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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2021

OR

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

For the transition period from ________ to _________

Commission file number 001-11406

KADANT INC.

(Exact name of registrant as specified in its charter)

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

One Technology Park Drive
Westford, Massachusetts 01886
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 29, 2021, the registrant had 11,604,062 shares of common stock outstanding.

Kadant Inc.
Quarterly Report on Form 10-Q
for the Period Ended October 2, 2021
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PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

KADANT INC.
Condensed Consolidated Balance Sheet
(Unaudited)

(In thousands, except share and per share amounts)	October 2, 2021	January 2, 2021
Assets		
Current Assets:		
Cash and cash equivalents	$ 82,600	$ 65,682
Restricted cash (Note 1)	1,064	958
Accounts receivable, net of allowances of $2,874 and $2,977	120,496	91,540
Inventories	135,476	106,814
Unbilled revenue	7,915	7,576
Other current assets	28,477	17,250
Total Current Assets	376,028	289,820
Property, Plant, and Equipment, net of accumulated depreciation of $114,845 and $107,832	110,088	84,642
Other Assets	42,777	40,391
Intangible Assets, Net (Note 2)	205,328	160,965
Goodwill (Note 2)	398,907	351,753
Total Assets	$ 1,133,128	$ 927,571
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations (Note 5)	$ 5,574	$ 1,474
Accounts payable	53,476	32,264
Accrued payroll and employee benefits	34,680	31,168
Customer deposits	53,087	29,433
Advanced billings	11,980	8,513
Other current liabilities	39,862	31,836
Total Current Liabilities	198,659	134,688
Long-Term Obligations (Note 5)	308,922	232,000
Long-Term Deferred Income Taxes	36,842	21,669
Other Long-Term Liabilities	45,319	42,309
Commitments and Contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, $.01 par value, 150,000,000 shares authorized; 14,624,159 shares issued	146	146
Capital in excess of par value	112,693	110,824
Retained earnings	530,596	479,400
Treasury stock at cost, 3,038,629 and 3,081,919 shares	(74,459)	(75,519)
Accumulated other comprehensive items (Note 7)	(27,089)	(19,492)
Total Kadant Stockholders' Equity	541,887	495,359
Noncontrolling interest	1,499	1,546
Total Stockholders' Equity	543,386	496,905
Total Liabilities and Stockholders' Equity	$ 1,133,128	$ 927,571

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

KADANT INC.
Condensed Consolidated Statement of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Revenue (Notes 1 and 10)	$ 199,789	$ 154,610	$ 568,063	$ 466,597
Costs and Operating Expenses:				
Cost of revenue	116,096	86,294	323,337	263,510
Selling, general, and administrative expenses	52,316	43,853	151,014	134,518
Research and development expenses	2,649	2,658	8,547	8,532
Restructuring costs	—	470	—	926
	171,061	133,275	482,898	407,486
Operating Income	28,728	21,335	85,165	59,111
Interest Income	55	52	176	140
Interest Expense	(1,320)	(1,670)	(3,497)	(6,060)
Other Expense, Net	(23)	(32)	(71)	(95)
Income Before Provision for Income Taxes	27,440	19,685	81,773	53,096
Provision for Income Taxes (Note 4)	6,742	4,705	21,252	13,738
Net Income	20,698	14,980	60,521	39,358
Net Income Attributable to Noncontrolling Interest	(237)	(129)	(635)	(369)
Net Income Attributable to Kadant	$ 20,461	$ 14,851	$ 59,886	$ 38,989
Earnings per Share Attributable to Kadant (Note 3)				
Basic	$ 1.77	$ 1.29	$ 5.18	$ 3.40
Diluted	$ 1.75	$ 1.28	$ 5.14	$ 3.38
Weighted Average Shares (Note 3)				
Basic	11,580	11,504	11,571	11,472
Diluted	11,668	11,589	11,644	11,550

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

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

(In thousands)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Net Income	$ 20,698	$ 14,980	$ 60,521	$ 39,358
Other Comprehensive Items:				
Foreign currency translation adjustment	(7,326)	8,656	(7,987)	824
Post-retirement liability adjustments, net (net of tax provision (benefit) of $9, $(6), $21 and $14)	24	(14)	57	34
Effect of post-retirement plan settlement	—	—	—	(119)
Deferred gain (loss) on cash flow hedges (net of tax provision (benefit) of $20, $19, $60 and $(103))	66	51	244	(275)
Other comprehensive items	(7,236)	8,693	(7,686)	464
Comprehensive Income	13,462	23,673	52,835	39,822
Comprehensive Income Attributable to Noncontrolling Interest	(201)	(191)	(546)	(445)
Comprehensive Income Attributable to Kadant	$ 13,261	$ 23,482	$ 52,289	$ 39,377

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

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

	Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020
Operating Activities		
Net income attributable to Kadant	$ 59,886	$ 38,989
Net income attributable to noncontrolling interest	635	369
Net income	60,521	39,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,597	23,260
Stock-based compensation expense	6,230	5,126
Provision for losses on accounts receivable	116	505
Loss (gain) on sale of property, plant, and equipment	99	(4)
Other items, net	(1,852)	(250)
Changes in current assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(22,305)	1,306
Unbilled revenue	(487)	4,332
Inventories	(10,553)	(6,229)
Other current assets	(8,110)	2,840
Accounts payable	19,822	(13,183)
Other current liabilities	33,332	(4,460)
Net cash provided by operating activities	101,410	52,601
Investing Activities		
Acquisitions, net of cash acquired (Note 2)	(141,538)	(7,095)
Purchases of property, plant, and equipment	(7,688)	(5,419)
Proceeds from sale of property, plant, and equipment	102	55
Other	537	—
Net cash used in investing activities	(148,587)	(12,459)
Financing Activities		
Repayment of short- and long-term obligations	(72,723)	(69,034)
Proceeds from issuance of long-term obligations (Note 5)	151,944	26,000
Tax withholding payments related to stock-based compensation	(3,388)	(2,596)
Dividends paid	(8,559)	(8,141)
Dividend paid to noncontrolling interest	(560)	(525)
Proceeds from issuance of Company common stock	—	1,614
Other	—	(189)
Net cash provided by (used in) financing activities	66,714	(52,871)
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	(2,513)	660
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	17,024	(12,069)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	66,640	68,273
Cash, Cash Equivalents, and Restricted Cash at End of Period	$ 83,664	$ 56,204

See Note 1, Nature of Operations and Summary of Significant Accounting Policies, under the heading *Supplemental Cash Flow Information* for further details.

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

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

	Three Months Ended October 2, 2021								
	Common Stock				Treasury Stock				
(In thousands, except share and per share amounts)	Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
Balance at July 3, 2021	14,624,159	$ 146	$ 110,529	$ 513,036	3,043,854	$ (74,587)	$ (19,889)	$ 1,891	$ 531,126
Net income	—	—	—	20,461	—	—	—	237	20,698
Dividend declared – Common Stock, $0.25 per share	—	—	—	(2,901)	—	—	—	—	(2,901)
Activity under stock plans	—	—	2,164	—	(5,225)	128	—	—	2,292
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(560)	(560)
Noncontrolling interest acquired (Note 2)	—	—	—	—	—	—	—	653	653
Purchase of shares of noncontrolling interest (Note 2)	—	—	—	—	—	—	—	(686)	(686)
Other comprehensive items	—	—	—	—	—	—	(7,200)	(36)	(7,236)
Balance at October 2, 2021	14,624,159	$ 146	$ 112,693	$ 530,596	3,038,629	$ (74,459)	$ (27,089)	$ 1,499	$ 543,386

	Nine Months Ended October 2, 2021								
	Common Stock				Treasury Stock				
(In thousands, except share and per share amounts)	Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
Balance at January 2, 2021	14,624,159	$ 146	$ 110,824	$ 479,400	3,081,919	$ (75,519)	$ (19,492)	$ 1,546	$ 496,905
Net income	—	—	—	59,886	—	—	—	635	60,521
Dividends declared – Common Stock, $0.75 per share	—	—	—	(8,690)	—	—	—	—	(8,690)
Activity under stock plans	—	—	1,869	—	(43,290)	1,060	—	—	2,929
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(560)	(560)
Noncontrolling interest acquired (Note 2)	—	—	—	—	—	—	—	653	653
Purchase of shares of noncontrolling interest (Note 2)	—	—	—	—	—	—	—	(686)	(686)
Other comprehensive items	—	—	—	—	—	—	(7,597)	(89)	(7,686)
Balance at October 2, 2021	14,624,159	$ 146	$ 112,693	$ 530,596	3,038,629	$ (74,459)	$ (27,089)	$ 1,499	$ 543,386

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

KADANT INC.

Condensed Consolidated Statement of Stockholders' Equity (continued)

(Unaudited)

	Three Months Ended September 26, 2020								
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
(In thousands, except share and per share amounts)	Shares	Amount			Shares	Amount			
Balance at June 27, 2020	14,624,159	$ 146	$ 107,202	$ 453,874	3,127,565	$ (76,638)	$ (45,863)	$ 1,638	$ 440,359
Net income	—	—	—	14,851	—	—	—	129	14,980
Dividend declared – Common Stock, $0.24 per share	—	—	—	(2,762)	—	—	—	—	(2,762)
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(525)	(525)
Activity under stock plans	—	—	1,182	—	(12,966)	318	—	—	1,500
Other comprehensive items	—	—	—	—	—	—	8,631	62	8,693
Balance at September 26, 2020	14,624,159	$ 146	$ 108,384	$ 465,963	3,114,599	$ (76,320)	$ (37,232)	$ 1,304	$ 462,245

	Nine Months Ended September 26, 2020								
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
(In thousands, except share and per share amounts)	Shares	Amount			Shares	Amount			
Balance at December 28, 2019	14,624,159	$ 146	$ 106,698	$ 435,249	3,214,888	$ (78,778)	$ (37,620)	$ 1,384	$ 427,079
Net income	—	—	—	38,989	—	—	—	369	39,358
Dividends declared – Common Stock, $0.72 per share	—	—	—	(8,275)	—	—	—	—	(8,275)
Dividend paid to noncontrolling interest	—	—	—	—	—	—	—	(525)	(525)
Activity under stock plans	—	—	1,686	—	(100,289)	2,458	—	—	4,144
Other comprehensive items	—	—	—	—	—	—	388	76	464
Balance at September 26, 2020	14,624,159	$ 146	$ 108,384	$ 465,963	3,114,599	$ (76,320)	$ (37,232)	$ 1,304	$ 462,245

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

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

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kadant Inc. was incorporated in Delaware in November 1991 and trades on the New York Stock Exchange under the ticker symbol "KAI."

Kadant Inc. (together with its subsidiaries, the Company) is a global supplier of high-value, critical components and engineered systems used in process industries worldwide. Its products, technologies, and services play an integral role in enhancing process efficiency, optimizing energy utilization, and maximizing productivity in resource-intensive industries.

Interim Financial Statements

The interim condensed consolidated financial statements and related notes presented have been prepared by the Company, are unaudited, and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company's financial position at October 2, 2021, its results of operations, comprehensive income, and stockholders' equity for the three- and nine-month periods ended October 2, 2021 and September 26, 2020 and its cash flows for the nine-month periods ended October 2, 2021 and September 26, 2020. Interim results are not necessarily indicative of results for a full year or for any other interim period.

The condensed consolidated balance sheet presented as of January 2, 2021 has been derived from the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2021. The condensed consolidated financial statements and related notes are presented as permitted by the rules and regulations of the Securities and Exchange Commission (SEC) for Form 10-Q and do not contain certain information included in the annual consolidated financial statements and related notes of the Company. The condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2021, filed with the SEC.

Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although the Company makes every effort to ensure the accuracy of the estimates and assumptions used in the preparation of its condensed consolidated financial statements or in the application of accounting policies, if business conditions were different, or if the Company were to use different estimates and assumptions, it is possible that materially different amounts could be reported in the Company's condensed consolidated financial statements.

Note 1 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2021 describes the significant accounting estimates and policies used in preparation of the consolidated financial statements. There have been no material changes in the Company's significant accounting policies during the nine months ended October 2, 2021.

Supplemental Cash Flow Information

	Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020
Cash Paid for Interest	$ 3,091	$ 5,518
Cash Paid for Income Taxes, Net of Refunds	$ 19,320	$ 9,953
Non-Cash Investing Activities:		
Fair value of assets acquired	$ 185,424	$ 9,295
Cash paid for acquired businesses	(149,961)	(7,565)
Liabilities Assumed of Acquired Businesses	$ 35,463	$ 1,730
Purchases of property, plant, and equipment in accounts payable	$ 914	$ 101
Non-Cash Financing Activities:		
Issuance of Company common stock upon vesting of restricted stock units	$ 3,841	$ 4,557
Dividends declared but unpaid	$ 2,901	$ 2,762

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

Restricted Cash

The Company's restricted cash generally serves as collateral for certain banker's acceptance drafts issued to vendors and for bank guarantees associated with providing assurance to customers that the Company will fulfill certain customer obligations entered into in the normal course of business. The majority of the bank guarantees will expire over the next twelve months.

