing Authority with respect to any Taxes.

"Second Distribution" has the meaning set forth in the definition of "Kadant-Caused Taxes".

"Tax Allocation Agreement" means that certain Tax Allocation Agreement by and between Thermo Electron and Kadant dated as of December 28, 1991 (copy attached).

"Taxes" means any income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, environmental excise, severance, stamp, transfer, recording occupation, premium, property, value added, windfall profit tax, custom, duty or other tax of any kind whatsoever, together with any interest and any penalty, addition to tax or additional amount imposed by any Taxing Authority.

"Taxing Authority" means any governmental authority responsible for the imposition of any Tax (domestic or foreign).

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"Thermo Electron" has the meaning set forth in the preamble hereto.

"Thermo Electron Group" has the meaning set forth in the preamble hereto.

"Thermo Electron Tax" means any Tax for which Thermo Electron or any member of the Thermo Electron Group is responsible under Section 2 hereof.

"Kadant" has the meaning set forth in the preamble hereto.

"Kadant Group" has the meaning set forth in the preamble hereto.

"Kadant Issue" has the meaning set forth in Section 3(a) hereof.

"Kadant Tax" means any Tax for which Kadant or any member of the Kadant Group is responsible under Section 2 hereof.

"Kadant-Caused Taxes" means any liability for Taxes (less an amount equal to any Taxes that would be attributable to the distribution of shares of Kadant or Viasys described in Section 355(a) (3) (B) of the Code if the Distribution and the Second Distribution were to otherwise qualify as tax-free transactions under Section 355(c) of the Code) incurred by the Thermo Electron Group or the Kadant Group arising from or attributable to any of the transactions that are directly related to either the Distribution or to the distribution of Viasys Healthcare Inc. ("Viasys") stock owned by Thermo Electron to Thermo Electron's shareholders (the "Second Distribution") (including, without limitation, the contribution and/or licensing of assets to Kadant or Viasys by Thermo Electron, the recapitalization of Kadant or Viasys and the Distribution or the Second Distribution itself) failing to qualify as a tax-free transaction under Code Sections 351, 355, 361 or 368 (or any comparable provisions of state law), but only if such failure (i) was caused (within the meaning of clause (c) of the next sentence) by an act that occurred after the Distribution and in which Kadant participated; (ii) was attributable (within the meaning of clause (c) of the next sentence) to Kadant failing to undertake an offering of at least ten-percent of its outstanding shares within twelve months following the Distribution Date (or such later date as the IRS may indicate in a written supplement to the private letter ruling designated as PLR 108328-00); or (iii) was otherwise attributable (within the meaning of clause (c) of the next sentence) to one or more of the representations contained in Section 8 hereof failing to be true. For purposes of this definition (subject to clause (c) hereof), (a) if any failure to so qualify occurs and Kadant has participated in a Post-Distribution Act, such failure shall be deemed to have been caused by Kadant's participation in the Post-Distribution Act unless established to the contrary by clear and convincing evidence that the Post-Distribution Act did not cause the failure to qualify as a tax-free transaction under Code Sections 351, 355, 361 or 368; (b) all transactions described in the request for ruling submitted to the Internal Revenue Service and dated April 7, 2000 (including supplemental information submitted in connection therewith) shall be included as transactions considered to be directly related to the Distribution or the Second

Distribution (as appropriate); (c) the failure to qualify as a tax-free transaction pursuant to Code Sections 351, 355, 361 and 368 shall be considered to have been caused or attributable to an act or omission by Kadant if the transaction would have so qualified but for the act or omission; and (d) the qualification of a transaction as "tax-free" shall be made without regard to taxable income or gain attributable to the distribution of shares of Kadant described in

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Section 355(a)(3)(B) of the Code or any cash received in lieu of fractional shares. Kadant-Caused Taxes, as defined above, shall include increases in Taxes of the Thermo Electron Group or the Kadant Group for any period to the extent such increases in Taxes would not have occurred but for the transactions directly related to the Distribution or the Second Distribution failing to qualify as a tax-free transaction under Sections 351, 355, 361 or 368 of the Code (or comparable provisions of state law). Thus, for example, if the failure of any of the transactions to so qualify results in additional income being realized by the Thermo Electron Group in its tax year that includes the Distribution or the Second Distribution, but such income is substantially offset by operating losses or net operating loss carryovers, Kadant-Caused Taxes will include (to the extent the other requirements of this definition are met) any increase in Taxes realized by any member of the Thermo Electron Group in subsequent years to the extent such increase in Taxes would not have been realized had the loss or loss carryovers not been used in the tax year that includes the Distribution or the Second Distribution.

"Transition Services Agreement" means that certain Transition Services Agreement by and between Thermo Electron and Kadant dated as of August 3, 2001 (copy attached).

2. Operative Provisions.

(a) Thermo Electron shall indemnify Kadant against and be responsible for all Post-Distribution Taxes attributable to any member of the Thermo Electron Group and all Pre-Distribution Taxes other than (i) Kadant-Caused Taxes and (ii) Pre-Distribution Taxes for which Kadant or any member of the Kadant Group was responsible under the Tax Allocation Agreement.

(b) Kadant shall indemnify Thermo Electron against and shall be responsible for all Post-Distribution Taxes attributable to any member of the Kadant Group, all Kadant-Caused Taxes and all Pre-Distribution Taxes for which Kadant or any member of the Kadant Group was responsible under the Tax Allocation Agreement.

(c) With respect to the tax year of the Thermo Electron Group that includes the Distribution Date and the tax year of Kadant that commences immediately following the Distribution Date, the Thermo Electron Group (which, for this purpose only, shall include the Kadant Group) shall claim on its federal income tax returns the benefit of (i) the graduated tax rates of Code Section 11, (ii) the \$25,000 bracket amount in Code Section 38, (iii) the \$40,000 exemption amount and the \$175,000 bracket amount in Code Section 55 and (iv) the \$2,000,000 bracket amount in Code Section 59A, and neither Kadant nor any member of the Kadant Group shall claim any of such benefits for their Tax year that commences on the date immediately following the Distribution Date.

(d) Notwithstanding the provisions of Section 2 hereof, for all tax years through and including 2001, Taxes imposed upon Thermo Electron or a member of the Thermo Electron Group, or Kadant or a member of the Kadant Group, that are determined or assessed on a separate company basis, will be the separate liability of Thermo Electron, Kadant or such member and not subject to allocation or sharing among other members of the Thermo Electron Group and the Kadant Group.

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(e) For purposes of this Section 2, the determination of the respective liabilities of the Thermo Electron Group and the Kadant Group for all Pre-Distribution Taxes shall be made in accordance with the provisions of the Tax Allocation Agreement consistently applied in accordance with past practice.

3. Returns; Refunds; Contest Provisions.

(a) Thermo Electron shall have the obligation and the sole right and full discretion to control (i) the preparation of all Returns that pertain (in whole or in part) to Pre-Distribution Taxes (including Kadant-Caused Taxes) and (ii) the defense, settlement or compromise of any audit, examination, investigation, suit, action or other proceeding relating to Pre-Distribution Taxes (including Kadant-Caused Taxes) and shall be entitled to all refunds of any Thermo Electron Taxes; provided, however, that such preparation of Returns and such defense, settlement or compromise of a proceeding shall be done in a manner consistent with past practices (including Thermo Electron's fiduciary duty to the Kadant Group as a controlling shareholder). In the event that the proceeding referenced in clause (ii) of the preceding sentence involves an issue that relates to Kadant Taxes (a "Kadant Issue"), Kadant shall have the right to participate in (but not control) such proceeding with respect to the Kadant Issue only at its own cost and expense. Notwithstanding the foregoing, in the event that Thermo Electron decides to abandon the defense of, or settle or compromise any claim relating solely to a Kadant Issue, Thermo Electron shall notify Kadant of such decision and Kadant shall have ten days to notify Thermo Electron that it assumes all liability with respect to the Kadant Taxes attributable to such Kadant Issue under dispute and wishes to assume the defense of such audit or other proceedings at its own expense. In the event that Thermo Electron timely receives such notice from Kadant, it shall use all reasonable efforts to cooperate so as to facilitate Kadant's handling of such proceedings.

(b) Except as otherwise provided in the Transition Services Agreement, Kadant shall have the obligation and the sole right and full discretion to control (i) the preparation of all Returns that pertain exclusively to Post-Distribution Taxes that are Kadant Taxes and (ii) the defense, settlement or compromise of any audit, examination, investigation, suit, action or other proceeding relating to Post-Distribution Taxes that are Kadant Taxes. Kadant shall be entitled to all refunds of any Kadant Taxes.

(c) Thermo Electron shall have the obligation and the sole right and full discretion to control (i) the preparation of all Returns with respect to Post-Distribution Taxes that are Thermo Electron Taxes and (ii) the defense, settlement or compromise of any audit, examination, investigation, suit, action or other proceeding relating to Post-Distribution Taxes that are Thermo Electron Taxes.

4. Stock Options.

(a) From and after the Distribution Date, if an employee or service provider of any member of the Kadant Group who is not also an employee or service provider of any member of the Thermo Electron Group exercises a stock option to acquire stock of Thermo Electron, the parties hereto agree that Kadant shall be entitled to any resulting Tax deduction and shall be fully responsible for all associated Tax reporting, withholding and similar obligations.

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(b) From and after the Distribution Date, if an employee or service provider of any member of the Thermo Electron Group who is not also an employee or service provider of any member of the Kadant Group exercises a stock option to acquire stock of Kadant, the parties agree that Thermo Electron shall be entitled to any resulting Tax deduction and shall be fully responsible for all associated Tax reporting, withholding and similar obligations.