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

(In thousands)	October 2, 2021	September 26, 2020	January 2, 2021	December 28, 2019
Cash and cash equivalents	$ 82,600	$ 53,554	$ 65,682	$ 66,786
Restricted cash	1,064	2,650	958	1,487
Total Cash, Cash Equivalents, and Restricted Cash	$ 83,664	$ 56,204	$ 66,640	$ 68,273

Inventories

The components of inventories are as follows:

(In thousands)	October 2, 2021	January 2, 2021
Raw Materials	$ 57,616	$ 46,413
Work in Process	34,636	17,692
Finished Goods	43,224	42,709
	$ 135,476	$ 106,814

Intangible Assets, Net

Acquired intangible assets by major asset class are as follows:

(In thousands)	Gross	Accumulated Amortization	Currency Translation	Net
October 2, 2021				
Definite-Lived				
Customer relationships	$ 215,366	$ (75,978)	$ (2,613)	$ 136,775
Product technology	67,625	(34,615)	(1,468)	31,542
Tradenames	7,427	(3,278)	(346)	3,803
Other	20,110	(15,463)	(552)	4,095
	310,528	(129,334)	(4,979)	176,215
Indefinite-Lived				
Tradenames	29,059	—	54	29,113
Acquired Intangible Assets	$ 339,587	$ (129,334)	$ (4,925)	$ 205,328
January 2, 2021				
Definite-Lived				
Customer relationships	$ 173,728	$ (65,488)	$ (1,316)	$ 106,924
Product technology	56,111	(31,655)	(1,005)	23,451
Tradenames	6,027	(2,946)	(282)	2,799
Other	18,248	(14,369)	(515)	3,364
	254,114	(114,458)	(3,118)	136,538
Indefinite-Lived				
Tradenames	24,100	—	327	24,427
Acquired Intangible Assets	$ 278,214	$ (114,458)	$ (2,791)	$ 160,965

Intangible assets are recorded at fair value at the date of acquisition. Subsequent impairment charges are reflected as a reduction in the gross balance, as applicable. Definite-lived intangible assets are stated net of accumulated amortization and currency translation in the accompanying condensed consolidated balance sheet. The Company amortizes definite-lived intangible assets over lives that have been determined based on the anticipated cash flow benefits of the intangible asset.

Goodwill

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

(In thousands)	Flow Control	Industrial Processing	Material Handling	Total
Balance at January 2, 2021				
Gross balance	$ 101,437	$ 215,881	$ 119,944	$ 437,262
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	101,437	130,372	119,944	351,753
2021 Adjustments				
Acquisitions (Note 2)	25,349	—	27,699	53,048
Currency translation	(2,417)	(1,351)	(2,126)	(5,894)
Total 2021 adjustments	22,932	(1,351)	25,573	47,154
Balance at October 2, 2021				
Gross balance	124,369	214,530	145,517	484,416
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	$ 124,369	$ 129,021	$ 145,517	$ 398,907

Warranty Obligations

The Company's contracts covering the sale of its products include warranty provisions that provide assurance to its customers that the products will comply with agreed-upon specifications during a defined period of time. The Company provides for the estimated cost of product warranties at the time of sale based on historical occurrence rates and repair costs, as well as knowledge of any specific warranty problems that indicate projected warranty costs may vary from historical patterns. The Company negotiates the terms regarding warranty coverage and length of warranty depending on the products and applications.

The Company's liability for warranties is included in other current liabilities in the accompanying condensed consolidated balance sheet.

The changes in the carrying amount of product warranty obligations are as follows:

	Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020
Balance at Beginning of Year	$ 7,064	$ 6,467
Provision charged to expense	3,289	3,960
Usage	(3,106)	(3,809)
Acquisitions	429	—
Currency translation	(210)	114
Balance at End of Period	$ 7,466	$ 6,732

Revenue Recognition

Most of the Company’s revenue relates to products and services that require minimal customization and is recognized at a point in time for each performance obligation under the contract when the customer obtains control of the goods or service. The remaining portion of the Company’s revenue is recognized over time based on an input method that compares the costs incurred to date to the total expected costs required to satisfy the performance obligation. Contracts are accounted for on an over time basis when they include products which have no alternative use and an enforceable right to payment over time. Most of the contracts recognized on an over time basis are for large capital projects. These projects are highly customized for the customer and, as a result, would include a significant cost to rework in the event of cancellation.

The following table presents revenue by revenue recognition method:

	Three Months Ended		Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Point in Time	$ 181,407	$ 137,679	$ 511,303	$ 403,568
Over Time	18,382	16,931	56,760	63,029
	$ 199,789	$ 154,610	$ 568,063	$ 466,597

The Company disaggregates its revenue from contracts with customers by reportable operating segment, product type and geography as this best depicts how its revenue is affected by economic factors.

The following table presents the disaggregation of revenue by product type and geography:

	Three Months Ended		Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Revenue by Product Type:				
Parts and consumables	$ 131,225	$ 102,729	$ 374,307	$ 305,087
Capital	68,564	51,881	193,756	161,510
	$ 199,789	$ 154,610	$ 568,063	$ 466,597
Revenue by Geography (based on customer location):				
North America	$ 105,384	$ 87,366	307,243	269,907
Europe	58,813	38,951	159,281	112,881
Asia	25,504	18,847	72,046	50,992
Rest of world	10,088	9,446	29,493	32,817
	$ 199,789	$ 154,610	$ 568,063	$ 466,597

See Note 10, Business Segment Information, for information on the disaggregation of revenue by reportable operating segment.

The following table presents contract balances from contracts with customers:

(In thousands)	October 2, 2021	January 2, 2021
Accounts Receivable	$ 120,496	$ 91,540
Contract Assets	$ 7,915	$ 7,576
Contract Liabilities	$ 67,025	$ 39,269

Contract assets represent unbilled revenue associated with revenue recognized on contracts accounted for on an over time basis, which will be billed in future periods based on the contract terms. Contract liabilities consist of customer deposits, advanced billings, and deferred revenue. Deferred revenue is included in other current liabilities in the accompanying condensed consolidated balance sheet. Contract liabilities will be recognized as revenue in future periods once the revenue recognition criteria are met. The majority of the contract liabilities relate to advance payments on contracts accounted for at a point in time. These advance payments will be recognized as revenue when the Company's performance obligations have been satisfied, which typically occurs when the product has shipped and control of the asset has transferred to the customer.

The Company recognized revenue of $3,973,000 in the third quarter of 2021, $1,656,000 in the third quarter of 2020, $31,183,000 in the first nine months of 2021 and $28,522,000 in the first nine months of 2020 that was included in the contract liabilities balance at the beginning of 2021 and 2020. The majority of the Company's contracts for capital equipment have an original expected duration of one year or less. Certain capital contracts require long lead times and could take up to 24 months to complete. For contracts with an original expected duration of over one year, the aggregate amount of the transaction price allocated to the remaining unsatisfied or partially unsatisfied performance obligations as of October 2, 2021 was $38,135,000. The Company will recognize revenue for these performance obligations as they are satisfied, approximately 70% of which is expected to occur within the next twelve months and the remaining 30% within the following twelve months.

Banker's Acceptance Drafts Included in Accounts Receivable

The Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are non-interest bearing obligations of the issuing bank and mature within six months of the origination date. The Company's Chinese subsidiaries may sell the drafts at a discount to a third-party financial institution or transfer the drafts to vendors in settlement of current accounts payable prior to the scheduled maturity date. These drafts, which totaled $7,428,000 at October 2, 2021 and $9,445,000 at January 2, 2021, are included in accounts receivable in the accompanying condensed consolidated balance sheet until the subsidiary sells the drafts to a bank and receives a discounted amount, transfers the banker's acceptance drafts in settlement of current accounts payable prior to maturity, or obtains cash payment on the scheduled maturity date.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes. In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-12, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance, including the recognition of franchise tax, the treatment of a step up in the tax basis of goodwill, and the timing for recognition of enacted changes in tax laws or rates in the interim period annual effective tax rate computation. This new guidance is effective in fiscal 2021, and the transition requirements are primarily prospective. The Company adopted this ASU prospectively at the beginning of fiscal 2021 and its adoption did not have an impact on the condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

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

2. Acquisitions

The Company’s acquisitions have been accounted for using the purchase method of accounting and the results of the acquired businesses are included in its condensed consolidated financial statements from the date of acquisition. Historically, acquisitions have been made at prices above the fair value of identifiable net assets, resulting in goodwill. Acquisition costs are included in selling, general, and administrative (SG&A) expenses in the accompanying condensed consolidated statement of income as incurred. The Company recorded acquisition costs of $2,619,000 in the first nine months of 2021 and $485,000 in the first nine months of 2020.

In the third quarter of 2021, the Company acquired all partnership interests and shares in The Clouth Group of Companies (Clouth), for $93,127,000, net of cash acquired plus debt assumed. The majority of the Clouth companies were acquired on July 19, 2021 and the acquisition of the last legal entity occurred on August 10, 2021, which the Company accounted for as a noncontrolling interest during the period from July 19, 2021 to August 10, 2021. The Company funded the purchase price with euro-denominated borrowings under its revolving credit facility and existing cash. Clouth, which is included within the Company's Flow Control segment, is a leading manufacturer of doctor blades and related equipment used in the production of paper, packaging, and tissue. The Company expects several synergies in connection with this acquisition, including deepening its presence in the growing ceramic blade market and expansion of sales at its existing businesses by leveraging Clouth's complementary global geographic footprint. Clouth has two manufacturing facilities in Germany and one in Poland and generated revenue of approximately 40,495,000 euros for the trailing twelve months ended June 30, 2021. Goodwill from the Clouth acquisition was $25,349,000, of which $6,240,000 is expected to be deductible for tax purposes over 15 years. In addition, intangible assets acquired were $34,113,000, of which $4,827,000 is expected to be deductible for tax purposes over 15 years. For the quarter ended October 2, 2021, the Company recorded revenue of $9,913,000 and an operating loss of $1,025,000 for Clouth from the date of acquisition, including amortization expense of $2,199,000 associated with acquired profit in inventory and backlog. The final purchase accounting and purchase price allocations remain subject to change as the

Company continues to refine its preliminary valuation of certain acquired assets and liabilities assumed and the valuation of acquired intangibles.

On August 23, 2021, the Company acquired all the outstanding equity securities in East Chicago Machine Tool Corporation (Balemaster) and certain assets of affiliated companies for $53,747,000, net of cash acquired. Balemaster, which is included within the Company's Material Handling segment, is a leading U.S. manufacturer of horizontal balers and related equipment used primarily for recycling packaging waste at corrugated box plants and large retail and distribution centers. The Company funded the purchase price with borrowings under its revolving credit facility. The Company expects several synergies in connection with the acquisition, including expansion of its presence in the secondary material processing market and creation of new opportunities for leveraging its high-performance balers produced in Europe. Balemaster's revenue for the trailing twelve months ended June 30, 2021 was approximately $22,166,000. Goodwill from the Balemaster acquisition was $27,699,000, none of which is deductible for tax purposes. In addition, intangible assets acquired were $27,260,000, none of which is deductible for tax purposes. For the quarter ended October 2, 2021, the Company recorded revenue of $2,845,000 and operating income of $221,000 for Balemaster from the date of acquisition, including amortization expense of $621,000 associated with acquired profit in inventory and backlog. The final purchase accounting and purchase price allocations remain subject to change as the Company continues to refine its preliminary valuation of certain acquired assets and liabilities assumed and the valuation of acquired intangibles.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed and the purchase price for Clouth and Balemaster.

(In thousands)	Clouth	Balemaster	Total
Net Assets Acquired:			
Cash and Cash Equivalents	$ 4,666	$ 3,757	$ 8,423
Accounts Receivable	6,863	1,593	8,456
Inventories	15,770	3,993	19,763
Other Current Assets	1,467	36	1,503
Property, Plant, and Equipment	24,508	4,232	28,740
Other Assets	3,923	195	4,118
Definite-Lived Intangible Assets			
Customer relationships	19,838	21,800	41,638
Product technology	8,914	2,600	11,514
Tradenames	—	1,400	1,400
Other	402	1,460	1,862
Indefinite-Lived Intangible Assets			
Tradenames	4,959	—	4,959
Goodwill	25,349	27,699	53,048
Total assets acquired	116,659	68,765	185,424
Short-term Obligations and Current Maturities of Long-term Obligations	1,320	—	1,320
Accounts Payable	1,452	743	2,195
Other Current Liabilities	4,557	3,900	8,457
Long-Term Deferred Income Taxes	10,060	6,423	16,483
Long-Term Obligations	4,141	—	4,141
Other Long-term Liabilities	2,797	195	2,992
Total liabilities assumed	24,327	11,261	35,588
Net assets acquired	$ 92,332	$ 57,504	$ 149,836
Purchase Price:			
Cash Paid	$ 92,332	$ 57,504	$ 149,836

The weighted-average amortization period for Clouth's definite-lived intangible assets is 19 years, including weighted-average amortization periods of 24 years for customer relationships and 10 years for product technology. The weighted-average amortization period for Balemaster's definite-lived intangible assets is 17 years, including weighted-average amortization periods of 18 years for customer relationships, 13 years for product technology, and 17 years for tradenames.

Unaudited Supplemental Pro Forma Information

Had the acquisition of Clouth been completed as of the beginning of 2020, the Company’s pro forma results of operations for the three- and nine-month periods ended October 2, 2021 and September 26, 2020 would have been as follows:

	Three Months Ended		Nine Months Ended	
(In thousands, except per share amounts)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Revenue	$ 201,372	$ 166,687	$ 593,500	$ 501,484
Net Income Attributable to Kadant	$ 22,125	$ 17,013	$ 64,102	$ 37,106
Earnings per Share Attributable to Kadant				
Basic	$ 1.91	$ 1.48	$ 5.54	$ 3.23
Diluted	$ 1.90	$ 1.47	$ 5.51	$ 3.21

The historical consolidated financial information of the Company and Clouth has been adjusted in the pro forma information above to give effect to pro forma events that are (i) directly attributable to the acquisition and related financing arrangements, (ii) expected to have a continuing impact on the Company, and (iii) factually supportable.