(c) Except as provided in subsections (a) and (b) above, all deductions, reporting and withholding obligations associated with the exercise of a stock option shall be attributed to the respective group (i.e. Thermo Electron Group or the Kadant Group) to which the company that issued the stock upon exercise of the option belongs.

5. Agency.

Kadant irrevocably designates Thermo Electron (and shall cause each member of the Kadant Group to irrevocably designate Thermo Electron) as its agent and attorney in fact (and shall execute any necessary powers of attorney) for the purpose of taking any and all actions necessary or incidental to the filing of federal income tax Returns and state unitary or combined Returns for (i) any period during which any member of the Kadant Group or any predecessor

qualified to file a consolidated, combined, unitary or similar Return with any member of the Thermo Electron Group and (ii) any period ending on or before the Distribution Date. Thermo Electron shall keep Kadant reasonably informed of, and shall reasonably consult with Kadant with respect to, all actions to be taken on behalf of any member of the Kadant Group. Thermo Electron and Kadant will each furnish the other any and all information which the other may reasonably request in order to carry out the provisions of this Agreement to determine the amount of any Tax liability.

6. Consistent Reporting.

(a) With respect to all taxable periods ending on or prior to December 31, 2005, Kadant, each member of the Kadant Group and any future Affiliates thereof shall file federal income tax and state income tax Returns in a manner consistent with the Returns filed (or to be filed) in respect of Pre-Distribution Taxes and in a manner consistent with the form of the transactions contemplated by the Distribution Agreement (the "Form"), including that the Distribution qualifies under Section 355 of the Code, unless the proposed change has no adverse impact on the Thermo Electron Group.

(b) For purposes of subsection (a) of this Section 6, to the extent there is an inconsistency or an apparent inconsistency between the Returns relating to Pre-Distribution Taxes (including Returns to be filed after the Distribution Date) and the Form, Kadant shall file Returns with respect to Post-Distribution Taxes in the manner reasonably directed by Thermo Electron.

(c) Thermo Electron and Kadant agree to contest any proposed adjustment by any Taxing Authority that is, in the sole judgment of Thermo Electron, inconsistent with the provisions of this Section 6 or the Form.

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7. Covenants of Kadant and Thermo Electron Relating to Actions After the

Distribution Date.

(a) Kadant shall, and shall cause each member of the Kadant Group to, refrain from participating in any Post-Distribution Act without the prior written consent of Thermo Electron.

(b) Kadant and Thermo Electron shall cooperate (and shall cause each of their Affiliates to cooperate) fully at such time and to the extent reasonably requested by the other party in connection with the preparation and filing of any Return or the conduct of any audit, dispute, proceeding, suit or action in respect of Taxes or other Tax matters. Such cooperation shall include, without limitation, (i) the retention and provision on demand of books, records, documentation or other information relating to any Return until the expiration of the applicable statute of limitation (giving effect to any extension, waiver or mitigation thereof) plus two years; (ii) the execution of any document that may be necessary or reasonably helpful in connection with the filing of any Return by any member of the Thermo Electron Group or the Kadant Group or in connection with any audit, examination, investigation, suit, action or other proceeding; and (iii) the use of the parties' reasonable best efforts to obtain any documentation from a governmental authority or a third party that may be necessary or helpful in connection with the foregoing.

8. Kadant Representations. Kadant hereby represents and warrants to Thermo

Electron and each member of the Thermo Electron Group that the representations and statements relating to Kadant, the Kadant Group or their respective operations (and not Thermo Electron and its Shareholders) made, or to be made (to the extent Kadant is provided the opportunity to review such future representations and statements prior to their submission), to the Internal Revenue Service (the "IRS") in connection with any ruling obtained, or to be obtained, by Thermo Electron from the IRS with respect to any transaction contemplated by the Distribution Agreement, as well as the statements contained in this Section 8, are true and correct in all material respects on the date hereof:

(a) To the best of Kadant's actual knowledge without inquiry, no shares of Kadant common stock being distributed in the Distribution will be received by a shareholder of Thermo Electron in such shareholder's capacity as a

creditor or employee or in any capacity other than that of a shareholder of Thermo Electron.

(b) To the best of Kadant's actual knowledge without inquiry, immediately following the Distribution, no person, group of related persons or persons who acted in concert pursuant to a prearranged plan or arrangement will own 50% or greater of the Thermo Electron Common Stock or the Kadant common stock as a result of purchases of stock within five years of the Distribution Date.

(c) Kadant has no plan or intention to issue Kadant common stock, whether incident to a stock offering, an acquisition transaction or otherwise, which causes the aggregate amount of Kadant common stock issued or acquired in any such transaction to represent a fifty percent (50%) or greater interest in the total issued and outstanding Kadant common stock within the meaning of Section 355(d)(4) of the Code.

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(d) Kadant has no plan or intention to liquidate Kadant, to merge with another corporation or to sell or otherwise dispose of a material portion of its assets subsequent to the Distribution except in the ordinary course of business.

(e) To the best of Kadant's actual knowledge without inquiry, no plan or intention exists by the shareholders of Thermo Electron to sell, exchange, transfer by gift or otherwise dispose of a material portion of either Thermo Electron Common Stock or Kadant common stock held by them (in the aggregate) subsequent to the Distribution.

(f) Following the Distribution, each of Thermo Electron and Kadant will operate as independent corporations except that certain administrative and other common activities of the two corporations will be undertaken by common personnel in accordance with the Transition Services Agreement. Payments made in connection with all continuing transactions not expressly covered by the Transition Services Agreement between, and services provided for, each of Thermo Electron and Kadant will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(g) Kadant has no plan or intention to transfer or substantially discontinue the historic business of Kadant following the Distribution.

9. Payments. All payments to be made hereunder shall be made in

immediately available funds. Unless otherwise provided herein, any payment not made when due hereunder shall bear interest from the due date at an annual rate equal to the prime rate (as determined by FleetBoston Financial Corporation (or successor organization)) plus 2%, compounded and adjusted monthly. For purposes of this Agreement, the following payments shall be due at the following times:

(a) Payments due under Section 2 hereof shall be paid within 10 days of the receipt of notice from the party entitled to the payment indicating the occurrence of the later of (i) a Final Determination relating to the item or items giving rise to the Tax for which indemnification is made and (ii) actual payment of the Tax giving rise to the claim for indemnification.

(b) In the case of any refunds of Taxes received by a party other than the party entitled to such refunds pursuant to Section 3 hereof, the recipient of the refund shall pay the amount of such refund to the other party within five days of the receipt of such refund.

10. Resolution of Certain Disputes. Disagreements between Thermo Electron

and Kadant shall be resolved as quickly as possible and, if not resolved within thirty days, shall be referred for binding resolution to a mutually agreeable accounting firm as soon as practicable thereafter. In the event an accounting firm cannot be mutually agreed upon, an accounting firm shall be chosen by lot from among the "Big Five" accounting firms (or such other commonly acknowledged number of preeminent accounting firms as are then in existence) other than any such firms that are the regular accountants for Thermo Electron or Kadant; provided, however, that at any time prior to the selection of an accounting firm in accordance with the foregoing procedure, Thermo Electron or Kadant may elect by providing written notice to the other to refer the dispute to an arbitrator selected by the American Arbitration Association for binding

arbitration in accordance with the commercial arbitration rules of such association. A dispute shall be deemed to exist to the extent one party does not affirmatively agree with the position held by the other party. The parties shall be required to use their best efforts to resolve any dispute as quickly as possible. The costs and fees of the accounting firm or arbitrator, as applicable, shall be divided equally except to the extent a party's position is unreasonable (as determined by the accounting firm or arbitrator, as applicable), in which case such party shall bear all expenses (including without limitation such fees) allocable to such position and the dispute relating thereto.

11. Costs and Expenses. Except as expressly set forth in this Agreement,

each party shall bear its own costs and expenses incurred pursuant to this Agreement regardless of the beneficiary of the items or services relating to such costs and expenses.

12. Termination and Survival. Notwithstanding anything in this Agreement

to the contrary, this Agreement shall remain in effect and its provisions shall survive for the full period of all applicable statutes of limitation relating to the assessment of Taxes (giving effect to any extension, waiver or mitigation thereof) plus two years.

13. Amendments; Limitation on Waivers.

(a) Any provision of this Agreement may be amended if, and only if, such amendment is in writing and signed by Thermo Electron and Kadant.

(b) The provisions of this Agreement may be waived only if the waiver is in writing and signed by the party making the waiver. No delay or omission in exercising any right under this Agreement will operate as a waiver of the right on any further occasion. No waiver of any particular provision of this Agreement will be treated as a waiver of any other provision, and no waiver of any right will be deemed a continuing waiver of the same right with respect to subsequent occurrences that give rise to such right. All rights given by this Agreement are cumulative to other rights provided for in this Agreement and to any other rights available under applicable law.

14. Governing Law and Interpretation. This Agreement shall be governed by,

interpreted and enforced in accordance with the laws of the Commonwealth of Massachusetts (regardless of the laws that might be applicable under conflict of law principles).

15. Confidentiality. Each party shall hold and shall cause its consultants

and advisors to hold in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of law, all information (other than any such information relating solely to the business or affairs of such party) concerning the other parties hereto furnished it by such other party or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (a) in the public domain through no fault of the party to which it was furnished or (b) later lawfully acquired from other sources by the party to which it was furnished), and each party shall not release or disclose such information to any other person, except its auditors, attorneys, financial advisors, bankers and other consultants and advisors who shall be advised of the provisions of this Section 15. Each party shall be deemed to have satisfied its obligation to hold confidential information concerning

or supplied by the other party if it exercises the same care as it takes to preserve confidentiality for its own similar information.