Pro forma results include the following non-recurring pro forma adjustments:

- Pre-tax charge to cost of revenue of $3,098,000 in the nine months ended September 26, 2020 and reversal of $1,846,000 in the three and nine months ended October 2, 2021, for the sale of inventory revalued at the date of acquisition.
- Pre-tax charge to SG&A expenses of $2,143,000 in the nine months ended September 26, 2020 and reversal of $860,000 in the three months ended October 2, 2021 and $2,096,000 in the nine months ended October 2, 2021, for acquisition costs and intangible asset amortization related to acquired backlog.
- Estimated tax effects related to the pro forma adjustments.

These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that would have resulted had the acquisition of Clouth occurred as of the beginning of 2020, or that may result in the future.

The Company's pro forma results exclude the Balemaster acquisition as the inclusion of its results would not have been materially different from the pro forma results presented above had the acquisition occurred at the beginning of 2020.

3. Earnings per Share

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

	Three Months Ended		Nine Months Ended	
(In thousands, except per share amounts)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Net Income Attributable to Kadant	$ 20,461	$ 14,851	$ 59,886	$ 38,989
Basic Weighted Average Shares	11,580	11,504	11,571	11,472
Effect of Stock Options, Restricted Stock Units and Employee Stock Purchase Plan Shares	88	85	73	78
Diluted Weighted Average Shares	11,668	11,589	11,644	11,550
Basic Earnings per Share	$ 1.77	$ 1.29	$ 5.18	$ 3.40
Diluted Earnings per Share	$ 1.75	$ 1.28	$ 5.14	$ 3.38

The effect of outstanding and unvested restricted stock units (RSUs) of the Company's common stock totaling 3,000 shares in the third quarter of 2021, 11,000 shares in the third quarter of 2020, 19,000 shares in the first nine months of 2021, and 30,000 shares in the first nine months of 2020 were not included in the computation of diluted EPS for the respective periods as the effect would have been antidilutive or, for unvested performance-based RSUs, the performance conditions had not been met as of the end of the reporting periods.

4. Provision for Income Taxes

The provision for income taxes was $21,252,000 in the first nine months of 2021 and $13,738,000 in the first nine months of 2020. The effective tax rate of 26% in the first nine months of 2021 was higher than the Company's statutory rate of 21% primarily due to the distribution of the Company's worldwide earnings, nondeductible expenses, state taxes, and tax expense associated with the Global Intangible Low-Taxed Income (GILTI) provisions. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate of 26% in the first nine months of 2020 was higher than the Company's statutory rate of 21% primarily due to nondeductible expenses, the distribution of the Company's worldwide earnings and state taxes. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements.

5. Short- and Long-Term Obligations

Short- and long-term obligations are as follows:

(In thousands)	October 2, 2021	January 2, 2021
Revolving Credit Facility, due 2023	$ 294,610	$ 217,963
Senior Promissory Notes, due 2023 to 2028	10,000	10,000
Finance Leases, due 2021 to 2026	1,661	1,631
Other Borrowings, due 2021 to 2028	8,225	3,880
Total	314,496	233,474
Less: Short-term Obligations and Current Maturities of Long-Term Obligations	(5,574)	(1,474)
Long-Term Obligations	$ 308,922	$ 232,000

See Note 9, Fair Value Measurements and Fair Value of Financial Instruments, for the fair value information related to the Company's long-term obligations.

Revolving Credit Facility

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

The obligations under the Credit Agreement may be accelerated upon the occurrence of an event of default, which includes customary events of default under such financing arrangements. In addition, the Credit Agreement contains negative covenants applicable to the Company and its subsidiaries, including financial covenants requiring the Company to maintain a maximum consolidated leverage ratio of 3.75 to 1.00, or, if the Company elects, for the quarter during which a material acquisition occurs and for the three fiscal quarters thereafter, 4.00 to 1.00, and limitations on making certain restricted payments (including dividends and stock repurchases).

Loans under the Credit Agreement are guaranteed by certain domestic subsidiaries of the Company.

In the first nine months of 2021, the Company borrowed an aggregate of $151,944,000 under the Credit Agreement, including $89,944,000 of euro-denominated borrowings, which were primarily used to fund the Company's acquisitions in the third quarter of 2021. See Note 2, Acquisitions, for further details. As of October 2, 2021, the outstanding balance under the Credit Agreement was $294,610,000, which included $106,610,000 of euro-denominated borrowings. As of October 2, 2021, the Company had $104,912,000 of borrowing capacity available under its Credit Agreement, which was calculated by translating its foreign-denominated borrowings using borrowing date foreign exchange rates.

The weighted average interest rate for the outstanding balance under the Credit Agreement was 1.46% as of October 2, 2021.

See Note 8, Derivatives, under the heading *Interest Rate Swap Agreement*, for information relating to the swap agreement used to hedge the Company’s exposure to movements in the three-month USD LIBOR on its U.S. dollar-denominated debt borrowed under the Credit Agreement.

Senior Promissory Notes

In 2018, the Company entered into an uncommitted, unsecured Multi-Currency Note Purchase and Private Shelf Agreement (Note Purchase Agreement). Simultaneous with the execution of the Note Purchase Agreement, the Company issued senior promissory notes (Initial Notes) in an aggregate principal amount of $10,000,000, with a per annum interest rate of 4.90% payable semiannually, and a maturity date of December 14, 2028. The Company is required to prepay a portion of the principal of the Initial Notes beginning on December 14, 2023 and each year thereafter, and may optionally prepay the principal on the Initial Notes, together with any prepayment premium, at any time (in a minimum amount of $1,000,000, or the foreign currency equivalent thereof, if applicable) in accordance with the Note Purchase Agreement. The obligations of the Initial Notes may be accelerated upon an event of default as defined in the Note Purchase Agreement, which includes customary events of default under such financing arrangements.

In accordance with the Note Purchase Agreement, the Company may also issue additional senior promissory notes (together with the Initial Notes, the Senior Promissory Notes) up to an additional $115,000,000 until the earlier of December 14, 2021 or the thirtieth day after written notice to terminate the issuance and sale of additional notes pursuant to the Note Purchase Agreement. The Senior Promissory Notes are *pari passu* with the Company’s indebtedness under the Credit Agreement, and any other senior debt of the Company, subject to certain specified exceptions, and participate in a sharing agreement with respect to the obligations of the Company and its subsidiaries under the Credit Agreement. The Senior Promissory Notes are guaranteed by certain of the Company’s domestic subsidiaries.

Debt Compliance

As of October 2, 2021, the Company was in compliance with the covenants related to its debt obligations.

Finance Leases

The Company's finance leases primarily relate to contracts for vehicles.

Other Borrowings

Other borrowings include a sale-leaseback financing arrangement for a manufacturing facility in Germany. Under this arrangement, the quarterly lease payment includes principal, interest, and a payment to the landlord toward a loan receivable. The interest rate on the outstanding obligation is 1.79%. The secured loan receivable, which is included in other current assets in the accompanying condensed consolidated balance sheet, was $1,374,000 at October 2, 2021. The lease arrangement provides for a fixed price purchase option, net of the projected loan receivable, of $1,540,000 at the end of the lease term in August 2022. If the Company does not exercise the purchase option for the facility, it will receive cash from the landlord to settle the loan receivable. As of October 2, 2021, $3,432,000 was outstanding under this obligation.

Other borrowings also include $1,150,000 of short-term obligations and $3,629,000 of debt obligations outstanding at October 2, 2021 assumed in the acquisition of Clouth, which mature on various dates ranging from 2021 through 2028.

6. Stock-Based Compensation

The Company recognized stock-based compensation expense of $2,204,000 in the third quarter of 2021, $1,610,000 in the third quarter of 2020, $6,230,000 in the first nine months of 2021, and $5,126,000 in the first nine months of 2020 within selling, general, and administrative (SG&A) expenses in the accompanying condensed consolidated statement of income. The Company recognizes compensation expense for all stock-based awards granted to employees and directors based on the grant date estimate of fair value for those awards. The fair value of RSUs is based on the grant date price of the Company's common stock, reduced by the present value of estimated dividends foregone during the requisite service period. For time-based RSUs, compensation expense is recognized ratably over the requisite service period for the entire award based on the grant date fair value, and net of actual forfeitures recorded when they occur. For performance-based RSUs, compensation expense is recognized ratably over the requisite service period for each separately vesting portion of the award based on the grant date fair value, net of actual forfeitures recorded when they occur, and remeasured each reporting period until the total number of RSUs to be issued is known. Unrecognized compensation expense related to stock-based compensation totaled approximately $9,699,000 at October 2, 2021, which will be recognized over a weighted average period of 1.7 years.

7. Accumulated Other Comprehensive Items

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

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

(In thousands)	Foreign Currency Translation Adjustment	Post-Retirement Benefit Liability Adjustments	Deferred Loss on Cash Flow Hedges	Total
Balance at January 2, 2021	$ (17,894)	$ (770)	$ (828)	$ (19,492)
Other comprehensive items before reclassifications	(7,898)	27	(12)	(7,883)
Reclassifications from AOCI	—	30	256	286
Net current period other comprehensive items	(7,898)	57	244	(7,597)
Balance at October 2, 2021	$ (25,792)	$ (713)	$ (584)	$ (27,089)

Amounts reclassified from AOCI are as follows:

	Three Months Ended		Nine Months Ended		
(In thousands)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020	Statement of Income Line Item
Post-retirement Benefit Plans					
Recognized net actuarial loss	$ (11)	$ (14)	$ (33)	$ (43)	Other expense, net
Amortization of prior service cost	(3)	(2)	(9)	(5)	Other expense, net
Total expense before income taxes	(14)	(16)	(42)	(48)	
Income tax benefit	4	4	12	132	Provision for income taxes
	(10)	(12)	(30)	84	
Cash Flow Hedges (a)					
Interest rate swap agreements	(114)	(109)	(336)	(215)	Interest expense
Forward currency-exchange contracts	—	47	—	24	Cost of revenue
Total expense before income taxes	(114)	(62)	(336)	(191)	
Income tax benefit	27	15	80	46	Provision for income taxes
	(87)	(47)	(256)	(145)	
Total Reclassifications	$ (97)	$ (59)	$ (286)	$ (61)	

(a) See Note 8, Derivatives, for additional information.

8. Derivatives

Interest Rate Swap Agreement

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

The Company designated its 2018 Swap Agreement as a cash flow hedge and structured it to be 100% effective. Unrealized gains and losses related to the fair value of the 2018 Swap Agreement are recorded to AOCI, net of tax. In the event of early termination, the Company will receive from or pay to the counterparty the fair value of the 2018 Swap Agreement, and the unrealized gain or loss outstanding will be recognized in earnings.

The counterparty to the 2018 Swap Agreement could demand an early termination of that agreement if the Company were to be in default under the Credit Agreement, or any agreement that amends or replaces the Credit Agreement in which the counterparty is a member, and if it were to be unable to cure the default. See Note 5, Short- and Long-Term Obligations, for further details.

Forward Currency-Exchange Contracts

The Company uses forward currency-exchange contracts that generally have maturities of twelve months or less to hedge exposures resulting from fluctuations in currency exchange rates. Such exposures result from assets and liabilities that are denominated in currencies other than the functional currencies of the Company's subsidiaries.

Forward currency-exchange contracts that hedge forecasted accounts receivable or accounts payable are designated as cash flow hedges and unrecognized gains and losses are recorded to AOCI, net of tax. Deferred gains and losses are recognized in the statement of income in the period in which the underlying transaction occurs. The fair values of forward currency-exchange contracts that are designated as fair value hedges and forward currency-exchange contracts that are not designated as hedges are recognized currently in earnings.

Gains and losses reported within SG&A expenses in the accompanying condensed consolidated statement of income associated with the Company's forward currency-exchange contracts that were not designated as hedges were not material for the three- and nine-month periods ended October 2, 2021 and September 26, 2020.

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

		October 2, 2021		January 2, 2021	
(In thousands)	Balance Sheet Location	Asset (Liability) (a)	Notional Amount (b)	Asset (Liability) (a)	Notional Amount
Derivatives Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contract	Other Current Assets	$ —	$ —	$ 25	$ 842
Derivatives in a Liability Position:					
Forward currency-exchange contract	Other Current Liabilities	$ (25)	$ 842	$ —	$ —
2018 Swap Agreement	Other Long-Term Liabilities	$ (745)	$ 15,000	$ (1,099)	$ 15,000
Derivatives Not Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contracts	Other Current Assets	$ —	$ —	$ 12	$ 582
Derivatives in a Liability Position:					
Forward currency-exchange contracts	Other Current Liabilities	$ —	$ —	$ (7)	$ 825

(a) See Note 9, Fair Value Measurements and Fair Value of Financial Instruments, for the fair value measurements relating to these financial instruments.

(b) The 2021 notional amounts are indicative of the level of the Company's recurring derivative activity.

The following table summarizes the activity in AOCI associated with the Company's derivative instruments designated as cash flow hedges as of and for the nine months ended October 2, 2021:

(In thousands)	Interest Rate Swap Agreement	Forward Currency-Exchange Contract	Total
Unrealized (Loss) Gain, Net of Tax, at January 2, 2021	$ (846)	$ 18	$ (828)
Loss reclassified to earnings (a)	256	—	256
Gain (loss) recognized in AOCI	25	(37)	(12)
Unrealized Loss, Net of Tax, at October 2, 2021	$ (565)	$ (19)	$ (584)

(a) See Note 7, Accumulated Other Comprehensive Items, for the income statement classification.