16. Counterparts. This Agreement may be executed in two counterparts, each

of which shall be deemed to be an original, but both of which together shall

constitute one and the same instrument.

17. Assignments and Third-Party Benefit. This Agreement and the terms and

provisions hereof shall be binding upon, and shall inure to the benefit of the
parties hereto and their respective successors and assigns.

18. Severability. If any term, provision, condition or covenant of this

Agreement, or the application thereof to any party or circumstance, shall be
held by a court of competent jurisdiction to be invalid, unenforceable or void,
the remainder of this instrument, or the application of such term, provision,
condition or covenant to persons or circumstances other than those as to whom or
to which it is held invalid or unenforceable, shall not be affected thereby, and
each term and provision of this Agreement shall be valid and enforceable to the
fullest extent permitted by law.

19. Merger of Prior Agreements.

(a) This Agreement contains all of the terms and provisions and
constitutes the entire agreement between the parties with respect to the subject
matter hereof and supersedes all prior written, oral or implied understandings,
representations and agreements of the parties relating to the subject matter of
this Agreement, including the Tax Allocation Agreement. Without limiting the
foregoing, the parties acknowledge and agree that in the event of any conflict
or inconsistency between the provisions of this Agreement and the provisions of
the Distribution Agreement or the Transition Services Agreement, the provisions
of this Agreement shall control and to such extent shall be deemed to supersede
such conflicting provisions under the Distribution Agreement or the Transition
Services Agreement.

(b) The parties acknowledge that pursuant hereto, any and all
existing tax sharing agreements or arrangements binding or benefiting Kadant,
including the Tax Allocation Agreement, shall be terminated as of the close of
business on the Distribution Date, and that after the Distribution Date this
Agreement shall constitute the sole tax sharing agreement between Thermo
Electron and Kadant. For periods prior to the Distribution Date, the Tax
Allocation Agreement shall continue in effect except to the extent it is
inconsistent with the terms of this Agreement.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly
executed as of the day and year first above written.

Thermo Electron Corporation

By: /s/ R.F. Syron

Title: Chairman and Chief Executive Officer

Kadant Inc.

By: /s/ William A. Rainville

Title: President and Chief Executive Officer

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TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT (the "Agreement") is made as of the 3rd day of August, 2001, between Thermo Electron Corporation, a Delaware corporation ("Thermo Electron"), and Kadant Inc., a Delaware corporation ("Kadant").

RECITALS

WHEREAS, Thermo Electron and Kadant have entered into a Plan and Agreement of Distribution of even date herewith (the "Distribution Agreement"), which contemplates the distribution by Thermo Electron of all of the issued and outstanding shares of Kadant Common Stock held by Thermo Electron to the stockholders of Thermo Electron (the "Distribution"); and

WHEREAS, each of Thermo Electron and Kadant wishes to provide for an orderly and efficient separation of their businesses; and

WHEREAS, the successful operation of Kadant's business following the Distribution will require the performance of certain administrative services which Thermo Electron has previously provided to Kadant and which Thermo Electron is willing to continue to provide to Kadant; and

WHEREAS, the Distribution Agreement contemplates the execution and delivery of this Agreement, the purpose of which is to set forth certain matters regarding the provision of administrative services by Thermo Electron to Kadant.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the parties hereby agree as follows:

1. Definitions. Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to them in the Distribution Agreement.

2. Services. During the term of this Agreement, as set forth in Section 6 (the "Transition Period"), Thermo Electron shall provide, or cause one or more of the other members of the Thermo Electron Group to provide, to Kadant or one or more of the other members of the Kadant Group designated by Kadant, the services set forth in this Section 2.

2.1 Routine Services. Thermo Electron shall provide, or cause one or

more of the other members of the Thermo Electron Group to provide, to Kadant or one or more of the other members of the Kadant Group designated by Kadant the services identified in subparagraphs (a) through (f) below, in each case to the extent that such services are both (i) routine and consistent with services provided by the Thermo Electron Group prior to the Distribution pursuant to the Amended and Restated Corporate Services Agreement, dated January 3, 1993, between Thermo Electron and Kadant (the "Corporate Services Agreement") and (ii) covered by the annual fee assessed in

accordance with the Corporate Services Agreement (collectively, "Routine Services"). Thermo Electron and/or one or more of the other members of the Thermo Electron Group shall provide the Kadant Group Routine Services in such type, quantity and manner and at a level of service as is generally consistent with that provided by Thermo Electron and/or one or more of the other members of the Thermo Electron Group to the Kadant Group during the two-year period prior to the Distribution (the "Base Period"). Thermo Electron shall determine, in good faith, what services constitute Routine Services, and such determination shall not be subject to challenge by any member of the Kadant Group unless made in bad faith.