As of October 2, 2021, the Company expects to reclassify losses of $363,000 from AOCI to earnings over the next twelve months based on the estimated cash flows of the 2018 Swap Agreement and the maturity date of the forward currency-exchange contract.

9. Fair Value Measurements and Fair Value of Financial Instruments

Fair value measurement is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
- Level 3—Unobservable inputs based on the Company's own assumptions.

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

	Fair Value as of October 2, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	$ 9,774	$ —	$ —	$ 9,774
Banker's acceptance drafts (a)	$ —	$ 7,428	$ —	$ 7,428
Liabilities:				
2018 Swap Agreement	$ —	$ 745	$ —	$ 745
Forward currency-exchange contract	$ —	$ 25	$ —	$ 25

	Fair Value as of January 2, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	$ 8,054	$ —	$ —	$ 8,054
Banker's acceptance drafts (a)	$ —	$ 9,445	$ —	$ 9,445
Forward currency-exchange contracts	$ —	$ 37	$ —	$ 37
Liabilities:				
2018 Swap Agreement	$ —	$ 1,099	$ —	$ 1,099
Forward currency-exchange contracts	$ —	$ 7	$ —	$ 7

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

The Company uses the market approach technique to value its financial assets and liabilities, and there were no changes in valuation techniques during the first nine months of 2021. Banker's acceptance drafts are carried at face value, which approximates their fair value due to the short-term nature of the negotiable instrument. The fair values of the forward currency-exchange contracts are based on quoted forward foreign exchange rates at the reporting date. The fair value of the 2018 Swap Agreement is based on USD LIBOR yield curves at the reporting date. The forward currency-exchange contracts and the 2018 Swap Agreement are hedges of either recorded assets or liabilities or anticipated transactions and represent the estimated amount the Company would receive or pay upon liquidation of the contracts. Changes in values of the underlying hedged assets and liabilities or anticipated transactions are not reflected in the table above.

The carrying value and fair value of debt obligations, excluding lease obligations, are as follows:

	October 2, 2021		January 2, 2021	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt Obligations:				
Revolving credit facility	$ 294,610	$ 294,610	$ 217,963	$ 217,963
Senior promissory notes	10,000	11,179	10,000	11,157
Other	4,779	4,779	—	—
	$ 309,389	$ 310,568	$ 227,963	$ 229,120

The carrying value of the Company's revolving credit facility approximates the fair value as the obligation bears variable rates of interest, which adjust frequently, based on prevailing market rates. The fair value of the senior promissory notes is primarily calculated based on quoted market rates plus an applicable margin available to the Company at the respective period end, which represent Level 2 measurements.

10. Business Segment Information

The Company has combined its operating entities into three reportable operating segments: Flow Control, Industrial Processing, and Material Handling. The Flow Control segment consists of the fluid-handling and doctoring, cleaning, & filtration product lines; the Industrial Processing segment consists of the wood processing and stock-preparation product lines; and the Material Handling segment consists of the conveying and screening, baling, and fiber-based product lines. A description of each segment follows.

- *Flow Control* – Custom-engineered products, systems, and technologies that control the flow of fluids used in industrial and commercial applications to keep critical processes running efficiently in the packaging, tissue, food, metals, and other industrial sectors. The Company's primary products include rotary sealing devices, steam systems, expansion joints, doctor systems, roll and fabric cleaning devices, and filtration and fiber recovery systems.
- *Industrial Processing* – Equipment, machinery, and technologies used to recycle paper and paperboard and process timber for use in the packaging, tissue, wood products and alternative fuel industries, among others. The Company's primary products include stock-preparation systems and recycling equipment, chemical pulping equipment, debarkers, stranders, chippers, and logging machinery. In addition, the Company provides industrial automation and digitization solutions to process industries.
- *Material Handling* – Products and engineered systems used to handle bulk and discrete materials for secondary processing or transport in the aggregates, mining, food, and waste management industries, among others. The Company's primary products include conveying and vibratory equipment and balers. In addition, the Company manufactures and sells biodegradable, absorbent granules used as carriers in agricultural applications and for oil and grease absorption.

The following table presents financial information for the Company's reportable operating segments:

	Three Months Ended		Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Revenue				
Flow Control	$ 76,253	$ 56,815	$ 210,769	$ 165,329
Industrial Processing	81,620	62,086	233,455	192,468
Material Handling	41,916	35,709	123,839	108,800
	$ 199,789	$ 154,610	$ 568,063	$ 466,597

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

(In thousands)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Income Before Provision for Income Taxes				
Flow Control (a)	$ 17,129	$ 13,770	$ 51,899	$ 37,360
Industrial Processing	16,095	12,072	44,449	32,147
Material Handling (b)	3,491	2,614	12,941	10,341
Corporate (c)	(7,987)	(7,121)	(24,124)	(20,737)
Total operating income	28,728	21,335	85,165	59,111
Interest expense, net (d)	(1,265)	(1,618)	(3,321)	(5,920)
Other expense, net (d)	(23)	(32)	(71)	(95)
	$ 27,440	$ 19,685	$ 81,773	$ 53,096
Capital Expenditures				
Flow Control	$ 1,128	$ 509	$ 1,830	$ 1,667
Industrial Processing	1,725	785	4,720	2,460
Material Handling	505	486	1,121	1,167
Corporate	12	42	17	125
	$ 3,370	$ 1,822	$ 7,688	$ 5,419

(In thousands)	October 2, 2021	January 2, 2021
Total Assets		
Flow Control	$ 388,662	$ 263,141
Industrial Processing	399,651	379,965
Material Handling	333,535	273,909
Corporate	11,280	10,556
	$ 1,133,128	$ 927,571

(a) Includes acquisition-related expenses of $2,706,000 in the three months ended October 2, 2021 and $3,942,000 in the nine months ended October 2, 2021 and restructuring costs of $265,000 in the three months ended September 26, 2020 and $721,000 in the nine months ended September 26, 2020. Acquisition-related expenses include acquisition costs and amortization expense associated with acquired profit in inventory and backlog.
(b) Includes acquisition-related expenses of $799,000 in the three months ended October 2, 2021 and $1,411,000 in the nine months ended October 2, 2021 and $248,000 in the three months ended September 26, 2020 and $256,000 in the nine months ended September 26, 2020.
(c) Represents general and administrative expenses.
(d) The Company does not allocate interest and other expense, net to its segments.

11. Commitments and Contingencies

Right of Recourse

In the ordinary course of business, the Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are non-interest bearing obligations of the issuing bank and mature within six months of the origination date. The Company's Chinese subsidiaries may use these banker's acceptance drafts prior to the scheduled maturity date to settle outstanding accounts payable with vendors. Banker's acceptance drafts transferred to vendors are subject to customary right of recourse provisions prior to their scheduled maturity dates. The Company had $11,432,000 at October 2, 2021 and $7,568,000 at January 2, 2021 of banker's acceptance drafts subject to recourse, which were transferred to vendors and had not reached their scheduled maturity dates. Historically, the banker's acceptance drafts have settled upon maturity without any claim of recourse against the Company.

Litigation

From time to time, the Company is subject to various claims and legal proceedings covering a range of matters that arise in the ordinary course of business. Such litigation may include, but is not limited to, claims and counterclaims by and against the Company for breach of contract or warranty, canceled contracts, product liability, or bankruptcy-related claims. For legal proceedings in which a loss is probable and estimable, the Company accrues a loss based on the low end of the range of estimated loss when there is no better estimate within the range. If the Company were found to be liable for any of the claims or counterclaims against it, the Company would incur a charge against earnings for amounts in excess of legal accruals.

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

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

This Quarterly Report on Form 10-Q and the documents we incorporate by reference in this report include forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and Section 27A of the Securities Act of 1933, as amended. These forward-looking statements are not statements of historical fact and may include statements regarding possible or assumed future results of operations. Forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, using information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "seeks," "should," "likely," "will," "would," "may," "continue," "could," or similar expressions, we are making forward-looking statements.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Our future results of operations may differ materially from those expressed in the forward-looking statements. Many of the important factors that will determine these results and values are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. For a discussion of important factors that may cause our actual results to differ materially from those suggested by the forward-looking statements, you should read carefully *Risk Factors* included in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021, as filed with the Securities and Exchange Commission (SEC) and as may be further amended and/or restated in subsequent filings with the SEC.

Overview

Company Background

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

Our financial results are reported in three reportable operating segments: Flow Control, Industrial Processing, and Material Handling. The Flow Control segment consists of our fluid-handling and doctoring, cleaning, & filtration product lines; the Industrial Processing segment consists of our wood processing and stock-preparation product lines; and the Material Handling segment consists of our conveying and screening, baling, and fiber-based product lines. A description of each segment is as follows:

- *Flow Control* – Custom-engineered products, systems, and technologies that control the flow of fluids used in industrial and commercial applications to keep critical processes running efficiently in the packaging, tissue, food, metals, and other industrial sectors. Our primary products include rotary sealing devices, steam systems, expansion joints, doctor systems, roll and fabric cleaning devices, and filtration and fiber recovery systems.
- *Industrial Processing* – Equipment, machinery, and technologies used to recycle paper and paperboard and process timber for use in the packaging, tissue, wood products, and alternative fuel industries, among others. Our primary products include stock-preparation systems and recycling equipment, chemical pulping equipment, debarkers, stranders, chippers, and logging machinery. In addition, we provide industrial automation and digitization solutions to process industries.
- *Material Handling* – Products and engineered systems used to handle bulk and discrete materials for secondary processing or transport in the aggregates, mining, food, and waste management industries, among others. Our primary products include conveying and vibratory equipment and balers. In addition, we manufacture and sell biodegradable, absorbent granules used as carriers in agricultural applications and for oil and grease absorption.

Industry and Business Overview

We had record consolidated bookings of $244.7 million in the third quarter of 2021, including bookings of $15.0 million attributable to our acquisitions. See *Acquisitions* below for further details. Our third quarter of 2021 bookings include record orders for capital equipment and continued strong demand for our parts and consumables products. This follows previous consolidated bookings records set in the prior three quarters as our businesses continue to rebound from the impact of the COVID-19 pandemic, which adversely affected our bookings and revenue for a substantial part of 2020. We ended the third quarter of 2021 with record consolidated backlog of $299.5 million. An overview of our business by segment is as follows:

- *Flow Control* – During the third quarter of 2021, we acquired The Clouth Group of Companies (Clouth), which contributed $9.9 million of bookings for the quarter. Orders for both parts and consumables products and capital equipment at our existing Flow Control businesses continue to be strong, following record bookings during the first half of 2021 due to improved market conditions and pent-up demand from depressed levels encountered during most of 2020.
- *Industrial Processing* – Our Industrial Processing segment had record bookings for capital equipment and continued strong demand for parts and consumables products during the third quarter of 2021. Orders for both capital equipment and parts and consumables products at our wood processing business were fueled by an ongoing robust U.S. housing market and high demand for lumber, oriented strand board and plywood, which continues to result in high parts consumption and drive new capital equipment investment by our customers. More recently, maintenance requirements at many of our wood processing customers have augmented demand for our parts products, which we expect to continue for the remainder of the year. Increased bookings at our stock-preparation business was led by orders for fiber processing systems at our North American and European businesses. This followed strong bookings for capital equipment at our Chinese operation in the prior quarter. Orders for parts and consumables products for our stock-preparation business moderated slightly following three quarters of strong bookings attributable to improved market conditions and pent-up demand.
- *Material Handling* – Our Material Handling segment also had record bookings in the third quarter of 2021. In August 2021, we acquired East Chicago Machine Tool Corporation (Balemaster) and certain assets of affiliated companies, which contributed $5.1 million of orders for the period. Bookings for baling products at our European operations continue to be bolstered by improved business conditions, including the recovery of recycled commodity prices. Bookings at our conveying and screening business have begun to rebound from 2020 levels with ongoing improved demand for our parts and consumables products as a result of the relaxation of pandemic-related restrictions.

While we have seen improved market conditions for our products and we expect our financial results for the remainder of 2021 to be strong, there is still some uncertainty regarding near-term economic growth due to ongoing risks surrounding the COVID-19 pandemic. Additionally, some of our operations have been and may continue to be impacted by supply chain constraints, resulting in inflationary pressure on material costs, longer lead times, and increased freight costs, as well as customer-requested delays in shipments. Also, in September 2021, China began limiting electricity usage within many of its provinces, requiring businesses in those regions to take downtime. We have been able to mitigate increased material costs through price adjustments on many of our products; however, we cannot be sure that we will be able to absorb future increases through price adjustments. While our businesses are working to alleviate supply chain constraints through various measures, we are unable to predict the impact of these constraints and the impact from China's energy use restrictions on the timing of revenue and operating costs on our business in the near future. For more information on risks related to health epidemics to our business, including COVID-19, and other factors impacting our business discussed above, please see *Risk Factors* included in Part II, Item 1A, of this report, and Part I, Item 1A, *Risk Factors*, included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021.

International Sales

More than half of our sales are to customers outside the United States, mainly in Europe, Asia, and Canada. As a result, our financial performance can be materially affected by currency exchange rate fluctuations between the U.S. dollar and foreign currencies. To mitigate the impact of foreign currency fluctuations, we generally seek to charge our customers in the same currency in which our operating costs are incurred. Additionally, we may enter into forward currency exchange contracts to hedge certain firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies. We currently do not use derivative instruments to hedge our exposure to exchange rate fluctuations created by the translation into the U.S. dollar of our foreign subsidiaries' results that are in functional currencies other than the U.S. dollar.

Global Trade

The United States imposes tariffs on certain imports from China, which has and will continue to increase the cost of some of the equipment that we import. Although we have worked to mitigate the impact of tariffs through pricing and sourcing strategies, we cannot be sure these strategies will effectively mitigate the impact of these costs. For more information on risks associated with our global operations, including tariffs, please see Part I, Item 1A, *Risk Factors,* included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021.

Acquisitions

We expect that a significant driver of our growth over the next several years will be the acquisition of businesses and technologies that complement or augment our existing products and services or may involve entry into a new process industry. We continue to pursue acquisition opportunities.

In the third quarter of 2021, we acquired Clouth for $93.1 million, net of cash acquired plus debt assumed. Clouth, which is included in our Flow Control segment, is a leading manufacturer of doctor blades and related equipment used in the production of paper, packaging, and tissue. We expect several synergies in connection with this acquisition, including deepening our presence in the growing ceramic blade market and expansion of product sales at our existing businesses by leveraging Clouth's complementary global geographic footprint. Clouth has two manufacturing facilities in Germany and one in Poland and generated revenue of approximately 40.5 million euros for the trailing twelve months ended June 30, 2021.

In the third quarter of 2021, we also acquired Balemaster for $53.7 million, net of cash acquired. Balemaster, which is included in our Material Handling segment, is a leading U.S. manufacturer of horizontal balers and related equipment used primarily for recycling packaging waste at corrugated box plants and large retail and distribution centers. We expect several synergies in connection with this acquisition, including expanding our presence in the secondary material processing sector and creating new opportunities for leveraging our high-performance balers produced in Europe. Balemaster's revenue for the trailing twelve months ended June 30, 2021 was approximately $22.2 million.

See Note 2, Acquisitions, in the accompanying condensed consolidated financial statements for further details.

In June 2020, we made an acquisition in our Industrial Processing segment for approximately $6.9 million, net of cash acquired.

Results of Operations

Third Quarter 2021 Compared With Third Quarter 2020

Revenue

The following table presents the change in revenue by segment between the third quarters of 2021 and 2020, and those changes excluding the effect of foreign currency translation and acquisitions which we refer to as change in organic revenue. The presentation of the change in organic revenue is a non-GAAP measure. We believe this non-GAAP measure helps investors gain an understanding of our underlying operations consistent with how management measures and forecasts its performance, especially when comparing such results to prior periods. This non-GAAP measure should not be considered superior to or a substitute for the corresponding U.S. generally accepted accounting principles (GAAP) measure.

Revenue by segment in the third quarters of 2021 and 2020 was as follows:

	Three Months Ended						(Non-GAAP) Change in Organic Revenue	
(In thousands, except percentages)	October 2, 2021	September 26, 2020	Total Increase	% Change	Currency Translation	Acquisitions	Increase	% Change
Flow Control	$ 76,253	$ 56,815	$ 19,438	34 %	$ 1,332	$ 9,913	$ 8,193	14 %
Industrial Processing	81,620	62,086	19,534	31 %	2,847	—	16,687	27 %
Material Handling	41,916	35,709	6,207	17 %	419	2,845	2,943	8 %
Consolidated Revenue	$ 199,789	$ 154,610	$ 45,179	29 %	$ 4,598	$ 12,758	$ 27,823	18 %

Consolidated revenue in the third quarter of 2021 increased 29%, while consolidated organic revenue increased 18%, due to higher demand for parts and consumables products and capital equipment principally at our Industrial Processing and Flow Control segments as described below.

Revenue at our Flow Control segment increased 34% in the third quarter of 2021, while organic revenue increased 14%. Organic revenue increased due to higher demand for parts and consumables products at substantially all locations resulting from improved market conditions and pent-up demand and due to increased capital equipment revenue at our North American business, which was attributable in part to customer reductions in spending and deferrals of equipment installations in the corresponding 2020 period.

Revenue at our Industrial Processing segment increased 31% in the third quarter of 2021, while organic revenue increased 27% due to higher demand for both capital equipment and parts and consumables products at our wood processing and stock-preparation businesses. Demand for our wood processing business products was driven by high mill activity resulting in increased capital investment and higher parts consumption. Increased demand for capital equipment at our stock-preparation business was primarily attributable to capital orders at our Chinese business, offset in part by lower capital equipment revenue at our North American business due to the timing of orders. Organic revenue for parts and consumables products at our North American stock-preparation business also increased due to improved market conditions and pent-up demand coupled with a depressed 2020 period as a result of the COVID-19 pandemic.

Revenue at our Material Handling segment increased 17% in the third quarter of 2021, while organic revenue increased 8%. Increased demand for products at our European baling operation due to improved business conditions in Europe, including the recovery of recycled commodity prices, was partially offset by lower capital equipment revenue at our conveying and screening business.

Gross Profit Margin

Gross profit margin by segment in the third quarters of 2021 and 2020 was as follows:

	Three Months Ended		
	October 2, 2021	September 26, 2020	Basis Point Change
Flow Control	49.7 %	52.9%	(320) bps
Industrial Processing	39.7 %	43.7%	(400) bps
Material Handling	31.9 %	31.1%	80 bps
Consolidated Gross Profit Margin	41.9 %	44.2%	(230) bps

Consolidated gross profit margin declined to 41.9% in the third quarter of 2021 compared with 44.2% in the third quarter of 2020 due to the inclusion of $2.2 million of amortization of acquired profit in inventory, which lowered consolidated gross profit margin in the 2021 period by 1.1 percentage points, and the inclusion of $1.6 million for benefits received from government employee retention assistance programs, which increased consolidated gross profit margin in the 2020 period by 1.1 percentage points.

Gross profit margin at our Flow Control segment decreased to 49.7% in the third quarter of 2021 compared with 52.9% in the third quarter of 2020 primarily due to the inclusion of $1.8 million of amortization of acquired profit in inventory for Clouth, which lowered gross profit margin in the 2021 period by 2.4 percentage points, and a lower gross profit margin profile for Clouth. Gross profit margin at our existing businesses increased principally due to higher margins on parts and consumables.

Gross profit margin at our Industrial Processing segment decreased to 39.7% in the third quarter of 2021 compared with 43.7% in the third quarter of 2020 due to the inclusion of $1.4 million for benefits received from government employee retention assistance programs, which increased gross profit margin in the 2020 period by 2.3 percentage points, and the impact of lower-margin capital equipment revenue at our Chinese stock-preparation business.

Gross profit margin at our Material Handling segment increased to 31.9% in the third quarter of 2021 compared with 31.1% in the third quarter of 2020 primarily due to a higher gross profit margin profile for Balemaster and an improved gross profit margin at our existing baler business resulting from a favorable product mix and higher revenue. These items were offset in part by $0.4 million of amortization of acquired profit in inventory for Balemaster, which lowered gross profit margin for this segment by 0.9 percentage points.

Selling, General, and Administrative Expenses

Selling, general, and administrative (SG&A) expenses by segment in the third quarters of 2021 and 2020 were as follows:

	Three Months Ended					
(In thousands, except percentages)	October 2, 2021	% of Revenue	September 26, 2020	% of Revenue	Increase	% Change
Flow Control	$ 19,658	26 %	$ 15,136	27 %	$ 4,522	30%
Industrial Processing	15,229	19 %	13,759	22 %	1,470	11%
Material Handling	9,465	23 %	7,955	22 %	1,510	19%
Corporate	7,964	N/A	7,003	N/A	961	14%
Consolidated SG&A Expenses	$ 52,316	26 %	$ 43,853	28 %	$ 8,463	19%

Consolidated SG&A expenses as a percentage of revenue decreased to 26% in the third quarter of 2021 compared with 28% in the third quarter of 2020 primarily due to higher revenue. Consolidated SG&A expenses increased $8.5 million due to the inclusion of $3.4 million of SG&A expenses from acquisitions, an incremental $0.9 million of acquisition-related costs, $0.9 million from the unfavorable effect of currency translation, and a $0.7 million decrease in benefits received from government employee retention assistance programs. The remaining $2.6 million is principally due to increased incentive compensation, travel-related costs, and professional services fees resulting from improved business conditions.

SG&A expenses at our Flow Control segment increased $4.5 million principally due to the inclusion of $2.8 million of SG&A expenses from Clouth, $0.9 million of acquisition-related costs, and $0.4 million from the unfavorable effect of foreign currency translation.

SG&A expenses at our Industrial Processing segment increased $1.5 million principally due to the inclusion of $0.7 million in the 2020 period for benefits received from government employee retention assistance programs, increased travel-related costs and professional service fees, and $0.5 million from the unfavorable effect of foreign currency translation.

SG&A expenses at our Material Handling segment increased $1.5 million principally due to the inclusion of $0.6 million of SG&A expenses from Balemaster, increased travel-related costs and professional service fees, and $0.2 million of incremental acquisition-related costs.

SG&A expenses at Corporate increased $1.0 million primarily due to additional incentive compensation as a result of our improved financial performance.

Restructuring Costs

Restructuring costs were $0.5 million in the third quarter of 2020, which represented severance costs of $0.3 million in our Flow Control segment and $0.2 million in our Industrial Processing segment.

Interest Expense

Interest expense decreased to $1.3 million in the third quarter of 2021 from $1.7 million in the third quarter of 2020 due to a lower weighted-average interest rate.

Provision for Income Taxes

Our provision for income taxes increased to $6.7 million in the third quarter of 2021 from $4.7 million in the third quarter of 2020. The effective tax rate of 25% in the third quarter of 2021 was higher than our statutory rate of 21% primarily due to nondeductible expenses, the distribution of our worldwide earnings, state taxes, and tax expense associated with Global Intangible Low-Taxed Income (GILTI) provisions. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate of 24% in the third quarter of 2020 was higher than our statutory rate of 21% primarily due to nondeductible expenses and the distribution of our worldwide earnings. These increases in tax expense were offset in part by a tax benefit related to final GILTI regulations issued by the U.S. Treasury Department during the third quarter of 2020 on an election to provide a high-tax exception to the GILTI tax retroactive to 2018.

Net Income

Net income increased to $20.7 million in the third quarter of 2021 from $15.0 million in the third quarter of 2020 primarily due to a $7.4 million increase in operating income, offset in part by a $2.0 million increase in provision for income taxes (see discussions above for further details).

First Nine Months 2021 Compared With First Nine Months 2020

Revenue

The following table presents changes in revenue by segment between the first nine months of 2021 and 2020, and those changes excluding the effect of foreign currency translation and acquisitions which we refer to as change in organic revenue. The presentation of the change in organic revenue is a non-GAAP measure. We believe this non-GAAP measure helps investors gain an understanding of our underlying operations consistent with how management measures and forecasts its performance, especially when comparing such results to prior periods. This non-GAAP measure should not be considered superior to or a substitute for the corresponding GAAP measure.

Revenue by segment in the first nine months of 2021 and 2020 was as follows:

	Nine Months Ended						(Non-GAAP) Change in Organic Revenue	
(In thousands, except percentages)	October 2, 2021	September 26, 2020	Total Increase	% Change	Currency Translation	Acquisitions	Increase	% Change
Flow Control	$ 210,769	$ 165,329	$ 45,440	27 %	$ 6,749	$ 9,913	$ 28,778	17 %
Industrial Processing	233,455	192,468	40,987	21 %	12,087	509	28,391	15 %
Material Handling	123,839	108,800	15,039	14 %	3,348	2,845	8,846	8 %
Consolidated Revenue	$ 568,063	$ 466,597	$ 101,466	22 %	$ 22,184	$ 13,267	$ 66,015	14 %

Consolidated revenue in the first nine months of 2021 increased 22%, while consolidated organic revenue increased 14%, principally driven by higher demand for parts and consumables products and, to a lesser extent, capital equipment at our Flow Control and Industrial Processing segments as described below.

Revenue at our Flow Control segment increased 27% in the first nine months of 2021, while organic revenue increased 17%. The increase in organic revenue resulted from higher demand for parts and consumables products and, to a lesser extent, capital equipment at substantially all locations. Increased demand for parts and consumables products was due in part to maintenance requirements at many of our customer locations and pent-up demand, while the 2020 period was depressed as a result of customer downtimes and shutdowns as well as visitation restrictions related to the COVID-19 pandemic. Increased demand for capital equipment was due to improved market conditions and pent-up demand while the corresponding 2020 period was adversely impacted by customer reductions in capital spending and deferrals of equipment installations as a result of the COVID-19 pandemic.

Revenue at our Industrial Processing segment increased 21% in the first nine months of 2021, while organic revenue increased 15% due to higher demand for parts and consumables products at our wood processing and stock-preparation businesses and capital equipment at our wood processing business. Demand for parts and consumables products and, to a lesser extent, capital equipment at our wood processing business was driven by high mill activity resulting in higher parts consumption and increased capital investment. Demand for parts and consumables at our North American stock-preparation business increased due to improved market conditions and pent-up demand coupled with a depressed 2020 period as a result of the COVID-19 pandemic. Conversely, lower capital equipment revenue at our North American and European stock-preparation businesses due to the timing of orders and curtailed spending by our customers, which impacted revenue in the first half of 2021, was offset in part by revenue attributable to capital equipment orders at our Chinese business.

Revenue at our Material Handling segment increased 14% in the first nine months of 2021, while organic revenue increased 8%. Increased demand for products at our European baling operation due to improved business conditions in Europe, including the recovery of recycled commodity prices, was partially offset by lower capital equipment revenue at our conveying and screening business.