(a) Tax Related Services. Thermo Electron shall provide the tax

related services set forth in the Tax Matters Agreement in accordance with the terms thereof.

(b) Insurance Related Services. Thermo Electron shall arrange for

liability, property and casualty, and other normal business insurance coverage for the Kadant Group, such insurance to be at Kadant's expense.

Thermo Electron shall also provide support for the Kadant Group's product, worker safety and environmental programs, although Kadant acknowledges, on its own behalf and on behalf of the other members of the Kadant Group, that the principal responsibility for compliance rests with the Kadant Group. Kadant shall be eligible to receive a rebate from the workers' compensation pool administered by Thermo Electron for the 2001 fiscal year in an amount equal to the amount contributed to the pool by the Kadant Group less the workers' compensation expense actually incurred by the Kadant Group.

(c) Stock Plan Related Services. Thermo Electron shall assist with

the administration of the Kadant employee stock purchase plan and provide the Kadant Group with stock option administration services.

(d) Corporate Record Keeping Services. Thermo Electron shall maintain

the corporate records of the Kadant Group, including, without limitation, maintaining minutes of meetings of the Boards of Directors and stockholders, supervising the transfer agent and registration functions, coordinating stock repurchase programs and tracking stock issuances and reserved shares.

(e) Information Technology. The Kadant Group shall continue to lease

the personal computers that it currently leases from Thermo Electron subject to the terms and conditions of its current leasing arrangements, and such computers shall continue to have access to the Thermo Electron network, including but not limited to use of e-mail and access to the Internet.

(f) Other Services. Thermo Electron and/or one or more of the other

members of the Thermo Electron Group shall provide other services of the type provided by it or them to the Kadant Group during the Base Period pursuant to the Corporate Services Agreement to the extent that members of the Thermo

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Electron Group are permitted by law, contract or otherwise to provide such services and such services were covered by the annual fee assessed in accordance with the Corporate Services Agreement during the Base Period, including, but not limited to, risk management, export control advice, routine legal and other administrative services, corporate information, treasury and other financial services, and Hyperion and Edgar support and training services; provided, however, that the Kadant Group's participation in the notional pool arrangement in the United Kingdom and the pooling arrangement in France shall cease upon the Distribution.

2.2 Transition Services. Thermo Electron shall provide, or cause one

or more of the other members of the Thermo Electron Group to provide, to Kadant and/ or one or more of the other members of the Kadant Group designated by Kadant, transition services (collectively, "Transition Services") to the extent and in a manner reasonably necessary to train the personnel of the Kadant Group to assume responsibility after the term of this Agreement for all Routine Services and any other services provided by the Thermo Electron Group to the Kadant Group during the Base Period. Thermo Electron shall determine, in good faith, what services constitute Transition Services, and such determination shall not be subject to challenge by any member of the Kadant Group unless made in bad faith.

2.3 Extraordinary Services. In addition to Routine Services and

Transition Services, Kadant may from time to time request that Thermo Electron provide, or cause one or more of the other members of the Thermo Electron Group to provide, other services to members of the Kadant Group, including, but not limited to, litigation support, acquisition and offering support services (including legal services), corporate development, or public or investor relations services (collectively, "Extraordinary Services"). Thermo Electron shall determine, in good faith, what services constitute Extraordinary Services, and such determination shall not be subject to challenge by any member of the Kadant Group unless made in bad faith. Thermo Electron may, in its sole discretion, reject any request for Extraordinary Services.

2.4 Other Thermo Electron Activities. Kadant recognizes that the

Thermo Electron Group now renders and may continue to render management and other services to other companies that may or may not have policies and conduct activities similar to those of the Kadant Group. The Thermo Electron Group shall be free to render such advice and other services, and Kadant hereby consents thereto. The Thermo Electron Group shall not be required to devote full time and attention to the performance of its duties under this Agreement, but shall devote only so much of its time and attention as it deems reasonable or necessary to perform the services required hereunder.

2.5 Sublease of Property. Thermo Electron shall sublease to Kadant

the premises currently occupied by Kadant at 245 Winter Street, Waltham, Massachusetts, on a month-to-month basis, on terms (including without limitation rent and expense reimbursement) substantially the same as those in effect between the parties hereto immediately prior to the date hereof and consistent with their past practice during

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the Base Period, provided that Kadant shall not be required to vacate the premises on less than three months prior written notice.

3. Access to Kadant's Information. Kadant shall, and shall cause the other members of the Kadant Group to, make available on a timely basis to the Thermo Electron Group and the Representatives thereof all information and materials reasonably requested by Thermo Electron after the Distribution Date to enable it and/or the other members of the Thermo Electron Group to provide the services hereunder. The Kadant Group shall afford to the Thermo Electron Group and any Representatives thereof reasonable access, during normal business hours and at such other times as are reasonably required, to the Kadant Group's premises for the purpose of providing the services hereunder if such services are to be provided at a facility not owned or operated by the Thermo Electron Group. It is anticipated, however, that the services to be provided hereunder shall be performed at Thermo Electron's facilities and that Thermo Electron shall not be obligated to be resident at the Kadant Group's facilities unless mutually agreed between the parties hereto.