Gross Profit Margin

Gross profit margin by segment in the first nine months of 2021 and 2020 was as follows:

	Nine Months Ended		
	October 2, 2021	September 26, 2020	Basis Point Change
Flow Control	51.8 %	53.1%	(130) bps
Industrial Processing	40.1 %	41.0%	(90) bps
Material Handling	33.8 %	33.5%	30 bps
Consolidated Gross Profit Margin	43.1 %	43.5%	(40) bps

Consolidated gross profit margin declined slightly to 43.1% in the first nine months of 2021 compared with 43.5% in the first nine months of 2020. The 2021 period included $2.2 million of amortization of acquired profit in inventory, which lowered consolidated gross profit margin by 0.4 percentage points. We received benefits from government employee retention assistance programs of $0.9 million, or 0.2% of revenue, in the first nine months of 2021 compared with $2.9 million, or 0.6% of revenue, in the first nine months of 2020.

Gross profit margin at our Flow Control segment decreased to 51.8% in the first nine months of 2021 compared with 53.1% in the first nine months of 2020 due to the inclusion of $1.8 million of amortization of acquired profit in inventory, which lowered the gross profit margin in the 2021 period by 0.9 percentage points and, to a lesser extent, a lower gross profit margin profile for Clouth.

Gross profit margin at our Industrial Processing segment decreased to 40.1% in the first nine months of 2021 compared with 41.0% in the first nine months of 2020 due to lower benefits received from government retention assistance programs. We received benefits from government employee retention assistance programs of $0.7 million, or 0.3% of revenue, in the first nine months of 2021 compared with $2.4 million, or 1.2% of revenue, in the first nine months of 2020. Higher margins at our wood processing business primarily resulting from manufacturing efficiencies related to higher production volumes were offset by the impact of lower-margin capital equipment revenue at our Chinese stock-preparation business.

Gross profit margin at our Material Handling segment increased slightly to 33.8% in the first nine months of 2021 compared with 33.5% in the first nine months of 2020.

Selling, General, and Administrative Expenses

SG&A expenses by segment in the first nine months of 2021 and 2020 were as follows:

	Nine Months Ended					
(In thousands, except percentages)	October 2, 2021	% of Revenue	September 26, 2020	% of Revenue	Increase	% Change
Flow Control	$ 54,226	26 %	$ 46,876	28 %	$ 7,350	16%
Industrial Processing	45,339	19 %	42,499	22 %	2,840	7%
Material Handling	27,518	22 %	24,730	23 %	2,788	11%
Corporate	23,931	N/A	20,413	N/A	3,518	17%
Consolidated SG&A Expenses	$ 151,014	27 %	$ 134,518	29 %	$ 16,496	12%

Consolidated SG&A expenses as a percentage of revenue decreased to 27% in the first nine months of 2021 compared with 29% in the first nine months of 2020 principally due to higher revenue. Consolidated SG&A expenses increased $16.5 million principally due to $5.2 million from the unfavorable effect of currency translation, the inclusion of $3.7 million of SG&A expenses from acquisitions, additional incentive compensation resulting from our improved financial performance, an incremental $2.5 million of acquisition-related costs, and increased professional service fees. SG&A expenses included benefits received from government employee retention assistance programs of $1.4 million in the first nine months of 2021 and $1.8 million in the first nine months of 2020.

SG&A expenses at our Flow Control segment increased $7.4 million principally due to the inclusion of $2.8 million of SG&A expenses from Clouth, $2.1 million of acquisition-related costs, and $1.8 million from the unfavorable effect of foreign currency translation.

SG&A expenses at our Industrial Processing segment increased $2.8 million principally due to $2.6 million from the unfavorable effect of foreign currency translation and a $0.7 million reduction in benefits received from government assistance programs.

SG&A expenses at our Material Handling segment increased $2.8 million principally due to $0.8 million from the unfavorable effect of foreign currency translation, an incremental $0.8 million of acquisition-related costs, and the inclusion of $0.6 million of SG&A expenses from Balemaster.

SG&A expenses at Corporate increased $3.5 million primarily due to additional incentive compensation as result of improved financial performance and, to a lesser extent, higher professional service fees.

Restructuring Costs

Restructuring costs were $0.9 million in the first nine months of 2020, which represented severance costs of $0.7 million in our Flow Control segment and $0.2 million in our Industrial Processing segment.

Interest Expense

Interest expense decreased to $3.5 million in the first nine months of 2021 from $6.1 million in the first nine months of 2020 due to a lower weighted-average interest rate and lower outstanding debt for the first nine months of 2021.

Provision for Income Taxes

Our provision for income taxes increased to $21.3 million in the first nine months of 2021 from $13.7 million in the first nine months of 2020 and represented 26% of pre-tax income in both periods. The effective tax rate in the first nine months of 2021 was higher than our statutory rate of 21% primarily due to the distribution of our worldwide earnings, nondeductible expenses, state taxes, and tax expense associated with GILTI. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate in the first nine months of 2020 was higher than our statutory rate of 21% primarily due to nondeductible expenses, the distribution of our worldwide earnings, and state taxes. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements.

Net Income

Net income increased to $60.5 million in the first nine months of 2021 from $39.4 million in the first nine months of 2020 primarily due to a $26.1 million increase in operating income and a $2.6 million decrease in interest expense, offset in part by a $7.5 million increase in provision for income taxes (see discussions above for further details).

Liquidity and Capital Resources

Consolidated working capital was $177.4 million at October 2, 2021, compared with $155.1 million at January 2, 2021. Cash and cash equivalents were $82.6 million at October 2, 2021, compared with $65.7 million at January 2, 2021, which included cash and cash equivalents held by our foreign subsidiaries of $78.6 million at October 2, 2021 and $63.6 million at January 2, 2021.

Cash Flows

Cash flow information in the first nine months of 2021 and 2020 was as follows:

	Nine Months Ended	
(In thousands)	October 2, 2021	September 26, 2020
Net Cash Provided by Operating Activities	$ 101,410	$ 52,601
Net Cash Used in Investing Activities	(148,587)	(12,459)
Net Cash Provided by (Used in) Financing Activities	66,714	(52,871)
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	(2,513)	660
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	$ 17,024	$ (12,069)

Operating Activities

Cash provided by operating activities increased to $101.4 million in the first nine months of 2021 from $52.6 million in the first nine months of 2020. Our operating cash flows are primarily from cash received from customers, offset by cash payments for items such as inventory, employee compensation, operating leases, income taxes and interest payments on outstanding debt obligations. The increase in cash provided by operating activities in the 2021 period was principally driven by improvements in net income and working capital.

Cash provided by working capital was $11.7 million in the first nine months of 2021. Cash provided by working capital in 2021 included $33.3 million from other current liabilities primarily due to an increase in customer deposits and advance billings related to capital equipment orders that will be fulfilled over the next year and $19.8 million from accounts payable attributable to increased inventory purchases. These sources of cash were offset in part by cash used of $22.3 million for accounts receivable mostly due to revenue growth and timing of shipments, $10.6 million for a buildup of inventories primarily for capital equipment orders and to mitigate potential supply chain issues, and $8.1 million for other current assets principally due to a prepayment for raw material at one of our Chinese businesses.

Cash used for working capital was $15.4 million in the first nine months of 2020. Cash used for working capital in 2020 included $6.2 million for inventories primarily related to the buildup of inventory for capital equipment and spare parts that were shipped in late fiscal 2020 and early fiscal 2021 and $13.2 million from accounts payable primarily due to reduced spending levels in 2020.

Investing Activities

Cash used in investing activities was $148.6 million in the first nine months of 2021, compared with $12.5 million in the first nine months of 2020. Cash used in investing activities included consideration paid for acquisitions, net of cash acquired, of $141.5 million in the 2021 period and $7.1 million in the 2020 period.

Financing Activities

Cash provided by financing activities was $66.7 million in the first nine months of 2021, compared with cash used in financing activities of $52.9 million in the first nine months of 2020. Borrowings under our revolving credit facility were $151.9 million in the first nine months of 2021, including $140.3 million to fund acquisitions, and $26.0 million in the first nine months of 2020, including $18.9 million used to prepay the outstanding principal balance on our real estate loan. Repayment of long-term obligations was $72.7 million in the first nine months of 2021, and $69.0 million in the first nine months of 2020, including the $18.9 million prepayment of the real estate loan.

Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash

The exchange rate effect on cash, cash equivalents, and restricted cash represents the impact of translation of cash balances at our foreign subsidiaries. The $2.5 million reduction in cash, cash equivalents, and restricted cash in the first nine months of 2021 was primarily attributable to the strengthening of the U.S. dollar against the euro.

Borrowing Capacity and Debt Obligations

We entered into an unsecured multi-currency revolving credit facility, dated as of March 1, 2017 (as amended and restated to date, the Credit Agreement). As of October 2, 2021, we have a borrowing capacity of $369.9 million, including $104.9 million available under the Credit Agreement, an additional $150 million in an uncommitted, unsecured incremental borrowing facility under the Credit Agreement, and $115 million of senior promissory notes available for issuance under our uncommitted Multi-Currency Note Purchase and Private Shelf Agreement (Note Purchase Agreement), which expires on December 14, 2021. Under these agreements, our leverage ratio must be less than 3.75, or, if we elect, for the quarter during which a material acquisition occurs and for the three fiscal quarters thereafter, must be less than 4.00. As of October 2, 2021, our leverage ratio was 1.69 and we were in compliance with our debt covenants. Except for $5.6 million of short-term obligations and current maturities of long-term obligations, we do not have any material mandatory principal payments on our debt obligations until 2023. See Note 5, Short- and Long-Term Obligations, in the accompanying condensed consolidated financial statements for additional information regarding our debt obligations.

Additional Liquidity and Capital Resources

On May 20, 2021, our board of directors approved the repurchase of up to $20 million of our equity securities during the period from May 20, 2021 to May 20, 2022. We have not repurchased any shares of our common stock under this authorization or our previous authorization, which expired on May 13, 2021.

We paid cash dividends of $8.6 million in the first nine months of 2021. On September 9, 2021, we declared a quarterly cash dividend of $0.25 per share totaling $2.9 million that will be paid on November 11, 2021. Future declarations of dividends are subject to our board of directors' approval and may be adjusted as business needs or market conditions change. The declaration of cash dividends is subject to our compliance with the covenant in our revolving credit facility related to our consolidated leverage ratio.

We plan to make expenditures of approximately $5 to $7 million during the remainder of 2021 for property, plant, and equipment.

As of October 2, 2021, we had approximately $230.6 million of total unremitted foreign earnings. It is our intent to indefinitely reinvest $212.5 million of these earnings to support the current and future capital needs of our foreign operations, including debt repayments, if any. In the first nine months of 2021, we recorded withholding taxes on the earnings in certain foreign subsidiaries that we plan to repatriate in the foreseeable future. The foreign withholding taxes that would be required if we were to remit the indefinitely-reinvested foreign earnings to the United States would be approximately $4.4 million.

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

Contractual Obligations and Other Commercial Commitments

There have been no material changes to our contractual obligations and other commercial commitments during the first nine months of 2021 compared with those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021, except for an increase of $81.0 million of short- and long-term obligations as of October 2, 2021 primarily related to our acquisitions. See Note 2, Acquisitions, and Note 5, Short- and Long-term Obligations, in the accompanying condensed consolidated financial statements.

Application of Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities, and the reported amounts of revenue and expenses during the reporting period. Our critical accounting policies are defined as those that entail significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. Management evaluates its estimates on an ongoing basis based on historical experience, current economic and market conditions, and other assumptions management believes are reasonable. We believe that our most critical accounting policies which are significant to our consolidated financial statements, and which involve the most complex or subjective decisions or assessments, are those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section captioned "Application of Critical Accounting Policies and Estimates" in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021. There have been no material changes to these critical accounting policies since the end of fiscal 2020 that warrant disclosure.

Recent Accounting Pronouncements

See Note 1, under the headings *Recently Adopted Accounting Pronouncements* and *Recent Accounting Pronouncements Not Yet Adopted*, in the accompanying condensed consolidated financial statements for details.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk from changes in interest rates and foreign currency exchange rates has not changed materially from our exposure as disclosed in Part II, Item 7A, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of October 2, 2021. The term "disclosure controls and procedures," as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the evaluation of our disclosure controls and procedures as of October 2, 2021, our Chief Executive Officer and Chief Financial Officer concluded that as of October 2, 2021, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal quarter ended October 2, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1A – Risk Factors

In addition to the revised risk factors below regarding "*Supply chain constraints, inflationary pressure, price increases and shortages in raw materials and components, and dependency upon certain suppliers for such raw materials and components could adversely impact our operating results*," and "*We are subject to risks and costs associated with environmental laws and regulations*," careful consideration should be given to the risk factors disclosed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021, which could materially affect our business, financial condition or future results, in addition to the information set forth in this Quarterly Report on Form 10-Q.

Supply chain constraints, inflationary pressure, price increases and shortages in raw materials and components, and dependency upon certain suppliers for such raw materials and components could adversely impact our operating results.

Some of our businesses have been and may continue to be impacted by supply chain constraints, resulting in inflationary pressure on material costs, longer lead times, port congestion, and increased freight costs. In addition, current or future governmental policies may increase the risk of inflation which could further increase the costs of raw materials and components for our businesses. If we are unable to mitigate the impact of supply chain constraints and inflationary pressure through price increases or other measures our results of operations and financial condition could be negatively impacted.

We use a variety of raw materials, including a significant amount of stainless steel, carbon steel, commodities and critical components to manufacture our products. Increases in the prices of such raw materials, commodities and critical components could adversely affect our operating results if we were unable to fully offset the effect of these increased costs through price increases, productivity improvements, or cost reduction programs.

Some of our businesses depend on a limited number of suppliers to provide critical components used in the manufacture of our products. If we are unable to obtain sufficient supplies of these components or these sources of supply cease to be available to us, we could experience shortages in critical components or be unable to meet our commitments to customers. Alternative sources of supply could be more expensive, or in some cases, we could be unable to locate such alternative sources. We believe our current sources of raw materials, commodities and critical components will generally be sufficient for our needs in the foreseeable future. However, our operating results could be negatively impacted if supply is insufficient for our operations or if we are unable to expand supply as needed.

While our businesses are working to alleviate supply chain constraints through various measures, we are unable to predict the impact of these constraints on the timing of revenue and operating costs of our business in the near future.

We are subject to risks and costs associated with environmental laws and regulations.

The manufacturing of our products requires the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Our failure to manage the use, transportation, emissions, discharge, storage, recycling, or disposal of hazardous materials could lead to increased costs or regulatory penalties, fines and legal liability. Our ability to expand, modify or operate our manufacturing facilities in the future may be impeded by environmental regulations, such as air quality, wastewater requirements, and energy supply and use restrictions. The Chinese government has pledged to tackle the country's hazardous smog and improve air quality conditions ahead of high-profile events, such as the upcoming Winter Olympics in Beijing, which has prompted authorities to impose strict pollution control measures. Additionally, in September 2021, the Chinese government began limiting electricity usage within many of its provinces, requiring businesses in those regions to take unscheduled downtime. Regulators have in the past and may in the future temporarily restrict the operations of our manufacturing facilities in a particular geographic location as a result of attempts to control pollution levels, or energy supply or use restrictions in China. Environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify product designs, or incur other expenses. New regulations promulgated in reaction to climate change could result in increased manufacturing costs associated with air pollution control requirements, and increased or new monitoring, recordkeeping, and reporting of greenhouse gas emissions. We also see the potential for higher energy costs driven by climate change regulations. Implementation of such new regulations could increase our costs or require us to modify our operations and negatively impact our business and results of operations.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
10*	Executive Transition Agreement between the Registrant and Eric T. Langevin dated October 27, 2021.
31.1	Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer of the Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Indicates management contract or compensatory plan or arrangement.

SIGNATURE

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

	KADANT INC.
Date: November 10, 2021	/s/ Michael J. McKenney
	Michael J. McKenney Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 10

EXECUTIVE TRANSITION AGREEMENT

THIS EXECUTIVE TRANSITION AGREEMENT (this "***Agreement***") by and between KADANT INC., a Delaware corporation (the "***Company***"), and Eric T. Langevin (the "***Executive***") is made as of October 27, 2021.

WHEREAS, the Company and the Executive desire to provide for an orderly transition to the Executive's successors, to provide an incentive for the Executive to stay an employee through the transition period and to obtain certain assurances and cooperation of the Executive post-employment; and

WHEREAS, in connection with the foregoing, the Company and the Executive wish to set forth the terms of such transition in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and the Executive agree as follows:

1. <u>Employment</u>.

1.1 Except as hereinafter otherwise provided, the Company shall continue to employ the Executive on a full-time basis as Executive Vice President and Chief Operating Officer of the Company through March 31, 2022, at which date his employment will end unless it is sooner terminated as provided herein (such date when employment ends shall be referred to as the "***Separation Date***").

1.2 In addition to carrying out the regular duties of his positions, the Executive shall work on such tasks as will provide for an orderly transition of his role and responsibilities to successor sector vice presidents. The Executive agrees that, during his employment, he shall, to the best of his ability, perform his duties, and shall not engage in any business, profession or occupation that would conflict with the rendering of the agreed upon services, either directly or indirectly.

2. <u>Compensation</u>. During the period of his employment by the Company under this Agreement and for the covenants and obligations of the Executive contained herein, the Executive shall be compensated as follows:

2.1 Except as provided in Section 2.4, during the period commencing on the date of this Agreement and through March 31, 2022, the Executive shall continue to be paid a base salary at his current annual rate of $478,200. (The base salary determined under this Section 2.1 shall be referred to hereafter as the "***Base Salary***"). The Executive shall remain eligible through the Separation Date for the benefit plans and arrangements for which he qualifies and shall be reimbursed for any and all monies expended by him in connection with his employment for reasonable and necessary expenses on behalf of the Company in accordance with the policies of the Company then in effect.

2.2 The Executive shall be eligible to participate in the Company's Cash Incentive Plan and the actual bonus earned shall be determined and calculated in accordance with the compensation practices of the Company for the fiscal year ending January 1, 2022 (such period referred to as the "2021 Fiscal Year"), based on his current target or reference bonus of $267,200. Any bonus payable to the Executive under the Cash Incentive Plan shall be determined and paid in accordance with the terms of the Cash Incentive Plan in the same manner and at the same time as other executive officers of the Company, but in no event later than March 15, 2022.

2.3 Subject to the conditions in this section, the Compensation Committee has approved contingent revisions to the Executive's outstanding and previously unvested restricted stock unit awards to provide that any amounts granted in 2019 and 2020 and one-third of any amounts granted in 2021 that have solely time-based vesting, taking into consideration any vesting that occurs on or around March 10, 2022 if the Executive then remains employed, shall be fully vested as of March 31, 2022 or, if earlier, the Separation Date, and result in a distribution of the shares of Company common stock underlying such restricted stock unit awards as soon as practicable following the Separation Date but no later than April 15, 2022 (or, if the vesting occurs as a result of a termination in 2021, March 15, 2022), with the performance-based restricted stock unit awards from 2021 being subject to satisfaction of the performance conditions and so distributed as soon as practicable after the performance is determined, and given service vesting credit of one-third, less any service vesting credit vesting that occurs on or around March 10, 2022 if the Executive then remains employed. To receive the accelerated vesting, the Executive must remain an employee of the Company until March 31, 2022 or the date his employment ends earlier as a result of termination without Cause or death (subject to providing an effective release on the terms set forth in Section 4.5(e) and the last paragraph of Section 4.5, except where the vesting is caused by the Executive's death,). For other purposes, the Executive's restricted stock unit awards shall continue to be governed by the terms of the applicable plans and agreements.

2.4 If, because of adverse business conditions or for other reasons, the Company at any time puts into effect salary reductions applicable to all executive officers of the Company generally, the salary payments required to be made under this Agreement to the Executive during any period in which such general reduction is in effect may be reduced by the same percentage as is applicable to all executive officers of the Company generally. Any benefits made available to the Executive which are related to Base Salary shall also be reduced in accordance with any salary reduction.

2.5 The Executive agrees that any protections under his Amended and Restated Executive Retention Agreement, dated as of December 9, 2008 (the "***Executive Retention Agreement***") will expire upon December 31, 2021, and the Executive Retention Agreement will terminate at that time.

3. Restrictive Covenants.

3.1 During the period of the Executive's employment with the Company and for a period of one year following the Separation Date (other than upon a termination without Cause, in which case the obligations under this Section 3.1 cease upon separation from employment, absent a mutual agreement of the parties in a new agreement with respect to such period), the Executive shall not, directly or indirectly, own, manage, control, operate, be employed by, participate in or be connected with the ownership, management, operation or control of any business which competes with the Company or any of its affiliated companies (each, a "Competitor") in the Restricted Area, if the Executive would be performing job duties or services for the Competitor that are of a similar type that the Executive performed for the Company at any time during the last two years of the Executive's employment. The Executive acknowledges that undertaking any leadership role for a Competitor would constitute performing job duties or services of a similar type that he performed for the Company. Further, for purposes of this Section 3.1, "Restricted Area" shall mean the geographic areas in which the Executive, during the last two years of employment, provided services or had a material presence or influence (which, given his position as Chief Operating Officer, would be any area in which the Company was conducting business). The foregoing shall not apply to passive ownership of less than 5% of the outstanding stock of a publicly held corporation, which ownership is disclosed to the CEO. The restricted period will be extended to two years following cessation of employment if the Executive breaches his fiduciary duty to the Company or unlawfully takes, physically or electronically, property belonging to the Company, in which case the duration may not exceed 2 years from the date of cessation of employment. Before agreeing to this Section 3.1 the Executive has the right to and is encouraged to consult with counsel. The Executive agrees that he is receiving mutually-agreed consideration appropriate to support these restrictions pursuant to the additional compensation for which he is eligible pursuant to this Agreement in Sections 2.3 and/or 4.5. The Executive further acknowledges that the agreement not to compete with the Company contemplated by this Section 3.1 (the "non-competition agreement") is supported by fair and reasonable consideration independent from the Employee's continued employment, and that, notwithstanding the immediate effectiveness otherwise of this Agreement upon the Parties execution of the Agreement, the non-competition agreement shall not take effect until the later of (i) eleventh (11th) business day following the date on which the Company provided this Agreement to the Executive for review and execution; and (ii) the Executive's execution of this Agreement.

3.2 During the period of the Executive's employment with the Company and for a period of two years following the Separation Date, the Executive shall not, either alone or in association with others, solicit, divert or take away, or attempt to divert or take away, the business or patronage of any of the clients, customers or business partners of the Company that were contacted, solicited or served by the Company during the 12-month period prior to the Separation Date.

3.3 During the period of the Executive's employment with the Company and for a period of two years following the Separation Date, the Executive shall not, either alone or in association with others, (a) solicit, induce or attempt to induce any employee of the Company to terminate his or her employment with the Company or (b) hire, recruit or attempt to hire any person who was employed by the Company at any time during the term of the Executive's employment with the Company, provided that this clause (b) shall not apply to the recruitment or hiring of any individual whose employment with the Company has been terminated for a period of six months or longer.

3.4 During the period of the Executive's employment with the Company and thereafter, the Executive shall not, without the written consent of the Company, utilize or disclose to others any proprietary or confidential information of any type or description, which terminology shall be construed to mean any information developed or identified by the Company that is intended to give it an advantage over its competitors or that could give a competitor an advantage if obtained by it, unless and until such confidential information has become public knowledge through no fault of the Executive. Such information includes, but is not limited to, product or process design, specifications, manufacturing methods, financial or statistical information about the Company, marketing or sales information about the Company, sources of supply, lists of customers and the Company's plans, strategies and contemplated actions. The Executive shall not disclose any proprietary or confidential information to others outside the Company or use the same for any unauthorized purposes without written approval by an executive officer of the Company, either during or at any time after employment, unless and until such proprietary or confidential information has become public knowledge without fault by the Executive. Nothing in this Agreement or elsewhere prohibits the Executive from reporting possible violations of state or federal law or regulation to any governmental entity, or making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. The Executive is not required to notify the Company that he has made any such reports or disclosures; provided, however, that nothing herein authorizes the disclosure of information he obtained through a communication that was subject to the attorney-client privilege. In addition, pursuant to the Defend Trade Secrets Act: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order."

3.5 During the period of the Executive's employment by the Company and for a period of two years following the Separation Date, the Executive shall not in any way whatsoever aid or assist any party seeking to cause, initiate or effect a Change in Control of the Company without the prior approval of the Board of Directors.

4. Termination.

4.1 Except for the covenants set forth in Section 3, which covenants shall remain in effect for the periods stated therein, and subject to the satisfaction of the provisions of this Agreement that require payments or the provision of benefits after the termination of this Agreement, this Agreement and his employment shall terminate on the earliest of the following events:

(a) on the effective date set forth in any resignation submitted by the Executive and accepted by the Company, or if no effective date is agreed upon, the date of receipt of such letter;

(b) upon the death of the Executive;

(c) upon the termination of the Executive by the Company for Cause. For purposes of this Agreement, "***Cause***" shall mean the Executive's failure to substantially perform his obligations under this Agreement, or the Executive's willful engagement in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company, provided that no act or failure to act by the Executive shall be considered "willful" unless it is done, or omitted to be done, in bad faith and without reasonable belief that the Executive's action or omission was in the best interests of the Company;

(d) upon the termination of the Executive by the Company without Cause; or

(e) on March 31, 2022, provided the Executive has remained an employee through such date.

4.2 Except as otherwise expressly provided herein, upon the termination of this Agreement, all of the Company's obligations under this Agreement (except for obligations that by their terms require payment after the termination of this Agreement), including, without limitation, making payments to the Executive, shall immediately cease and terminate.

4.3 In the event of the termination of this Agreement pursuant to Section 4.1(a) (death) or (c) (for Cause), the Company shall pay to the Executive, in a lump sum in cash within 30 days after the Separation Date, an amount equal to the sum of (a) the Executive's previously unpaid Base Salary through the Separation Date and any accrued but unpaid vacation, and (b) the amount of any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) (but not to the extent that payment on such timing would be an impermissible acceleration under Section 409A, as defined below), in each case to the extent not previously paid (the sum of the amounts described in clauses (a) and (b) shall be hereinafter referred to as the "***Accrued Obligations***").