4. Fees; Expenses; Payment.

4.1 Routine Services and Transition Services. For performing Routine

Services and Transition Services, Thermo Electron will charge Kadant a quarterly fixed fee for any fiscal quarter in which such services are performed equal to 0.4% of the consolidated revenues of Kadant for the fiscal quarter ending September 29, 2001 and 0.2% of the consolidated revenues of Kadant for the fiscal quarter ending December 29, 2001 (such amount to be prorated on a daily basis for any partial fiscal quarter).

4.2 Extraordinary Services. For performing Extraordinary Services,

Thermo Electron will charge Kadant a fee equal to the fair market value of such services, as determined by Thermo Electron in good faith and on a basis consistent with the fees charged by the Thermo Electron Group to the Kadant Group for such services during the Base Period.

4.3 Third Party Expenses. In addition to the fees for Routine

Services, Transition Services and Extraordinary Services provided above, Kadant shall pay the costs of all services provided by outside providers to or for the benefit of the Kadant Group, as well as all out-of-pocket costs incurred in connection with the provision of such services. If any member of the Kadant Group is billed by the provider directly, Kadant shall pay the bill directly. If any member of the Thermo Electron Group is billed for such services, Thermo Electron may pay the bill and charge Kadant the amount of the bill or forward the bill to Kadant for payment by Kadant.

4.4 Manner of Payment. The charges for services pursuant to this

Section 4 will be determined and payable no less frequently than on a quarterly basis. The charges will be due when billed and shall be paid no later than 30 days from the date of billing. Overdue amounts will bear interest at ten percent

(10%) per annum, compounded monthly. No member of Kadant Group shall have any right of set off with respect to amounts to be paid pursuant to this Agreement or be permitted to withhold

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payment during the pendency of any dispute with respect to amounts to be paid to any member of the Thermo Electron Group pursuant to this Agreement.

5. Taxes. Any taxes assessed on the provision of the services hereunder shall be paid by Kadant to the extent such taxes are customarily borne or passed through to the recipient of such services.

6. Term of Agreement. The term of this Agreement shall commence on the Distribution Date and shall continue until December 29, 2001 (or, in the case of Section 2.5 hereof only, such longer period of time as the sublease remains in effect pursuant to, and in accordance with, the terms of Section 2.5 hereof), unless terminated earlier pursuant to Section 7 hereof.

7. Termination. This Agreement may be terminated by Kadant upon 90 days' written notice to Thermo Electron. This Agreement shall terminate and have no further force or effect in the event that the Distribution Agreement is terminated pursuant to, and in accordance with, Section 11.15 thereof.

8. Confidentiality. Subject to any contrary requirement of law and the right of each party to enforce its rights hereunder in any legal action, each party shall keep strictly confidential, and shall use its reasonable efforts to cause the other members of its respective Group and the Representatives thereof to keep strictly confidential, any Information of or concerning the other party or the other party's Group which it may acquire pursuant to, or in the course of performing its obligations under, this Agreement; provided, however, that such obligation to maintain confidentiality shall not apply to Information which: (i) at the time of disclosure was in the public domain, not as a result of improper acts by the receiving party; (ii) is received by the receiving party from a third party who did not receive such Information from the disclosing party under an obligation of confidentiality; or (iii) is compelled to be disclosed by judicial or administrative process or, in the opinion of such party's counsel, by other requirements of law. Notwithstanding the foregoing, each of Thermo Electron and Kadant shall be deemed to have satisfied its obligations under this Section 8 with respect to any Information if it exercises the same care with regard to such Information as it takes to preserve the confidentiality of its own similar Information.

9. Indemnification. Kadant hereby agrees to indemnify, defend and hold harmless each of the Thermo Electron Indemnitees from and against any and all Indemnifiable Losses resulting from or in connection with third party claims arising from the Thermo Electron Group's performance of the services hereunder, unless such third party claims are due to the Thermo Electron Group's gross negligence or willful misconduct in performing the services hereunder. In defending against the claim, Kadant shall have the right to employ counsel of its choosing and shall at all times have the power to direct the defense against the claim. Thermo Electron shall provide such assistance and cooperation, at Kadant's cost, as Kadant may reasonably request in connection with the defense of any claim with respect to which indemnity may be sought against Kadant pursuant to this Section 9. In connection with any written requests by Kadant that Thermo Electron take action on behalf of Kadant (including, without

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limitation, transfer monies on behalf of Kadant), Kadant hereby agrees to indemnify, defend and hold harmless each of the Thermo Electron Indemnitees from and against any and all Indemnifiable Losses resulting from or in connection with action taken in accordance with Kadant's written instructions.

10. Miscellaneous.

10.1 Governing Law. This Agreement shall be governed by the laws of

the State of Delaware.

10.2 Construction. Each provision of this Agreement shall be

interpreted in a manner to be effective and valid to the fullest extent

permissible under applicable law. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement which shall remain in full force and effect.

10.3 Counterparts. This Agreement may be executed in counterparts,

all of which shall be considered one and the same agreement.

10.4 Amendments; Waivers. This Agreement may be amended or modified

only in writing executed by Thermo Electron and Kadant. No waiver shall operate to waive any further or future act and no failure to object or forbearance shall operate as a waiver.

10.5 Notices. All notices, requests, demands and other communications

under this Agreement shall be given in accordance with Section 11.6 of the Distribution Agreement.

10.6 Successors and Assigns. This Agreement and any of the rights and

obligations of each party hereunder shall not be assigned, in whole or in part, without the prior written consent of the other party, except that Thermo Electron may delegate its obligations under this Agreement to other members of the Thermo Electron Group consistent with Thermo Electron's past practice or in connection with its merger or consolidation or the sale of substantially all of its assets, provided that in such event Thermo Electron shall remain fully liable for the fulfillment of all its obligations hereunder. This Agreement shall be binding upon the parties and their respective successors and assigns to the extent such assignments are in accordance with this Section 10.6.

10.7 Interpretation. The Section headings contained in this Agreement

are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement. Whenever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine gender in all cases where they would so apply.

10.8 No Third-Party Beneficiaries. Except for the provisions of

Section 8 relating to Thermo Electron Indemnitees, which are also for the benefit of such Thermo Electron Indemnitees other than Thermo Electron and the other members of the Thermo

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Electron Group, this Agreement is solely for the benefit of the parties hereto and the members of their respective Groups and is not intended to confer upon any other Persons any rights or remedies hereunder.

10.9 Complete Agreement.

(a) This Agreement, the Distribution Agreement and any schedules thereto and the Ancillary Agreements and other documents referred to herein or therein shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

(b) All matters arising out of the Distribution relating to taxes shall be governed by the Tax Matters Agreement. In the event of any inconsistency between the Tax Matters Agreement and this Agreement with respect to such matters, the Tax Matters Agreement shall govern.

10.10 Consequential and Other Damages. Except as specifically set

forth in this Agreement, Thermo Electron makes no representations, warranties or guaranties, express or implied, with respect to the services to be provided by the Thermo Electron Group under this Agreement. Notwithstanding anything to the contrary contained herein, no member of the Thermo Electron Group shall be liable, whether in contract, in tort (including negligence and strict liability), or otherwise, for any special, indirect, incidental or consequential

damages whatsoever, which in any way arise out of, relate to, or are a consequence of, its performance or nonperformance hereunder, or the provision of or failure to provide any service hereunder, including but not limited to loss of profits, business interruptions and claims of customers, except insofar as such damage is the result of gross negligence or willful misconduct of a member of the Thermo Electron Group.

10.11 Force Majeure. Neither party shall be considered in default in

performance of its obligations under this Agreement to the extent that its performance of such obligations is prevented or delayed by any cause beyond its reasonable control, including but not limited to strikes, labor disputes, civil disturbances, rebellion, invasion, epidemic, hostilities, war, embargo, natural disaster, acts of God, fire, sabotage, loss and destruction of property, changes in laws, regulations or orders, other events or situations which the party was unable to prevent or overcome despite the exercise of due diligence.

10.12 Independent Contractor. At all times during the term hereof, all

members of the Thermo Electron Group shall be independent contractors in providing services hereunder with the sole right to supervise, manage, operate, control, and direct the performance of such services and the sole obligation to employ, compensate, and manage their respective employees and business affairs. Nothing contained in this Agreement shall be deemed or construed to create a partnership or joint venture, to create the relationships of employee/employer or principal/agent, or otherwise create any liability whatsoever of either party hereto with respect to the indebtedness, liabilities,

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obligations or actions of the other party, any member of such other party's Group, the Representatives of such other party's Group, or any other Person or entity.

10.13 Compliance with Law. Nothing in this Agreement shall require

either party to take any action or omit to take any action in violation of applicable law.

10.14 Kadant Officers and Directors. Nothing contained herein shall be

construed to relieve the directors or officers of Kadant from the performance of their respective duties or to limit the exercise of their powers in accordance with Kadant's Certificate of Incorporation or By-laws, each as amended to date, or in accordance with any applicable statute or regulation.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

THERMO ELECTRON CORPORATION

By: /s/ R.F. Syron

Name: R.F. Syron

Title: Chairman and Chief Executive Officer

KADANT INC.

By: /s/ William A. Rainville

Name: William A. Rainville

Title: President and Chief Executive Officer

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