4.4 In the event of the termination of this Agreement pursuant to Section 4.1(b) (death) or (d) (termination without Cause), the Company shall (a) pay to the Executive (or the Executive's estate, if applicable), in a lump sum in cash within 30 days after the Separation Date (or such other date as is required by applicable law, including Section 409A), the Accrued Obligations and (b) pay to the Executive (or the Executive's estate, if applicable), in a lump sum in cash within 30 days after the Separation Date (or, if on a termination without Cause, such later date as is required to comply with the release requirement in the final paragraph of Section 4.5), an amount equal to the product of (i) the Executive's target or reference bonus for the 2021 Fiscal Year and (ii) a fraction, the numerator of which is the number of days in the 2021 Fiscal Year through the Separation Date or, if earlier, December 31, 2021, and the denominator of which is 365, with this bonus reduced, but not below zero, by any bonus already paid under Section 2.2. In addition, the Executive will receive the equity treatment provided in Section 2.3, provided that no shares will be issued under such accelerated restricted stock unit awards unless the Executive complies with the final paragraph of this Section 4.5 (if terminated without Cause) within the time period specified and such accelerated restricted stock unit awards shall immediately expire if the Executive does not comply with the final paragraph of Section 4.5 within the time period specified.

4.5 The terms of this Section 4.5 are intended to provide an incentive in the form of a stay bonus and related benefits for the Executive to remain employed until March 31, 2022 and to provide post-employment assistance as provided in Section 6 with respect to the transitioning of his responsibilities. Continued payments are further conditioned on the Executive's compliance with Sections 3 and 6. Notwithstanding Section 4.2, in the event of the termination of this Agreement pursuant to Section 4.1(e), contingent upon and suspended until the effectiveness of the Release (as defined below), the Company shall:

(a) pay to the Executive (or the Executive's estate, if applicable), in a lump sum in cash within 30 days after the Separation Date (or such other date as is required by applicable law, including Section 409A), the Accrued Obligations;

(b) pay to the Executive a monthly cash payment of $39,850 for three months beginning April 2022 to be paid on the first payroll of each month in accordance with the Company's normal payroll processing;

(c) pay to the Executive a bonus determined and calculated in accordance with the compensation practices of the Company for the 2022 Fiscal Year (as applied to the financial results of the fiscal year ending December 31, 2022 (the "2022 Fiscal Year")), based on his current target or reference bonus of $267,200, with the resulting performance-based bonus being multiplied by 50%. This bonus will be determined and paid in accordance with the terms of the Cash Incentive Plan as in effect for the 2022 Fiscal Year but at the same time as other executive officers of the Company receive their bonus (but in no event later than March 15, 2023);

(d) provided he timely elects and remains eligible for benefits continuation pursuant to the federal "COBRA" laws, payment by the Company of COBRA premiums for family coverage under the group health and dental insurance coverage (less his portion of the premiums he would have paid as an active employee, which shall be deducted from the sum payable under Section 4.5(b)) for a period from the Separation Date to December 31, 2022 (with any later COBRA coverage being at his expense), provided that any such payments and related coverage shall be discontinued in the event that he ceases to be eligible for or to elect such COBRA coverage during such period. Such payments by the Company (but not eligible coverage at the Executive's expense) will cease if future regulations or legislation causes the Company to conclude such payments are reasonably likely to result in any tax liability to the Company; provided that the Company will reimburse the Executive for his own payments under this sentence (less the portion he would have paid as an active employee) if the Company cannot pay them directly and if permitted under applicable law without tax liability to the Company. The Executive must repay promptly to the Company any premiums paid under this subsection if he does not comply with the final paragraph of this Section 4.5 within the time period specified and no premiums will be paid after the deadline for such compliance if he has not so complied; and

(e) receive the equity treatment provided in Section 2.3, provided that no shares will be issued under such accelerated restricted stock unit awards unless the Executive complies with the final paragraph of this Section 4.5 within the time period specified and such restricted stock unit awards shall immediately expire if the Executive does not comply with the final paragraph of this Section 4.5 within the time period specified.

(f) The provision to the Executive of the benefits provided by clauses (a) through (e) of this Section 4.5 shall be contingent upon the execution by the Executive of a release (the "***Release***") in a reasonable form provided by the Company (within five business days following the Separation Date) and the Release's becoming irrevocable no later than 60 days (or such shorter period as the Company specifies) after the Separation Date, and the Executive must repay promptly to the Company any payments made pursuant to clauses (a) through (e) if he does not comply with the final paragraph of this Section 4.5 within the time period specified. Payments contingent on the Release shall be paid no earlier than the first business day of the calendar year following the year of termination of employment if the 60-day period ends in such subsequent year. Payments that are triggered before or by death will continue to be paid after death.

5. Mitigation. The Executive shall not be required to mitigate the amount of any payment or benefits provided for by this Agreement by seeking other employment or otherwise. Further the amount of any payment or benefits provided for in this Agreement shall not be reduced by any compensation earned by the Executive as a result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company or otherwise.

6. Post-Employment Assistance; Cooperation. After March 31, 2022, the Executive agrees to cooperate with the Company in providing reasonable assistance as requested by the Company with respect to the transitioning of his work and further agrees that he will be available to the Company for these purposes or any other purposes reasonably requested by the Company through December 31, 2022 (the "***Assistance and Compliance Period***"). This assistance (the "***Post-Employment Assistance***") is expected to include availability to answer questions regarding the operation of the Company and, if necessary, to attend meetings. The time commitment for this purpose will be limited to less than 20% of the average level of bona fide services the Executive performed over the 36 months preceding the Separation Date, with no extra compensation, except as otherwise permitted under Section 409A (such as when the further services were not reasonably anticipated at the Separation Date). The Company shall, to the extent practicable, provide the Executive with advance (via email and/or phone) notice of any assistance it requires from him during the Assistance and Compliance Period and shall endeavor to reasonably accommodate his personal and potential new employment schedule in requesting such assistance. In addition, if practical, the Executive may offer his assistance during non-business hours (evenings and weekends) and doing so would not be a violation of this Section 6.

In addition, the Executive agrees to cooperate fully with the Company in the investigation, defense or prosecution of any claims or actions in existence when his employment ends or that may be brought in the future against or on behalf of the Company by any third party against the Company or by the Company against any third party. The Executive also agrees that his full cooperation in connection with such claims or actions will include being available to meet with the Company's counsel to prepare for discovery, any mediation, arbitration, trial, administrative hearing or other proceeding, and to act as a witness when requested by the Company at reasonable times and locations designated by the Company. Moreover, unless otherwise prohibited by law, the Executive agrees to notify the General Counsel (or the CEO in the absence of a General Counsel) of the Company at One Technology Park Drive, Westford, Massachusetts 01886, if he is asked by any person, entity or agency (other than a governmental agency) to assist, testify or provide information in any such proceeding or investigation. Such notice shall be in writing and sent by overnight mail to the General Counsel or CEO within two business days of the time the Executive receives the request for assistance, testimony or information. If the Executive is not legally permitted to provide such notice, the Executive agrees that he will request that the person, entity or agency seeking assistance, testimony or information provide notice consistent with this Section 6.

The Executive agrees that any such litigation or investigation cooperation does not constitute continued employment nor other service-providing relationship and has been adequately compensated for by his prior compensation and, when applicable, further payments during 2022 under this Agreement.

7. Payments Subject to Section 409A. Subject to the provisions in this Section 7, any severance payments or benefits under this Agreement shall begin only upon the date of the Executive's "***separation from service***" (determined as set forth below) which occurs on or after the date of termination of the Executive's employment. The following rules shall apply with respect to distribution of the payments and benefits, if any, to be provided to the Executive under this Agreement:

7.1 It is intended that each installment of the severance payments and benefits provided under this Agreement shall be treated as a separate "payment" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "***Code***"), and the guidance issued thereunder ("***Section 409A***"). Neither the Company nor the Executive shall have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A.

7.2 If, as of the date of the Executive's "separation from service" from the Company, the Executive is not a "***specified employee***" (within the meaning of Section 409A), then each installment of the severance payments and benefits shall be made on the dates and terms set forth in this Agreement.

7.3 If, as of the date of the Executive's "separation from service" from the Company, the Executive is a "specified employee" (within the meaning of Section 409A), then:

(a) Each installment of the severance payments and benefits due under this Agreement that, in accordance with the dates and terms set forth herein, will be paid within the Short-Term Deferral Period (as hereinafter defined) shall be treated as a short-term deferral within the meaning of Treasury Regulation §1.409A-1(b)(4) to the maximum extent permissible under Section 409A. For purposes of this Agreement, the "***Short-Term Deferral Period***" means the period ending on the later of the fifteenth day of the third month following the end of the Executive's tax year in which the separation from service occurs and the fifteenth day of the third month following the end of the Company's tax year in which the separation from service occurs; and

(b) Each installment of the severance payments and benefits due under this Agreement that is not described in Section 7.3(a) and that would, absent this Section 7.3(b), be paid within the six-month period following the Executive's "separation from service" from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, the Executive's death), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following the Executive's separation from service and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of severance payments and benefits if and to the maximum extent that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation §1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation §1.409A-1(b)(9)(iii) must be paid no later than the last day of the Executive's second taxable year following the taxable year in which the separation from service occurs.

7.4 The determination of whether and when the Executive's separation from service from the Company has occurred shall be made in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation §1.409A-1(h). Solely for purposes of this Section 7.4, the "***Company***" shall include all persons with whom the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code.

7.5 All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (a) any reimbursement is for expenses incurred during the Executive's lifetime (or during a shorter period of time specified in this Agreement), (b) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (c) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (d) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

7.6 This Agreement is intended to comply with the provisions of Section 409A and the Agreement shall, to the extent practicable, be construed in accordance therewith. The Company makes no representation or warranty and shall have no liability to the Executive or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A and do not satisfy an exemption from, or the conditions of, Section 409A.

8. Disputes.

8.1 Settlement of Disputes; Arbitration. All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board of Directors of the Company and shall be in writing. Any denial by the Board of Directors of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board of Directors shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim. Any further dispute or controversy arising under or in connection with this Agreement (including the arbitrability of the dispute or controversy) shall be settled exclusively by arbitration in Boston, Massachusetts, in accordance with the rules of the American Arbitration Association then in effect and the Federal Arbitration Act. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding the foregoing, any dispute as to Sections 3.1 to 3.3 may only be adjudicated in Suffolk County, Massachusetts (to which venue both parties agree).

9. Successors.

9.1 Successor to Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "***Company***" shall mean the Company as defined above and any successor to its business or assets as aforesaid which assumes and agrees to perform this Agreement, by operation of law or otherwise.

9.2 Successor to Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive or the Executive's family hereunder if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate. Neither the Executive nor, in the event of his death, the executors, personal representatives or administrators of the Executive's estate, shall have the power to transfer, assign, mortgage or otherwise encumber in advance any of the payments provided for in this Agreement, nor shall any payments nor assets or funds of the Company be subject to seizure for the payment of any debts, judgments, liabilities, bankruptcy or other actions.

10. Notice. All notices, instructions and other communications given hereunder or in connection herewith shall be in writing. Any such notice, instruction or communication shall be sent either (a) by registered or certified mail, return receipt requested, postage prepaid, or (b) prepaid via a reputable nationwide overnight courier service, in each case addressed to the Company, Attention: CEO, at One Technology Park Drive, Westford, Massachusetts 01886 and to the Executive at the Executive's principal residence as currently reflected on the Company's records (or to such other address as either the Company or the Executive may have furnished to the other in writing in accordance herewith). Any such notice, instruction or communication shall be deemed to have been delivered five business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, or one business day after it is sent via a reputable nationwide overnight courier service. Either party may give any notice, instruction or other communication hereunder using any other means, but no such notice, instruction or other communication shall be deemed to have been duly delivered unless and until it actually is received by the party for whom it is intended.

11. Miscellaneous.

11.1 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. Whenever possible, this Agreement shall be reformed and construed to permit the maximum full enforcement of each provision hereof, and any declaration of invalidity or unenforceability with regard to any provision hereof shall be construed to minimize the effect of such declaration.

11.2 Injunctive Relief. The Company and the Executive agree that any breach of this Agreement by the Company or the Executive is likely to cause the other party substantial and irrevocable damage and therefore, in the event of any such breach, in addition to such other remedies which may be available, the Company or the Executive, as applicable, shall have the right to specific performance and injunctive relief.

11.3 Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the internal laws of the Commonwealth of Massachusetts, without regard to conflicts of law principles.

11.4 Waivers. No waiver by the Company or the Executive at any time of any breach of, or compliance with, any provision of this Agreement to be performed by the other party shall be deemed a waiver of that or any other provision at any subsequent time.

11.5 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but both of which together shall constitute one and the same instrument.

11.6 Tax Withholding. Any payments provided for hereunder shall be paid net of any applicable tax withholding required under federal, state or local law.

11.7 Entire Agreement. Except with respect to the Executive Retention Agreement, which shall remain in full force and effect through December 31, 2021, and any non-disclosure or invention assignment agreement entered into between the Company and the Executive and the Executive’s equity compensation awards (as amended herein) and their related plans, this Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of the subject matter contained herein, and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

11.8 Amendments. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Executive.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

KADANT INC.

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

EXECUTIVE

By: /s/ Eric T. Langevin
Eric T. Langevin

Exhibit 31.1

CERTIFICATION

I, Jeffrey L. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended October 2, 2021 of Kadant Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2021

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

Exhibit 31.2

CERTIFICATION

I, Michael J. McKenney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended October 2, 2021 of Kadant Inc.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2021

/s/ Michael J. McKenney

Michael J. McKenney
Executive Vice President and Chief Financial Officer

Exhibit 32

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

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Jeffrey L. Powell, Chief Executive Officer, and Michael J. McKenney, Chief Financial Officer, of Kadant Inc., a Delaware corporation (the "Company"), do hereby certify, to our best knowledge and belief, that:

The Quarterly Report on Form 10-Q for the period ended October 2, 2021 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 10, 2021

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

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

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.